Australian Securities & Investments Commission

Electronic Lodgement

Document No. **9EAA32753**

Lodgement date/time: 12-05-2020 14:01:46

Reference Id: 139311325

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

Lodgement details

Registered agent number

1585

Registered agent name

HERBERT SMITH FREEHILLS

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
31-12-2019

Details of large proprietary company

What is the consolidated revenue of the large proprietary company and the entities that it controls?
785536000

What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?
888093000

How many employees are employed by the large proprietary company and the entities that it controls?
1148

How many members does the large proprietary company have?
12

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

Agent

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 authenticated by
Name HERBERT SMITH FREEHILLS
This form has been submitted by
Name Anita PROPADALO
Date 12-05-2020

For more help or information

Web	www.asic.gov.au
Ask a question?	www.asic.gov.au/question
Telephone	1300 300 630

2019

PAPER AUSTRALIA Pty Ltd

FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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 (resigned 26 June 2019)
- Mizuho Ishida
- Peter Williams (resigned 30 March 2020)
- Tomoaki Koyanagi (appointed 27 June 2019)
- Seiya Nozu (appointed 1 April 2020)

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 loss after tax ($12.49) million (2018: gain of $0.8 million). The business improved revenue during the period as a result of increased domestic volume. Manufacturing costs were higher than previous reporting period due to extended shuts for key capital investments and increases in energy costs. Once off cost were incurred restructuring the Envelope and Stationery business that will result in improved profitability in this segment for 2020. Underlying business conditions continue to be supported by relatively stable AUD/USD exchange rate.

Significant Changes in the State of Affairs

Paper Australia have responded to the COVID-19 pandemic situation that escalated in Australia during March 2020 by implementing a Business Continuity Team to monitor and develop plans to work through the emerging challenges.

Australia Paper has been able to maintain business continuity throughout the pandemic to supply essential services such as recycling services, paper and board products; and supporting other essential services in the broader community that are vital during this time.

On 30 April 2020 Paper Australia successfully completed its $1.72 billion acquisition of the Orora Fibre Businesses. This acquisition is part of a long term, strategically integrated approach to targeted growth in the Australia and New Zealand packaging markets.

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

A key focus will be realising synergies from the acquisition of Orora Fibre Business on 30th April 2020.

2020 should see an improvement in operating earnings with improved production performance and savings realised from the Envelope and Stationery restructure that occurred during 2019.

Dividends

The Company has not declared or paid any dividend for the year ended 31 December 2019 (2018: $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

Tomoaki Koyanagi

Tomoaki Koyanagi

Director and Chief Executive Officer

7 May 2020

Building a better
working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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 2019, 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

Ernst & Young

Jacob Gossan
Partner
7 May 2020

Contents

Consolidated statement of comprehensive income
For the period ended 31 December 2019

	Notes	Dec-19 $'000	Dec-18 $'000
Continuing operations			
Revenue	4.1	785,536	779,874
Revenue		**785,536**	**779,874**
Cost of sales		(715,584)	(700,125)
Gross Profit		**69,952**	**79,749**
Other income	7.1	22,862	29,754
Personnel costs non-manufacturing		(31,837)	(36,631)
Logistics and distribution		(44,943)	(43,683)
General and administration	7.2	(17,073)	(10,442)
Sales and marketing		(5,988)	(7,797)
Research and development	7.7	(819)	(908)
Operating Profit/(Loss)		**(7,846)**	**10,042**
Finance income	7.4	248	251
Finance expenses	7.3	(8,944)	(9,455)
Profit/(Loss) before tax from continued operations		**(16,542)**	**838**
Income tax expense	8	4,054	(54)
Profit/(Loss) for the year		**(12,488)**	**784**
Other comprehensive Income/(loss)			
Net foreign exchange differences on translation of overseas subsidiaries	15	82	2,586
Net gains/(losses) on cash flow hedges	15	4,743	(17,643)
Actuarial gains/(losses) on defined benefit plans net of tax	15	(130)	(3,175)
Other comprehensive income for the year net of tax		4,695	(18,232)
Total comprehensive Gain/(loss) for the year		**(7,793)**	**(17,448)**
Attributable to:			
Owners of the parent		(12,478)	770
Non-controlling interest		(10)	14
		(12,488)	**784**
Total comprehensive gain/(loss) for the year is attributable to:			
Owners of the parent		(7,783)	(17,462)
Non-controlling interest		(10)	14
		(7,793)	**(17,448)**

Consolidated statement of financial position
As at 31 December 2019

	Notes	Dec-19 $'000	Dec-18 $'000
Current assets			
Cash and cash equivalents	14	29,888	43,254
Trade and other receivables	13	98,216	99,529
Prepayments		11,076	15,469
Derivatives	6	730	-
Inventories	12	149,212	135,246
Income tax receivable		12	116
Total current assets		**289,134**	**293,614**
Non-current assets			
Property, plant and equipment	9	545,227	554,984
Intangible assets	10	675	876
Right of use assets	19	9,119	-
Deferred tax assets	8	30,329	26,005
Defined Benefit Plan	20	12,499	12,684
Other Assets		1,110	1,265
Total non-current assets		**598,959**	**595,814**
Total assets		**888,093**	**889,428**
Current liabilities			
Trade and other payables	18	114,935	107,460
Loans and borrowings	11.2	203,137	144,284
Provisions	16	44,225	46,782
Derivatives	6	-	4,010
Other Financial Liabilities	19	3,402	-
Total current liabilities		**365,699**	**302,536**
Non-current liabilities			
Loans and borrowings	11.2	43,900	106,800
Other Financial Liabilities	19	5,798	5,288
Provisions	16	5,685	5,288
Total non-current liabilities		**53,383**	**112,088**
Total liabilities		**421,082**	**414,624**
Net assets		**467,011**	**474,804**
Equity			
Issued capital	15	662,280	662,280
Reserves		(445)	(5,270)
Accumulated gains/(losses)		(195,005)	(182,397)
Minority interest		181	191
Total equity		**467,011**	**474,804**

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Attributed to the equity holders of the parent						
	Issued capital	Accumulated gains/(losses)	Cash Flow Hedge reserve	Foreign currency transaction reserve	Total	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2019	662,280	(182,397)	(6,795)	1,525	474,613	191	474,804
Net profit/(loss) for the year	-	(12,478)	-	-	(12,478)	(10)	(12,488)
Other comprehensive income/(loss)	-	(130)	4,743	82	4,695	-	4,695
Total comprehensive income/(loss) for the year	662,280	(195,005)	(2,052)	1,607	466,830	181	467,011
Transactions with owners in their capacity as owners:							
Dividends paid	-	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-
At 31 December 2019	662,280	(195,005)	(2,052)	1,607	466,830	181	467,011

	Attributed to the equity holders of the parent						
	Issued capital	Accumulated gains/(losses)	Cash Flow Hedge reserve	Foreign currency transaction reserve	Total	Non-controlling interest	Total
	$'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

Consolidated statement of cash flows
For the year ended 31 December 2019

	Notes	Dec-19 $'000	Dec-18 $'000
Cash flows from operating activities			
Receipts from customers		865,915	863,191
Payments to suppliers and employees		(829,167)	(811,172)
Interest received		248	251
Interest paid		(8,944)	(9,455)
Income tax paid		(110)	(254)
Net cash flows from/(used in) operating activities		**27,942**	**42,561**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(38,433)	(66,820)
Government Grants Received		7,323	13,560
Net cash flows used in investing activities		**(31,110)**	**(53,260)**
Cash flows from financing activities			
Proceeds from borrowings		25,000	20,000
Repayments to borrowings		(29,896)	(13,294)
Payment of principal portion of lease liabilities		(5,302)	-
Net cash flows from/(used in) financing activities		**(10,198)**	**6,706**
Net increase/(decrease) in cash and cash equivalents		(13,366)	(3,993)
Cash and cash equivalents at the beginning of the year		43,254	47,247
Cash and cash equivalents at the end of the year	14	**29,888**	**43,254**

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 2019 were authorised for issue in accordance with a resolution of the directors on 7 May 2020. 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.

Going Concern

The Directors have prepared the 31 December 2019 financial report on a going concern basis. The Directors note that the Group has reported a net current asset deficiency of ($76.565m) which is influenced by loans and borrowings of ($203.137m) that are classified as current liabilities. The Directors have received confirmation from the Group's parent entity (Nippon Paper Industries Co., Ltd) that it will continue to provide financial support to the Group for the next 12 months (from the date of signing the 31 December 2019 financial report). It is the Group's intention to extend its loans and borrowings that fall due within the next 12 months with support from Nippon Paper Industries Co., Ltd (who is also the guarantor of the Group's loans and borrowings).

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. 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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 3 to 15 years
- Motor vehicles and other equipment 3 to 5 years
- Property 3 to 10 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (s) Impairment of non-financial assets

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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. The increased volatility in natural gas prices has led to the decision to enter into commodity swap contracts.

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 16 Leases 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 2019, 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 16 Leases***

AASB 16 supersedes AASB117 Leases, Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 does not have an impact for leases where the Group is the lessor.

The Group adopted AASB 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The effect of adopting AASB 16 is shown at Note 19.

- ***Interpretation 23 Uncertainty over Income Tax Treatment***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Note 3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. These 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 9.20% and (3) EBITDA growth rate of 3%. These key assumptions/inputs are re-assessed annually or when the recoverable analysis is performed.

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 20.

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.

f) Leases

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 2019 Segments	**Paper & Packaging**	**Envelopes & Stationery**	**Pulp**	**Total**
	$'000	$'000	$'000	**$'000**
Sales of Paper Products	735,509	38,696	11,331	**785,536**
Total Sales Revenue	**735,509**	**38,696**	**11,331**	**785,536**

For the year ended 31 December 2018 Segments	**Paper & Packaging**	**Envelopes & Stationery**	**Pulp**	**Total**
	$'000	$'000	$'000	**$'000**
Sales of Paper Products	724,277	47,468	8,129	**779,874**
Total Sales Revenue	**724,277**	**47,468**	**8,129**	**779,874**

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 2019**	**Ownership interest 2018**
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%	100%
Opal Packaging Australia Pty Ltd	Australia	100%	n/a
Opal Packaging New Zealand Limited	New Zealand	100%	n/a
Opal Commercial Services Pty Ltd	Australia	100%	n/a
Australian Paper Pty Ltd (New Zealand Branch)	Australia	100%	n/a

Note 6. Fair value measurement

Fair value measurement for assets as at 31 December 2019	Date of Valuation	**$'000**
Derivatives - at fair value	31-Dec-19	730
		730

Fair value measurement for assets as at 31 December 2018	Date of Valuation	**$'000**
Derivatives - at fair value	31-Dec-18	(4,010)
		(4,010)

Note 7. Other income/expenses

7.1 Other operating income

	2019 $'000	**2018** $'000
Net foreign exchange gains	-	6,727
Commission	1,564	1,585
Other operating income	21,298	21,442
Total other income	**22,862**	**29,754**

7.2 Other operating expenses

	2019 $'000	**2018** $'000
Net foreign exchange losses	(3,877)	-
Rent	-	(2,989)
Depreciation	(6,303)	(1,112)
Insurance	(1,261)	(867)
Trading Expenses Other	(5,632)	(5,474)
Total other operating expenses	**(17,073)**	**(10,442)**

7.3 Finance costs

	2019 $'000	**2018** $'000
Interest on debts and borrowings	(8,757)	(9,455)
Interest on Right of Use Leases Assets	(187)	-
Total finance costs	**(8,944)**	**(9,455)**

7.4 Finance income

	2019 $'000	**2018** $'000
Interest income	248	251
Total finance income	**248**	**251**

7.5 Depreciation, amortisation, lease payments, foreign exchange differences and costs of inventories

	2019	2018
	$'000	$'000
Included in the cost of sales:		
Depreciation	34,982	33,880
Cost of inventories recognised as an expense	698,318	563,780
Variable lease payments (Note 19)	115	-
Expenses relating to short term leases (Note 19)	203	-
Included in general and administration:		
Depreciation	6,303	1,112
Amortisation and impairment of intangible assets (Note 10)	341	206
Net foreign exchange differences	3,877	(6,742)

7.6 Employee benefits expense

	2019	2018
	$'000	$'000
Salaries and wages	130,840	131,323
Superannuation	11,360	11,066
Total Employee Benefits	**142,200**	**142,389**

7.7 Research and development costs

	2019	2018
	$'000	$'000
Research & Development	819	908

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 2019, this was $819,074 (2018: $907,537)), 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 2019 and 2018 are:

Consolidated profit or loss	**2019**	**2018**
	$'000	**$'000**
Current income tax:		
Current income tax charge	143	-
Deferred tax:		
Relating to origination and reversal of temporary differences	(4,197)	54
Income tax expense reported in the statement of profit or loss	**(4,054)**	**54**

Consolidated profit or loss

	2019	2018
	$'000	$'000
Deferred tax related to items recognised in OCI during the year		
Deferred tax charged to OCI	**56**	**1,360**

Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2018 and 2019:

Consolidated profit or loss

	2019	2018
	$'000	$'000
Accounting profit before tax from continuing operations	(16,542)	838
Accounting profit before income tax	**(16,542)**	**838**
At the Australian statutory income tax rate of 30% (2018: 30%)	(4,963)	251
Net temporary differences and tax losses not recognised	909	(197)
At the effective income tax rate of 24.5% (2018: 6%)	**(4,054)**	**54**

Deferred Tax

Deferred Tax relates to the following

	Consolidated statement of financial position		Consolidated statement of profit and loss	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Property, plant and equipment	13,992	10,200	(3,792)	(387)
Provisions and employee benefits	17,302	17,025	(203)	633
Trading stock provision and valuation adjustments	2,785	2,585	(202)	(139)
Prior period balance adjustments			-	(53)
Actual gains on defined benefit plan	(3,750)	(3,805)		
Deferred tax expense/(benefit)			**(4,197)**	**54**
Net deferred tax assets/(liabilities)	**30,329**	**26,005**		
Reflected in the statement of financial position as follows:				
Deferred tax assets	30,329	26,005		
Deferred tax assets, net	**30,329**	**26,005**		

Reconciliation of deferred tax assets, net

	2019	2018
	$'000	$'000
As of 1 January	26,005	24,537
Tax income/(expense) during the period recognised in profit or loss	4,197	(54)
Tax income/(expense) during the period in OCI	56	1,575
Prior period balance adjustment	71	(53)
As at 31 December 2019	**30,329**	**26,005**

The Group has tax losses that arose in Australia during the current year of $37.2 million (2018: $20.1 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 2018	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**
Additions	21	3,271	26,103	-	29,395
Disposals	-	(11,756)	-	-	(11,756)
Settlements from AuC	-	4,968	(4,968)	-	-
At 31 December 2019	**168,469**	**2,203,337**	**36,393**	**194**	**2,408,393**
Depreciation and impairment					
At 1 January 2018	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**
Depreciation charge for the year	2,545	33,521	-	22	36,088
Disposals		(8,692)	-	-	(8,692)
At 31 December 2019	**114,004**	**1,748,968**	-	**194**	**1,863,166**
Net book value					
At 31 December 2019	54,465	454,369	36,393	-	545,227
At 31 December 2018	56,989	482,715	15,258	22	554,984

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
		$0	$0	$0
Cost				
	At 1 January 2018	83,033	1,132	84,165
	Additions	177	-	177
At 31 December 2018		**83,210**	**1,132**	**84,342**
	Additions	144	-	144
At 31 December 2019		**83,354**	**1,132**	**84,486**
Amortisation and impairment				
	At 1 January 2018	82,619	485	83,104
	Amortisation	155	207	362
At 31 December 2018		**82,774**	**692**	**83,466**
	Amortisation	139	206	341
At 31 December 2019		**82,909**	**898**	**83,807**
Net book value				
At 31 December 2019		441	234	675
At 31 December 2018		436	440	876

Note 11. Financial assets and financial liabilities

11.1 Financial assets

	2019 $'000	2018 $'000
Derivatives designated as hedging instruments	730	-

11.2 Financial liabilities: Interest-bearing loans and borrowings

	Interest Rate	Maturity	2019	2018
Loans and borrowings - current	%		$'000	$'000
Bank Loans	BBSW / LIBOR+0.5	2020	133,615	75,485
	1.3258-5.07	2020		
Other loans				-
Loans from related parties, **Note 22**	BBSW+0.5			
	HIBOR+0.5	2020	69,522	68,799
	TIBOR+0.5			
			203,137	144,284
Loans and borrowings - non current				
Bank Loans	2.48-5.07	2020-2024	43,900	106,800
			43,900	106,800

	2019 $'000	2018 $'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.

	2019 $'000	2018 $'000
Foreign currency forward contracts designated as hedging instruments		
Fair Value	(1,374)	2,026

- **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 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.

	2019 $'000	2018 $'000
Commodity swap contracts designated as hedging instruments		
Fair Value	2,824	(1,004)

- **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.

	2019 $'000	2018 $'000
Interest rate swap contracts designated as hedging instruments		
Fair Value	(720)	(981)

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

	2019	2018
At the lower of cost and net realisable value:	**$'000**	**$'000**
Raw materials and engineering stores	77,537	71,203
Provision for impairment losses	(7,925)	(7,216)
Net raw materials and engineering stores	69,612	63,987
Work in progress	12,279	11,250
Finished goods	68,699	61,475
Provision for impairment losses	(1,378)	(1,466)
Net finished goods	67,321	60,009
Total inventories	**149,212**	**135,246**

During 2019, $0.902 million (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

	2019	2018
	$'000	**$'000**
Trade debtors	92,941	88,714
Provision for doubtful debts	(197)	(210)
Net Trade Debtors	92,744	88,504
Other Debtors	5,472	11,025
Trade and Other Receivables	**98,216**	**99,529**

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 22. As at 31 December 2019, trade receivables with an initial carrying value of $197,000 (2018: $210,000) were impaired and fully provided for.

Note 14. Cash and cash equivalents

	2019	2018
	$'000	**$'000**
Current Assets		
Cash and cash equivalents	**29,888**	**43,254**

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

	2019	2018
	$'000	**$'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 2019

	Cash flow hedge reserve	Foreign currency translation reserve	Retained Earnings	Total
Net gain/(loss) from Cash Flow Hedging	4,743	-	-	4,743
Foreign exchange translation differences	-	82	-	82
Remeasured on defined benefit plan	-	-	(130)	(130)
	4,743	**82**	**(130)**	**4,695**

As at 31 December 2018

	Cash flow hedge reserve	Foreign currency translation reserve	Retained Earnings	Total
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)**

Note 16. Provisions

	Employee Benefits	Environmental	Other	Total
	$'000	**$'000**	**$'000**	**$'000**
At 1 January 2019	**43,902**	**6,405**	**1,763**	**52,070**
Arising during the year	12,227	423	55	**12,705**
Utilised	(13,120)	-	(1,744)	**(14,864)**
At 31 December 2019	**43,009**	**6,828**	**73**	**49,910**
Current	41,952	2,200	73	44,225
Non Current	1,057	4,628	-	5,685

	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

The Company has provided for $43.008 million (2018: $43.902 million) for employee benefits regarding annual leave, long service leave, sick leave and work cover.

The Company has provided $6.828 million (2018: $6.405 million) for environmental remediation costs regarding landfill and salt cake area works at the Maryvale mill.

Note 17. Government grants

	2019	2018
	$'000	$'000
At 1 January	13,260	-
Received during the year	7,323	13,500
Released to the statement of profit or loss	(525)	(240)
At 31 December	20,058	13,260
Current	14,298	7,500
Non-current	5,760	5,760

Note 18. Trade and other payables

	2019	2018
	$'000	$'000
Trade creditors	74,535	64,760
Other creditors	40,400	42,700
	114,935	**107,460**

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

Note 19. Leases
Group as a lessee

The Group has lease contracts for property, various items of plant, machinery, vehicles and other equipment used in its operations. Leases of property generally have lease terms of 3 to 10 years, plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Motor Vehicles	Plant and machinery	Property	Total
	$'000	$'000	$'000	$'000
As at 1 January 2019	2,062	927	5,512	8,501
Additions	1,000	51	4,770	5,821
Depreciation Expense	(930)	(941)	(3,332)	(5,203)
As at 31 December 2019	**2,132**	**37**	**6,950**	**9,119**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2019	2018
	$'000	$'000
As at 1 January	8,501	-
Additions during the year	5,813	-
Accretion of interest	188	-
Payments	(5,302)	-
As at 31 December	**9,200**	-
Current	3,402	-
Non-Current	5,798	-

The following are the amounts recognised in profit or loss:

	2019	2018
	$'000	$'000
Depreciation expense of right-of-use assets	5,203	-
Interest expense on lease liabilities	188	-
Total amount recognised in profit or loss	**5,391**	-

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3).

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	Less than one year	One to five years	More than five years	Total
	$'000	$'000	$'000	$'000
Extension options expected not to be exercised	-	2,262	5,614	8,236
	-	2,262	5,614	8,236

On transition to AASB 16, the Group recognised an additional $8,501,116 of right-of-use assets and $8,501,116 of lease liabilities. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 2.05%. The difference of $1,706,479 between operating lease commitment at 31 December 2018 and undiscounted lease payments at 1 January 2019 is attributed primarily to the exclusion of payments for non-lease components (e.g. outgoings in property leases), leases of low-value items, short-term leases, and inclusion of lease payment escalations based on an index or rate.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Assets	**$'000**
Operating lease commitments at 31 December 2018	10,421
Weighted average incremental borrowing rate as 1 January 2019	2.05%
Less:	
Commitments relating to exclusion of payments for non-lease components, leases of low-value items, short term leases and inclusion of lease payments escalations	1,706
Undiscounted lease liability as 1 January 2019	8,715
Discounted lease payments using the incremental borrowing rate at 1 January 2019	
Lease liabilities recognised at 1 January 2019	8,501

Note 20. Pension and other post-employment benefit plans

Australian Paper defined benefit sub plan

	2019	**2018**
	$'000	**$'000**
Defined benefit obligation	(34,897)	(40,792)
Fair value of assets	47,396	53,476
Net defined benefit asset/(liability)	**12,499**	**12,684**
Benefits paid	(11,315)	(3,236)

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.

2019 changes in the defined benefit obligation and fair value of plan assets:

	01 January 2019	**Other Changes**	**Benefits Paid**	**Contributions by employer**	**31 December 2019**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Defined benefit obligation	(40,792)	(5,420)	11,315	-	(34,897)
Fair value of plan assets	53,476	5,211	(11,315)	23	47,396
Net defined benefit asset/(liability)	**12,684**	**(209)**	**-**	**23**	**12,498**

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

	2019	2018
	%	%
Discount rate	2.00	3.25
Future salary increases	2.50	2.50

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 2020. This is due to the surplus of $12.49m in the plan as at 31 December 2019 and surplus of $12.68m as at 31 December 2018.

The Company is currently on a contribution holiday in relation to defined benefit members as advised by the Plan Actuary in a report dated 18 Dec 2019.

Note 21. Commitments and contingencies

Commitments

Other lease commitments - Group as lessee

The Group has some other lease contracts (on top of note 19 Lease) that have not yet commenced as at Dec 2019. The future lease payments for non-cancellable lease contracts are $50,000 within one year, $210,000 within five years.

Capital expenditure commitments

At 31 December 2019 the Group had commitments relating to capital expenditure on plant and equipment contracted but not provided for of $ 4,002,738 (2018: $6,277,895)

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 $17.42 million (2018: $17.23 million)

Guarantees

The Company has issued performance and financial guarantees to the value of $14.66 million (2018: $14.66 million) to unrelated parties as at 31 December 2019.

Note 22. 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 he total amount of transactions that have been entered into with related parties for the relevant financial year.

a) Sales to & Purchases from related parties		**Sales to related parties**	**Purchased from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
		$'000	**$'000**		**$'000**
Ultimate holding company:					
Nippon Paper Industries Co. Ltd	**2019**	1,867	30,249	7	4,680
	2018	-	38,069	-	6,710

The amounts are classified as trade receivables and trade payables respectively.

b) Loans from related parties		**Interest Paid**	**Amounts owed to related parties**
Ultimate holding company		**$'000**	**$'000**
Nippon Paper Industries Co. Ltd	**2019**	-	-
	2018	-	-
Entity under common control			
Nippon Paper Recourses Australia Pty Ltd	**2019**	288	14,500
	2018	356	14,500
Dyna Wave Holding Asia			
	2019	1,364	55,022
	2018	1,160	54,299

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 1.39000% to Nippon Paper Resources Australia Pty Ltd and payable at 2.95232% to Dyna Wave Holding Asia. Interest repayments are made over the terms of the loans.

c) Transactions with key management personnel

	2019	**2018**
Compensation of key management personnel of the Group	**$'000**	**$'000**
Total Compensation paid to key management personnel	1,106	1,295

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

Note 23. Events after the reporting period

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. We have not seen a significant impact on our business to date. The outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community, the economy and the operations of our business. The scale and duration of these developments remain uncertain as at the date of this report however they will have an impact on our earnings, cash flow and financial condition.

It is not possible to estimate the impact of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group at this time.

The financial statements have been prepared based upon conditions existing at 31 December 2019 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of COVID-19 occurred after 31 December 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19.

On 30 April 2020 Paper Australia successfully completed its $1.72 billion acquisition of the Orora Fibre Businesses. This acquisition is part of a long term, strategically integrated approach to targeted growth in the Australia and New Zealand packaging markets.

Note 24. Auditors' remuneration

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

	2019 $'000	2018 $'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	372	358
Other services in relation to the entity and any other entity in the consolidated group	151	96
	523	454

Note 25. Information relating to Paper Australian Pty Ltd (the Parent)

	2019 $'000	2018 $'000
Current assets	267,373	260,902
Total assets	863,321	867,597
Current liabilities	379,667	314,154
Total liabilities	429,200	426,190
Issued capital	662,280	662,280
Accumulated losses	(226,107)	(214,078)
Reserves	(2,052)	(6,795)
	434,121	441,407
Profit or loss of the Parent entity	(11,900)	(3,669)
Total comprehensive income or loss of the Parent entity	(7,285)	(21,312)

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 36, 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 2019 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

Tomoaki Koyanagi

Tomoaki Koyanagi

Director and Chief Executive Officer

7 May 2020

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor s eport to the e ers of Paper Australia Pty Ltd

Opinion

e 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 2019, 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 2019 and of its consolidated financial performance for the year ended on that date and

b) complying with Australian Accounting Standards educed Disclosure equirements and the *Corporations ations 2001*.

Basis for Opinion

e conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *A itor s sponsi i iti s or t A it o t inancia port* section of our report. e 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 *Co o t ics or ro ssiona Acco ntants* the Code) that are relevant to our audit of the financial report in Australia. e have also fulfilled our other ethical responsibilities in accordance with the Code.

e 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

e draw attention to ote 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 *ction CA* of the *a ation A inistration Act 1* 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

Building a better working world

phasis of atter ents After the eportin Period ID

e draw attention to ote 23 of the financial report which notes the orld ealth Organisation s declaration of the outbreak of COVID 19 as a global pandemic subsequent to 31 December 2019 and how this has been considered by the Directors in the preparation of the financial report. As set out in ote 23, no ad ustments have been made to financial statements as at 31 December 2019 for the impacts of COVID 19. 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. e 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 educed Disclosure equirements 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 ob ectives 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. easonable 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.

Building a better working world

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional udgment and maintain professional scepticism throughout the audit. e 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. owever, 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. e are responsible for the direction, supervision and performance of the Group audit. e remain solely responsible for our audit opinion.

e 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

Ernst & Young

Jacob Gossan
Partner
Melbourne
7 May 2020