PACT GROUP

Annual Report

2019


Our vision is
to enrich lives
everyday through
sustainable
packaging and
manufacturing
solutions

Contents

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USED BY PROFESSIONALS

A View from the Chairman

Dear Fellow Shareholders,

On behalf of the Board of Directors of Pact Group, I am delighted to present to you our 2019 Annual Report.

Overview

FY19 was a challenging year for Pact, with earnings impacted by higher raw material costs, energy costs and weaker demand conditions in some sectors. Notwithstanding these challenges however, the Group delivered 10% revenue growth and made improvements on many fronts including the delivery of operating efficiencies, securing long term customer agreements in our pooling and reuse businesses and making further progress in the transformation of our packaging network. The Group balance sheet was also well managed, operating cashflow was strong and leverage was improved in the second half. Debt facilities were extended, reducing near term financing risk, and a subordinated term loan facility was established, increasing the Group's funding flexibility. Along with disciplined capital management, these measures will provide the capacity required for Pact to continue to progress restructuring activities and complete existing growth projects.

> **"Pact is Australia's most innovative packaging company. Our technical, design and engineering experts challenge conventional thinking and identify new opportunities through insight led innovation"**

Innovation

Pact is Australia's most innovative packaging company. Our technical, design and engineering experts challenge conventional thinking and identify new opportunities through insight led innovation. We continue to receive prestigious industry awards and customer recognition for our innovative packaging solutions. We were thrilled to make the Australian Financial Review and BOSS Magazine's Most Innovative List for the seventh year in succession, one of only three companies to do so. Pact ranked second on the Manufacturing and Consumer Goods list from more than 800 organisations across Australia and New Zealand. In 2019 we were recognised for designing and manufacturing a household mobile garbage bin made from 60% recycled milk bottles. It is particularly pleasing to note that five of our winning nominations from the past seven years have been for innovative sustainability solutions that increase the reuse and recycling of plastic material.

Sustainability

Sustainability lies at the heart of our Group vision, it shapes our core values and is a consideration in all of our business decisions. We recognise that our business activities have a direct impact on the communities in which we operate, and our customers are increasingly looking to us to deliver innovative solutions to support their own sustainability targets. In FY19 we have built upon our commitment to sustainability and have made significant progress towards our *2025 End of Waste Sustainability Promise* to reduce, reuse and recycle. We have expanded our returnable produce crate pooling services in Australia, we have secured growth in our hanger reuse business and have been successful in leveraging Government support and partnership for several exciting initiatives to help develop the recycling circular economy. Pact is the largest processor and consumer of post-industrial recycled resin in Australasia. I am proud of the progress we have made and reaffirm our commitment to becoming the number one partner for sustainable choices in the packaging industry.

Board Changes

I would like to take this opportunity to highlight some changes to our Board of Directors since our last Annual Report.

One of the Board's top priorities in FY19 was to establish the right leadership for the Group. In that context, and following a global search, we were delighted to announce the appointment of Sanjay Dayal as our new Managing Director and Group Chief Executive Officer, effective from 3 April 2019. Sanjay brings to Pact extensive operational, manufacturing and supply chain experience and a strong focus on customers, quality, performance and driving opportunities for organic growth. Importantly for Pact, Sanjay has led and managed complex major integration and restructuring initiatives. Such experience will be extremely valuable as we progress the optimisation of our packaging network and drive value from the integration of our recent acquisitions and growth initiatives. Sanjay previously held senior executive positions at BlueScope Steel, including Chief Executive, Building Products, Corporate Strategy and Innovation, following several other senior positions in Asia and Australia with the Company over a nine year period. Prior to that, Sanjay had a long and successful career with Orica and ICI.

Following Sanjay's appointment, I resumed my role as Non-Executive Chairman of the Group.

In August of this year Peter Margin resigned from our Board. Peter had been a director of Pact since our IPO and was Chairman of the Audit, Business Risk and Compliance Committee. Peter brought a wealth of knowledge and experience to Pact, but with expanded executive duties outside of Pact he is unable to continue to commit the time required as a Director of the Group. On behalf of the Board I would like to thank Peter for his outstanding service to Pact and wish him the very best for the future.

Thank you

On behalf of the Board of Directors I would like to express my thanks and appreciation to our shareholders for your continued support and to also thank all of our customers, suppliers and other stakeholders. I would also like to thank our dedicated management team and employees across the Group for their commitment and contribution throughout the year.

It has been a challenging year, but the Group remains committed to driving business transformation and is focussed on delivering improvements in its core business fundamentals. I am confident that we have the platforms and leadership in place to drive sustainable and profitable growth in the business and maximise long-term shareholder value.

Raphael Geminder
Non-Executive Chairman

A Message from the CEO

Dear Shareholder,

I am very pleased to present to you my first report since joining Pact as Managing Director and Group Chief Executive Officer in April 2019.

People and Safety

Since joining Pact, I have talked extensively to our people. I believe that we have highly capable and dedicated employees across the Group and a talented and experienced management team which it is my privilege to lead. Our people are critical to Pact's success and I would like to take this opportunity to recognise their outstanding contribution and thank them for their commitment, particularly in what has been a challenging year.

We are committed to creating a high performance and collaborative workplace culture and foster employee engagement through our annual *Applause* reward and recognition program, which celebrates innovative thinking, operational excellence, safety commitment and sustainability initiatives.

We also remain committed to providing a safe work environment for all of our employees. There is an ongoing focus on training, processes and systems for our people and I have been pleased to see an improvement in our safety metrics this year. Our Lost Time Injury Frequency Rate (LTIFR) improved to 4.7 in FY19 compared to 5.5 in the prior year. However, there is still room for improvement and driving improved engagement and safety outcomes will be one of my key priorities in the year ahead. No injuries are ever acceptable, and Zero Harm will remain our goal.

Change in Operating Model

During FY19 we implemented a new operating model and changed the Group's reporting segments to align with our three key product portfolios:

- Packaging and Sustainability
- Materials Handling and Pooling
- Contract Manufacturing Services

This change increases the transparency of performance at a product level and will help drive improved decision-making across the business.

Group Performance and Business Overview

The Group delivered revenue of $1.8 billion in FY19, 10% higher than the prior year, with growth driven by the Asian acquisition that was completed in the second half of FY18 along with the acquisition of TIC Retail Accessories completed in October 2018. Underlying revenues were generally in-line with the prior year. The impact of growth in demand for packaging in Asia and growth in crate pooling volumes in Australia, together with higher pricing, reflecting the partial pass through of higher input costs, was offset by lower underlying net volumes due to weaker demand conditions in some sectors.

In the Packaging and Sustainability segment we experienced subdued demand in the dairy, food and beverage and agricultural sectors in Australia and New Zealand, exacerbated by the drought conditions in Australia. Fewer available infrastructure projects adversely impacted volume in the Materials Handling and Pooling segment, whilst weaker demand in in the home care sector impacted volumes in the Contract Manufacturing Services segment.

Group EBITDA of $231 million was 3% lower than the prior year. Earnings were impacted by higher raw material and energy costs and weaker underlying volumes. Pleasingly pricing was improved in the second half, and resin costs reduced. This enabled us to recover some of the adverse pricing lags which had impacted earnings in recent periods.

Recent acquisitions performed in-line with expectations and we continued to manage our controllables, delivering significant efficiencies in our operations and reducing overheads.

Growth and Efficiency

It is pleasing to note that several important growth and efficiency projects were delivered or progressed in the period despite the challenges that we have faced in FY19.

The Group has :

- progressed our packaging network redesign — closing two facilities, rationalising another, and establishing an import supply model for some product categories;
- grown our asset pooling operations — securing a long-term contract to supply returnable produce crate pooling services to ALDI, which commenced in August 2019; and
- delivered growth in reuse services — securing a long-term contract to supply garment hanger reuse services to a large retailer in the US, which is expected to commence in the second half of FY20.

Improving the Fundamentals and Strategic Review

In my first few months with Pact I have spent a significant amount of time within our operations, understanding our business, products and processes, and engaging with our customers. I have been impressed by Pact's market leading manufacturing and innovation capability and the strong relationships that we have established with many leading and trusted brands.

Yet our performance across a number of metrics does not reflect our capability. Delivering further improvements in our fundamentals, including safety, efficiency, quality and delivery is critical to enable us to grow our core business and improve our capital returns. Our customers must remain at the heart of everything we do. Our goal will be to exceed their expectations in quality, service, value and innovation.

Our future direction will be guided by the outcomes of a strategic review that I have initiated. This review will clarify the activities and operations which are core to Pact's continued success and will guide future resource allocation and capital investment. Our industry is going through change and we need to ensure that we are leveraging our strengths to realise the opportunities of the future.

Outlook

Looking forward, we remain focussed on maximising long-term shareholder value. We will focus on developing clarity in our strategy, improving the performance of the core business, seeking opportunities for organic growth and driving further efficiencies in our operations. Our outlook for FY20 is that we expect EBITDA (before significant items) to modestly improve, subject to global economic conditions.

I look forward to updating you on our progress.

Thank you.

Sanjay Dayal
Managing Director & Group CEO

About Pact Group

Pact is a leading provider of specialty packaging solutions, servicing both consumer and industrial sectors.

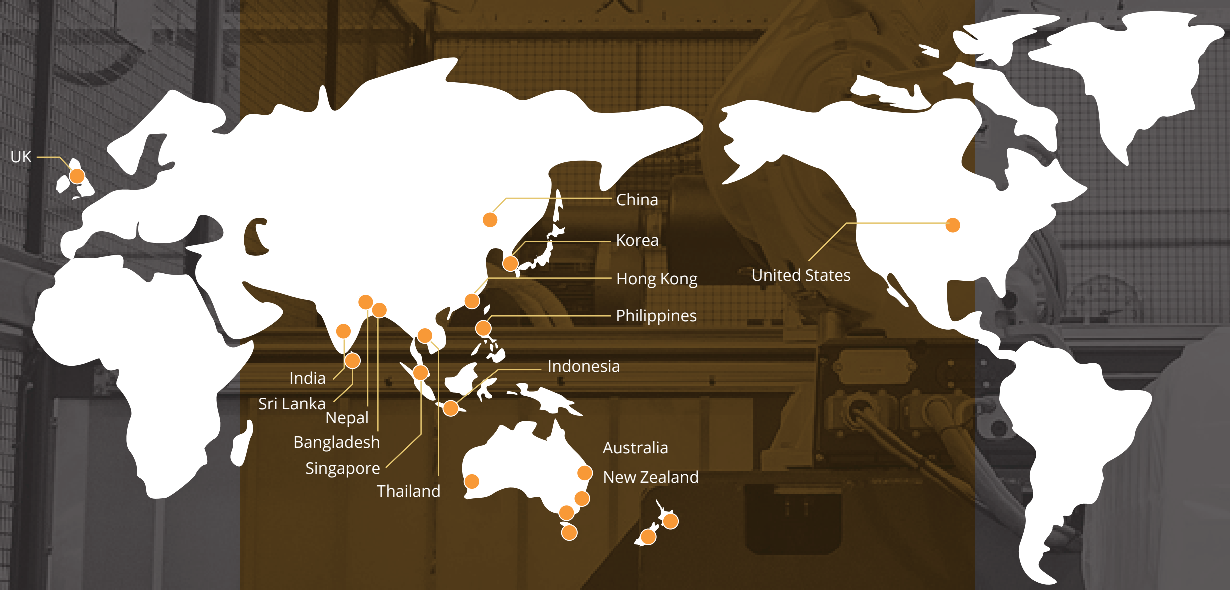
Pact specialises in the manufacture and supply of rigid plastic and metal packaging, materials handling and pooling solutions, contract manufacturing services, recycling and sustainability services.

Headquartered in Melbourne, Australia, Pact has an extensive manufacturing and supply network across Australasia. Pact caters to a diverse range of industries, including the food, dairy, beverage, agricultural, chemical and industrial sectors. We deliver products and services to a broad range of trusted global and regional brands.

The Group has more than 6,000 employees and generated revenues in excess of $1.8 billion in FY19.

Our Product Portfolio

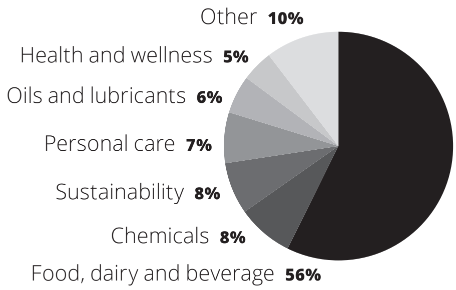
Strong regional footprint with operations across 15 countries



Our Market Leading Platforms

Our Packaging and Sustainability platform

FY19 Revenue

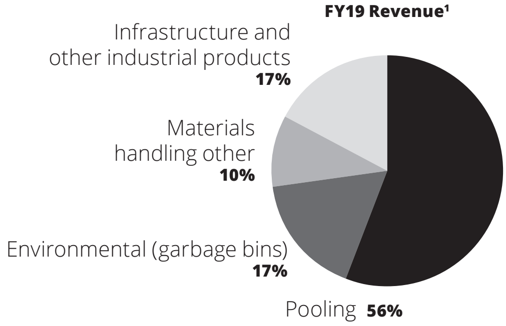


- Market leader in rigid plastic packaging in Australia and New Zealand with a growing position in Asia
- Leading supplier of sustainability services

- Regional scale with extensive manufacturing footprint
- Leading postions in consumer and industrial sectors supported by scale and innovation

Our Materials Handling and Pooling platform

FY19 Revenue[1]

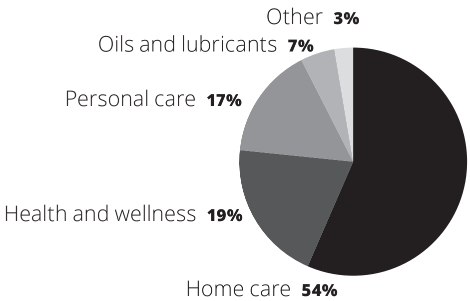


- Largest provider of returnable produce crate (RPC) pooling services in Australia and New Zealand
- Largest provider of garment hanger reuse services in Australia and New Zealand with a growing presence in the UK and the USA
- Leading supplier of plastic materials handling products

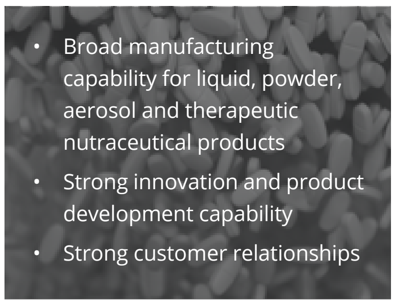
- Comprehensive service offering
- Asset tracking technology
- Extensive manufacturing and product design capability

Our Contract Manufacturing platform

FY19 Revenue



- A leading supplier of contract manufacturing services in Australia for the home, personal care and health and wellness categories



- Broad manufacturing capability for liquid, powder, aerosol and therapeutic nutraceutical products
- Strong innovation and product development capability
- Strong customer relationships

1 Assumes a full year contribution from TIC Retail Accessories

"In FY19 we have built upon our commitment to sustainability and have made significant progress towards our 2025 Sustainability Promise to reduce, reuse and recycle"

Raphael Geminder
Non-Executive Chairman

Case study

Pact wins both Sustainable Design and Beverage Categories in Australasia's Peak Packaging Awards

In FY19 Pact won both the Sustainable Packaging Design and Beverage Category for Lewis Road's post-consumer sourced 100% recycled plastic polyethylene terephthalate (rPET) milk bottle range.

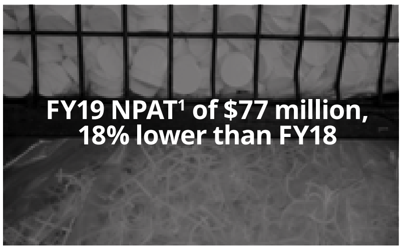
An Australasian first in its category, Lewis Road's rPET bottle range equates to approximately 340 tonnes of plastic per annum that has been reused and diverted from landfill.

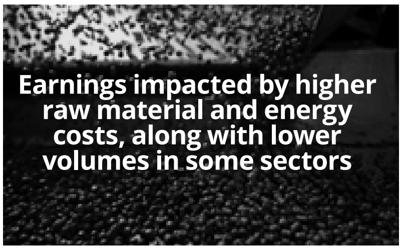
The Australasian Packaging Innovation & Design Awards (PIDA) recognise companies and individuals making a significant difference in their field across Australia and New Zealand. The PIDAs, which are co-ordinated by the Australian Institute of Packaging (AIP) and Packaging New Zealand, are the exclusive feeder program for the prestigious WorldStar Packaging Awards.

PIDA PACKAGING INNOVATION & DESIGN AWARDS 2019 PACKAGING INNOVATION & DESIGN OF THE YEAR BEVERAGE GOLD AWARD

PIDA PACKAGING INNOVATION & DESIGN AWARDS 2019 SUSTAINABLE PACKAGING DESIGN SPECIAL AWARD - CIRCULAR ECONOMY GOLD AWARD

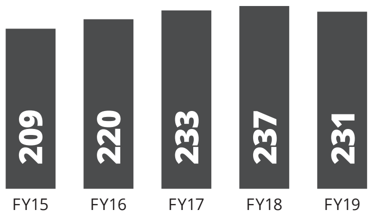
Financial and Operational Overview





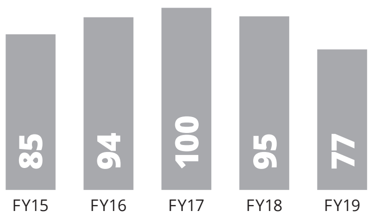
5 Year Financial History

Revenue $m



EBITDA[1] $m

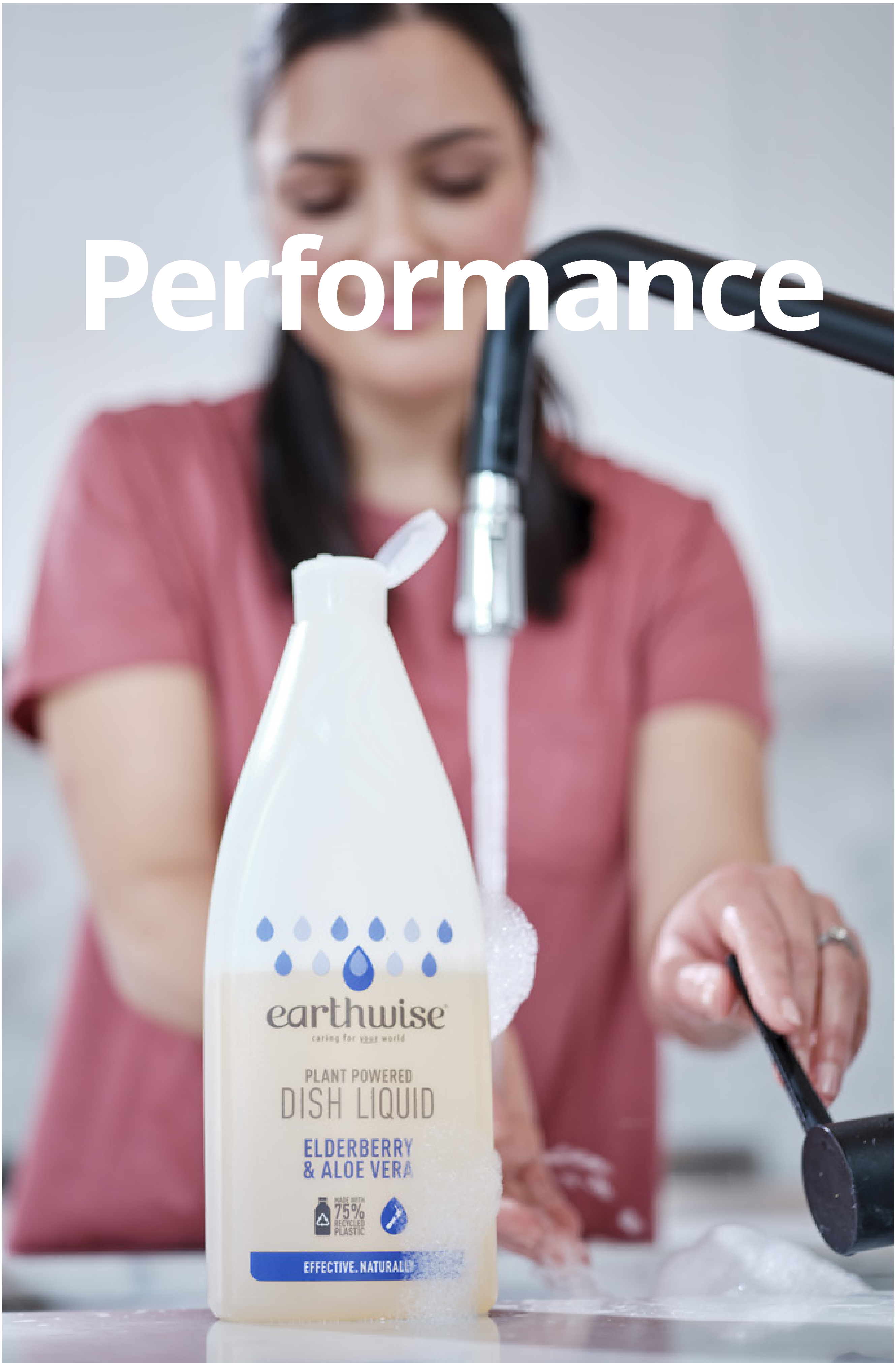
EBIT[1] $m



NPAT[1] $m

1 Before significant items.

Performance



Review of Operations and Financial Performance

The Group has reported revenue[1] of $1,834.1 million for the year ended 30 June 2019, up 10% compared to the prior corresponding period (pcp). The statutory net loss after tax for the year was $289.6 million, compared to a statutory net profit after tax (NPAT) of $74.5 million in the pcp. NPAT before significant items[5] for the year was $77.3 million (pcp: $94.7 million).

Overview

- Revenue[1] up 10% to $1,834.1 million (pcp: $1,674.2 million)
- EBITDA[3] down 3% to $230.7 million (pcp: $237.3 million)
- EBIT[4] down 10% to $148.4 million (pcp: $164.5 million)
- NPAT[5] down 18% to $77.3 million (pcp: $94.7 million)
- Asset impairment expenses of $381.8 million (fixed assets, goodwill and inventory) recognised in the period, reflecting trading conditions and a moderated long-term outlook for Australian packaging assets
- Earnings impacted by lags in recovering higher raw material costs and Australian energy costs, and lower volumes in some sectors
- Strong focus on efficiency and overhead cost reduction
- Transformation of the Group's packaging network progressed with two facilities closed in the period, another rationalised and an import supply model for certain product categories established
- TIC Retail Accessories acquisition completed on 31 October 2018 — recent acquisitions performing in line with expectations
- Crate pooling operations expanded, with services supporting fresh produce supply into ALDI commencing in August 2019 following long-term contract win
- Long-term contract win with a major retailer in the USA will expand reuse services in FY20
- Group operating model changed to improve focus on product portfolio performance
- New Managing Director and Group CEO appointed, and review of business strategy initiated
- Balance sheet capacity improved and near-term refinancing risk reduced with extension of debt and establishment of a new subordinated loan facility
- No ordinary dividends declared

Key Financial Highlights – $millions

	2019	2018	Change %
Revenue[1]	**1,834.1**	1,674.2	9.6%
Packaging & Sustainability	*154.6*	*152.8*	*1.2%*
Materials Handling & Pooling	*51.1*	*44.6*	*14.5%*
Contract Manufacturing Services	*25.1*	*40.0*	*(37.2%)*
EBITDA[3]	**230.7**	237.3	(2.8%)
EBIT[4]	**148.4**	164.5	(9.8%)
NPAT[5]	**77.3**	94.7	(18.3%)
Statutory Net (Loss)/Profit After Tax	**(289.6)**	74.5	(488.8%)
Total Dividends – cents per share	**-**	23.0	(100.0%)

Note: EBITDA, EBIT and NPAT are non-IFRS financial measures and have not been subject to audit by the Company's external auditor. Refer to page 25 for definitions.

OVERVIEW PERFORMANCE GOVERNANCE FINANCIAL REPORTS SHAREHOLDER INFORMATION

Group Results

$'000	2019	2018	Change %
Revenue[1]	**1,834,076**	1,674,188	9.6%
Other income (excluding interest revenue)	**12,709**	12,739	
Expenses	**(1,616,091)**	(1,449,676)	
EBITDA[3]	**230,694**	237,251	(2.8%)
EBITDA margin	***12.6%***	*14.2%*	
Depreciation and amortisation	**(82,290)**	(72,745)	
EBIT[4]	**148,404**	164,506	(9.8%)
EBIT margin	***8.1%***	*9.8%*	
Significant items (before tax)	**(423,304)**	(23,305)	
EBIT after significant items	**(274,900)**	141,201	(294.7%)
Net finance costs and loss on de-recognition of financial assets	**(38,980)**	(32,076)	
Income tax expense	**(32,117)**	(37,769)	
Significant tax items	**56,410**	3,132	
Net (loss) / profit after tax	**(289,587)**	74,488	(488.8%)

Revenue

Group revenue of $1,834.1 million increased 9.6% ($159.9 million) compared to the pcp, driven primarily by a full year impact of the acquisition of the Asian packaging operations (excluding Japan) of Closure Systems International and the Guangzhou China facility of Graham Packaging Company (the "Asian acquisition", undertaken in the second half of FY18) and the acquisition of TIC Retail Accessories ("TIC", completed 31 October 2018).

Excluding the contribution from acquisitions, revenue was generally in line with the pcp. The impact of higher pricing, reflecting the partial pass through of higher input costs, and benefits from favourable foreign exchange translation were offset by lower net volumes. Packaging volumes were adversely impacted by weak agricultural demand due to continued drought conditions along with generally subdued demand in the dairy, food and beverage sectors in Australia and New Zealand. Underlying sales in Asia were improved. Materials Handling volumes were impacted by fewer available infrastructure projects. Bin sales were generally in line with the pcp following a stronger second half. Contract manufacturing volumes were softer in the home care category. Volumes in the health and wellness sector were flat following weaker demand conditions in the second half.

EBITDA

EBITDA of $230.7 million was $6.6 million (2.8%) lower than the pcp. Earnings were favourably impacted by the incremental contribution from recent acquisitions along with lower costs from efficiency improvements and overhead reduction initiatives. These benefits were more than offset by lower underlying volumes, the adverse impact of lags in recovering higher resin costs, particularly in the first half, higher raw material costs in the contract manufacturing business and significant increases in Australian energy costs compared to the prior year. Energy costs were only partly recoverable in the market. The second half improved with lower resin costs and improved pricing in the contract manufacturing business, allowing the recovery of some of the previously incurred lags.

EBITDA margins at 12.6% were 1.6% lower than the pcp. Margins were improved in the second half, compared to the first half of the year, as a result of improved pricing, efficiency and higher relative margins in the acquired TIC business.

EBIT

EBIT of $148.4 million for the year was $16.1 million or 9.8% lower than the pcp with higher depreciation and amortisation from acquisitions, the new crate pooling business and capital investment in growth and efficiency projects in the New Zealand packaging business and the contract manufacturing business. The increase was mitigated by lower depreciation in the Australian packaging business as a result of the impairment of fixed assets.

EBIT margins of 8.1% were 1.7% lower than the pcp.

Further detail on revenue and earnings in each of the Group's operating segments is contained in the Review of Operations below.

Significant Items

Pre-tax significant items for the year were an expense of $423.3 million. This represents an impairment expense of $368.8 million ($136.3 million fixed assets; $232.4 million intangible assets), inventory write-downs of $13.0 million, costs associated with business restructuring programs of $37.8 million and acquisition costs of $3.7 million. Business restructuring costs were largely related to the rigid packaging network transformation. Pre-tax significant items in the prior year of $23.3 million related to costs associated with business restructuring programs of $10.1 million, acquisition costs of $4.4 million and deferred settlement costs of $8.8 million. The latter represented revisions to earn-out provision estimates, mostly due to stronger than expected earnings from Pascoe's.

Net Finance Costs and Loss on De-recognition of Financial Assets

Net financing costs for the year of $39.0 million were $6.9 million higher than the pcp. The increase was due to the impact of higher average net debt during the period, following the funding of acquisitions in both the current and prior years, along with higher interest costs on longer term debt due largely to a key facility being extended from three years to a seven year term. Interest cover of 5.9x was lower than the pcp but remains well within targeted levels.

Income Tax Expense and Significant Tax Items

The income tax expense for the year of $32.1 million represents an effective rate of 29.4% of net profit before tax and significant items, essentially in line with statutory tax rates payable by the Group across its main operating jurisdictions. This compares to $37.8 million in the pcp at an effective tax rate of 28.5%. The Group tax rate has increased due to higher effective Australian taxable income following the TIC acquisition.

The significant tax item for the year is a benefit of $56.4 million relating to the significant items noted above. In the prior year the significant tax item was a benefit of $3.1 million.

Net (Loss) / Profit after Tax

The statutory net loss after tax for the year was $289.6 million, compared to a net profit after tax (NPAT) of $74.5 million in the pcp. Excluding significant items, NPAT was $77.3 million compared to $94.7 million in the pcp.

Balance Sheet

$'000	2019	2018	Change %
Cash	**49,950**	67,980	(26.5%)
Other current assets	**384,349**	385,636	(0.3%)
Property plant & equipment	**638,542**	755,413	(15.5%)
Intangible assets	**477,054**	584,193	(18.3%)
Other assets	**71,563**	57,365	24.8%
Total assets	**1,621,458**	1,850,587	(12.4%)
Interest bearing liabilities	**733,490**	667,253	9.9%
Other liabilities, payables & provisions	**565,373**	600,134	(5.8%)
Total liabilities	**1,298,863**	1,267,387	2.5%
Net assets	**322,595**	583,200	(44.7%)
Net debt[8]	**683,540**	599,273	14.1%

Net debt at the end of the financial year was $683.5 million, an increase of $84.3 million compared to the pcp. The increase was primarily due to payments for acquisitions of $78.7 million.

The decrease in property plant and equipment of $116.9 million relates primarily to the asset impairment write-down of $136.3 million, partly offset by increases from acquisitions of $25.3 million. Additions from capital expenditure and foreign exchange translation were offset by depreciation charges.

The decrease in the Group's intangible assets of $107.1 million was due primarily to the goodwill impairment expense of $232.4 million, partly offset by $120.0 million goodwill arising on acquisitions and an increase in foreign exchange translation. The goodwill arising on acquisitions represents $127.8 million in provisional goodwill relating to the TIC acquisition less a reduction of $7.8 million recognised in the period in relation to the Asian acquisition from the prior year.

The increase in the Group's other assets of $14.2 million is largely attributable to higher deferred tax assets. Similarly, the reduction in other liabilities, payables and provisions of $34.8 million is primarily a result of lower deferred tax liabilities, in addition to lower trade and other payables, partly offset by a higher business restructuring provision.

During the period the Group extended debt of $380 million from July 2020 to January 2022 at competitive terms and also gained approval from lenders for the establishment of a subordinated debt facility. Following that approval, the Group entered into a $50 million, six year subordinated unsecured term loan. Funds from the loan were used to pay down senior debt, providing the Group with greater funding flexibility and balance sheet capacity to continue planned rationalisation activities and complete existing growth projects.

The group has several revolving debt facilities, two term facilities, a subordinated term debt facility and a working capital facility with total commitments of $1,062.2 million, of which of which $314.2 million is undrawn at 30 June 2019. The facilities are spread across multiple maturities, with the working capital facility revolving with an annual review. The debt facilities include a $383.5 million loan facility maturing in January 2022, a $184.3 million loan facility maturing in January 2023, a $301.1 million loan facility maturing in March 2023, a $120 million term facility maturing in December 2024, and a subordinated term debt facility of USD 35 million, swapped into AUD ($50.3 million), maturing July 2025. The working capital facility is $23 million at 30 June 2019. Average tenor is 3.6 years.

Financing metrics	2019	2018	Change
Gearing[6]	**3.0x**	2.5x	0.5
Interest cover[7]	**5.9x**	7.4x	(1.5)

As at 30 June 2019 gearing was 3.0x, an increase from 2.5x in the pcp, impacted by the funding of growth projects and acquisitions, including TIC, along with EBITDA performance.

Cash Flow

$'000 — Key items	2019	2018	Change %
Net cash flows provided by operating activities	**108,683**	150,423	(27.7%)
Payments for property, plant and equipment	**(69,455)**	(90,180)	(23.0%)
Purchase of businesses and subsidiaries, net of cash acquired	**(78,725)**	(127,863)	(38.4%)
Net proceeds from issuance of shares	**–**	172,573	(100.0%)
Payment of dividend	**(38,236)**	(72,648)	(47.4%)

Statutory net cash flow provided by operating activities, including proceeds from the securitisation of trade debtors, was $108.7 million in FY19, $41.7 million lower than the pcp. The inflow from securitisation of trade debtors was $13.6 million in the financial year compared to $3.2 million in the pcp. Excluding securitisation inflows, statutory operating cashflow was $52.2 million lower than the pcp. Net receipts and payments were $41.4 million lower as a result of cash rationalisation costs of $26.1 million, lower earnings and higher working capital requirements during the year, including increased inventory levels and lower creditors following changes to the resin sourcing model in Australia (which resulted in significant volumes shifting from domestic supply to import). Tax cash flows were also $5.3 million higher and interest cash flows $5.5 million higher, the latter in line with the higher net interest expense noted above.

Payments for property, plant and equipment were $69.5 million in the financial year compared to $90.2 million in the pcp. The decrease of $20.7 million reflects lower capital expenditure relating to the establishment of crate pooling operations in Australia, and lower expenditure relating to the investment in facilities in New Zealand to support a new contract with a key customer in the dairy sector, which was largely incurred in FY18. These reductions were partly offset by increased efficiency related expenditure in the contract manufacturing business and the impact of acquisitions, notably a full year contribution from the Asian acquisition.

Payments for purchase of businesses and subsidiaries, net of cash acquired, in FY19 was $78.7 million. This includes $46.3 million for the TIC acquisition (representing cash consideration paid of $28.3 million and deferred consideration paid of $20.8 million, less $2.8 million cash acquired) and $32.4 million paid in relation to the Asian acquisition and the acquisition of Pascoe's completed in prior years. The prior year outflow of $127.9 million related to $122.4 million for the Asia acquisition, $10.3 million for the acquisition of ECP Industries and final adjustments relating to previous year acquisitions of $4.8 million.

The dividend payment of $38.2 million in FY19 represents the final dividend of 11.5 cents per share in relation to FY18.

Review of operations

During the period the Group changed operating segments from Pact Australia and Pact International to:

- Packaging and Sustainability
- Materials Handling and Pooling
- Contract Manufacturing Services

Reporting and management structures have been realigned to improve focus on the performance of these segments.

Prior year comparatives have been restated on a consistent basis. Inter-segment revenue eliminations of $43.0 million (pcp: $32.7 million) are not included in the segment financial information below.

Packaging and Sustainability

The Packaging and Sustainability segment is a market leader in rigid plastic packaging in Australia and New Zealand with a growing presence in Asia. The business is also a leader in select rigid metals packaging sectors in Australia and New Zealand and also a leading supplier of sustainability, environmental, reconditioning and recycling services in Australia and New Zealand. Packaging & Sustainability contributed 66% of the Group's revenue in FY19.

$'000	2019	2018	Change %
Revenue[1]	**1,208,468**	1,101,971	9.7%
EBITDA[3]	**154,577**	152,796	1.2%
EBITDA Margin %	***12.8%***	*13.9%*	*(1.1%)*
EBIT[4]	***97,409***	*100,417*	*(3.0%)*
EBIT Margin %	***8.1%***	*9.1%*	*(1.0%)*

Revenue for the Packaging and Sustainability segment at $1,208.5 million was $106.5 million (9.7%) higher than the pcp. Revenue was positively impacted by a full year impact of the acquisition of the Asian packaging operations of Closure Systems International (excluding Japan) and the Guangzhou China facility of Graham Packaging Company (the "Asian acquisition"), completed in the second half of FY18, which contributed incremental revenue of $95.5 million in the period. In addition, ECP Industries (acquired November 2018) contributed an incremental $2.4 million in revenue. Both acquisitions are performing in line with expectations.

Excluding acquisitions, revenue for the segment was $8.6 million (0.8%) higher than the pcp. Revenue benefitted from sell price increases to partly recover increased input costs and favourable foreign exchange translation. Overall underlying volumes were around 4% lower. The segment experienced weaker volumes into the agricultural sector due to ongoing drought conditions in Australia, and lower volumes into the dairy, food and beverage sectors in Australia and New Zealand. Underlying sales were ahead of the pcp in the Asian packaging business, and in the Sustainability business which benefitted from increased recycled resin and reconditioning volumes.

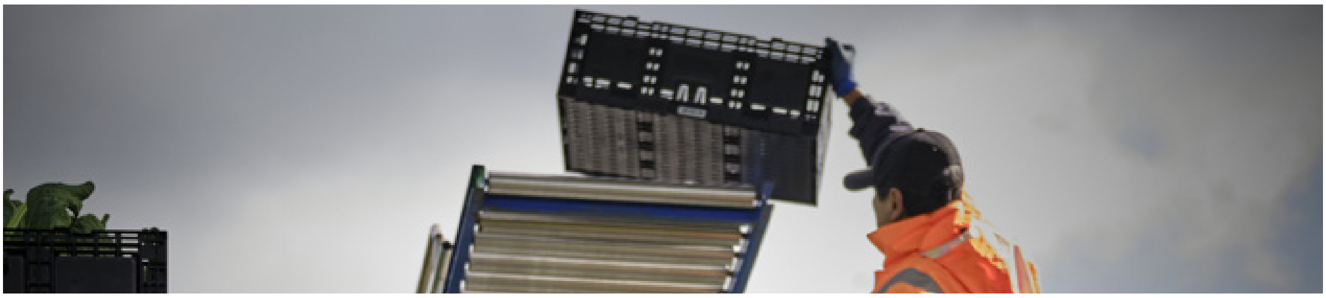
EBITDA for the segment of $154.6 million was $1.8 million (1.2%) up on the pcp with the Asian acquisition and the acquisition of ECP Industries contributing $10.5 million. Excluding acquisitions, EBITDA was $8.7 million (5.7%) lower than the pcp due mainly to higher Australian energy costs in the first half of the year, which could only be partially recovered in the market, and lags in the recovery of higher raw material costs. Lags from the first half of the year were partly recovered in the second half with the remaining impact expected to be recovered in future periods. Earnings benefitted from the continued focus on efficiency and restructuring activities in Australia, lowering costs to serve, and favourable foreign exchange translation. These benefits mitigated the impact of the lower net volumes noted above.

EBIT of $97.4 million was $3.0 million (3.0%) lower than the pcp. Increased depreciation and amortisation related primarily to the full year effect of the Asian acquisition, capital investment in growth projects, notably in New Zealand, partly offset by lower depreciation relating to assets impaired in the Australian Packaging business.

Margins were lower than the pcp as a result of higher input costs and lower margins in the acquired Asian businesses. Margins were, however, improved compared to the first half of the year as a result of improved pricing and the partial recovery of lags.

Materials Handling and Pooling

The Materials Handling and Pooling segment is a leading Australian supplier of polymer materials handling products and a leading supplier of custom moulded products for use in infrastructure and other projects. The business is also the largest supplier of returnable produce crate pooling services in Australia and New Zealand. From 31 October 2018 the segment also includes TIC Retail Accessories (TIC), a closed loop plastic garment hanger and accessories re-use business operating across multiple countries, including Australia. Materials Handling and Pooling contributed 16% of the Group's revenue in FY19.



$'000	2019	2018	Change %
Revenue[1]	**296,386**	220,134	34.6%
EBITDA[3]	**51,054**	44,575	14.5%
EBITDA Margin %	***17.2%***	*20.2%*	*(3.0%)*
EBIT[4]	***35,710***	*32,006*	*11.6%*
EBIT Margin %	***12.0%***	*14.5%*	*(2.5%)*

Revenue for the Materials Handling and Pooling segment of $296.4 million was $76.3 million (34.6%) higher than the pcp. This included $76.3 million of revenue related to the acquisition of TIC, which has performed in line with expectation to date.

Excluding TIC, revenue was flat compared to the pcp with sell price increases to recover higher input costs offset by marginally lower volumes. The Australian crate pooling business, supporting fresh produce supply to Woolworths, continued to perform well with revenue ahead of the prior year. Volumes into other sectors were mixed with growth in industrial bin volumes, assisted by a large council project won in the second half of the year, offset by fewer infrastructure projects available in the period. The business was also adversely impacted by the drought conditions impacting agricultural demand in Australia and adverse weather conditions affecting its New Zealand pooling business.

EBITDA for the segment of $51.5 million was $6.5 million (14.5%) ahead of the pcp. The result includes $9.9 million from TIC. Excluding TIC, EBITDA was $3.4 million lower than the pcp. Earnings were adversely affected by lower net volumes in the period, unfavourable product mix and higher energy and input costs only partly recovered in the market. The segment was also impacted by some higher costs associated with the expansion of crate pooling operations in Australia to support new volumes with ALDI in FY20. This new contract win commenced on schedule in August.

EBIT of $35.7 million was $3.7 million (11.6%) higher than the pcp. The increased depreciation expense compared to the pcp related primarily to the TIC acquisition and higher depreciation for the Australian crate pooling business with all facilities and equipment fully commissioned in FY19.

Margins were lower than the pcp as a result of unfavourable product mix, higher input costs and lower margins in the acquired TIC business relative to the rest of the segment. Margins were improved compared to the first half of the year as a result of improved pricing and the partial recovery of lags.

Contract Manufacturing Services

The Contract Manufacturing Services segment is a leading supplier of services for the home, personal care and health and wellness categories in Australia. The business includes manufacturing capability for liquid, powder, aerosol and nutraceutical products. Contract Manufacturing Services contributed 20% of the Group's revenue in FY19.

$'000	2019	2018	Change %
Revenue[1]	372,263	384,760	(3.2%)
EBITDA[3]	25,063	39,880	(37.2%)
EBITDA Margin %	***6.7%***	*10.4%*	*(3.6%)*
EBIT[4]	***15,285***	*32,083*	*(52.4%)*
EBIT Margin %	***4.1%***	*8.3%*	*(4.2%)*

Revenue for the Contract Manufacturing Services segment of $372.3 million was $12.5 million (3.2%) lower than the pcp. Volumes in the health and wellness sector weakened in the second half, impacted by changes in Chinese regulations and customer overstocking, and were flat for the full year versus the pcp. Sales into the home care sector were lower, adversely impacted by weaker demand for pest control products following a dryer summer and by customer offshoring. Lower net volumes were mitigated by higher pricing in the second half.

EBITDA for the segment of $25.1 million was $14.8 million (37.2%) lower than the pcp. Earnings were impacted by the lower net volumes noted above but also by lags in the recovery of significantly higher USD denominated raw material prices, particularly in the first half, which were exacerbated by the decline in the Australian dollar relative to the US dollar during that period. Improved pricing was delivered in the second half to recover some of these adverse lags.

EBIT of $15.3 million was $16.8 million lower than the pcp, with higher depreciation following the commissioning of efficiency and capacity related asset programs.

Margins for the segment were lower than the pcp but improved in the second half relative to the first half.

Perspectives for FY20

Packaging & Sustainability

- Continue delivering benefits from network restructuring;
- Demand environment expected to remain subdued in Australia and New Zealand;
- Contract wins expected to drive modest volume growth in Asia;
- Growth in recycling and sustainability services expected; and
- Resin input costs assumed to be in line with Q4 FY19, resulting in modest recovery of lags.

Materials Handling & Pooling

- Commencement of crate pooling services for ALDI from 1 August 2019;
- EBITDA benefit from a full year contribution from TIC; and
- Expansion of reuse services to support a major retailer in USA expected H2 FY20

Contract Manufacturing Services

- Lower volumes expected from customer destocking, in the first half, and customer offshoring;
- Raw material input costs expected to remain high in line with FY19;
- New management appointed; and
- Increased focus on efficiency and reducing cost to serve.

Depreciation, amortisation, net financing costs and tax

- Depreciation, amortisation and net financing costs, on a comparable basis[2], expected to be slightly higher than FY19; and
- The effective tax rate is expected to be between 29.0%-29.5%

Outlook

The Group expects EBITDA (before significant items)[2] in FY20 to modestly improve, subject to global economic conditions.

Other events of significance

Acquisitions

On 31 October 2018 the Group purchased 100% of the net assets of TIC Retail Accessories ('TIC') for a provisional consideration of $160.8 million. Consideration comprised of cash consideration paid at completion of $28.3 million, shares issued as consideration of $60.0 million, deferred consideration of $42.5 million and contingent consideration of $30.0 million. TIC is a closed loop plastic garment hanger and accessories reuse business. The acquisition of TIC expands the Group's closed loop pooling platform and provides the opportunity for future growth in this market.

Overview of Business Strategy

A key element of the Group's strategy is to maximise long-term shareholder value. The Group seeks to deliver long-term value through focus on three core areas:

- Organic Growth — by protecting our core and growing organically over the longer-term;
- Efficiency — by embedding a culture of operational excellence and targeting the lowest cost of production; and
- M&A — growth through disciplined M&A in existing sectors and close adjacencies.

Organic Growth

The Group's core business benefits from:

- leading sector positions in rigid plastic packaging, sustainability, pooling services, materials handling and contract manufacturing services;
- a diverse customer base with long-term relationships;
- a highly diversified product portfolio;
- regional scale and broad end-market reach;
- an extensive manufacturing capability and supply network; and
- world-class innovation.

Key to the Group's ability to grow organically is its ability to leverage differentiating characteristics to create a competitive advantage. A core focus of the Group is innovation. Pact is widely recognised for our dedication to supplying some of the most innovative products in the market, supported by our in-house innovation capability and extensive global licencing arrangements. The Group's commitment to innovation has been recognised through multiple industry and customer awards.

Organic growth opportunities exist for the Group through increasing demand for sustainable packaging solutions, increased use of returnable packaging and materials handlings products and increased demand for private label products. In addition, the Group will seek to drive growth through utilisation of its Asian platform and the expansion of pooling operations. Organic growth will be supported in FY20 by the commencement of pooling operations to support ALDI.

Efficiency

The Group is committed to delivering operational excellence and the lowest cost of production.

In the period, the Group continued to drive the implementation of its operational excellence programs, with a strong focus on efficiency and overhead cost reduction, helping to mitigate higher input costs. In addition, the Group continued to progress the transformation of the packaging network with two facilities closed, another rationalised and an import supply model for certain product categories established. The network redesign is a program of inter-dependent projects designed to create an integrated regional supply network delivering efficiencies and improved customer satisfaction through:

- a reduced manufacturing footprint;
- integrated sales and operation planning;
- increased automation;
- an import supply chain that leverages the Asia acquisition

The Group will continue to review all areas of the business for efficiency opportunities in the pursuit of operational excellence to deliver benefits in FY20 and beyond.

M&A

The Group has a track record of success in identifying acquisition opportunities, executing transactions in a disciplined and systematic manner, and delivering cost synergies and operational efficiencies through integration. Acquisitions have driven growth and enabled the Group to expand and diversify its product and customer portfolio.

All M&A opportunities must meet strict assessment and evaluation criteria. Opportunities must be low risk and aligned with the Group's core sectors or close adjacencies and expected returns must meet a minimum financial hurdle of 20% return on investment in year three.

The acquisition of TIC Retail Accessories in FY19 leveraged and expanded the Group's demonstrated capability in closed loop asset pooling and added further scale to the Group's portfolio, expanding its geographic reach in the materials handling sector. In the prior year the acquisition of CSI Asia (excluding Japan) and Graham Packaging (China) also materially enhanced the Group's Asian footprint and customer diversity, providing the Group with a broader range of opportunities to drive growth in the region.

Whilst M&A remains a core pillar of the Group's strategy, the Group's priority focus is to restore margins, with a focus on volume and efficiency, within the business.

Strategic Review

A detailed business strategy review has commenced under the leadership of the Group's new Managing Director and Group CEO. The review will clarify what is critical to Pact's continued success and will enable the Group to maximise long-term shareholder value.

Business Risks

There are various internal and external risks that may have a material impact on the Group's future financial performance and economic sustainability. The Group makes every effort to identify material risks and to manage these effectively.

Material financial risks, not in order of significance, are listed below. Details of the Group's environmental and social sustainability risks are reported in the Group's *Sustainability Review*.

Customer risks

Customers are fundamental to the success of the business and, in recognition of this, Pact invests in the quality of its relationships with key material customers, and in producing products to customers' required specification and standard. The loss of key material customers, a reduction in their demand for Pact's products or a claim for non-performance can have a negative effect on the future financial performance of the Group.

People risks

Future financial and operational performance of the Group is significantly dependant on the performance and retention of key personnel, in particular Senior Management. The unplanned or unexpected loss of key personnel, or the inability to attract and retain high performing individuals to the business may adversely impact the Group's future financial performance. In line with the manufacturing industry, Pact has an exposure to health and safety management incidents in the manufacturing operations. Failure to comply with health and safety legislation and industry good practice may result in harm to a person or persons, which may lead to negative operational, reputational and financial impacts.

Competitor risks

Pact operates in a highly competitive environment due to factors including actions by existing or new competitors, price, product selection and quality, manufacturing capability, innovation and the ability to provide the customer with an appropriate range of products and services in a timely manner. Any deterioration in the Group's competitive position as a result of actions from competitors may result in a decline in sales revenue and margins, and an adverse effect on the Group's future financial performance.

Consumer demand

Changes in demand for Pact's products or adverse activities in key industry sectors which Pact and its customers service may be influenced by various factors. These industry sectors include consumer goods (eg. food, dairy, beverages, personal care and other household consumables) and industrial (eg. surface coatings, petrochemical, agriculture and chemicals) industry sectors. Factors which may influence these sectors include climate change, seasonality of foods and edible oils production, an increased focus in Australian and New Zealand supermarket chains on private brands and different substrates, and reputation of products, substrates (e.g. plastics, recycled and recyclable materials) or technology in the wider industry sector. Demand for Pact's products may materially be affected by any of these factors which could have an adverse effect on the Group's future financial performance.

Strategic acquisitions

Pact's growth over time has been aided by the acquisition of numerous businesses and assets. This growth has placed, and may continue to place, significant demands on management, information reporting systems and financial and internal control systems. Effective management of Pact's growth, including identification of suitable acquisition candidates and effective management of integration costs, will be required on an ongoing basis. If this does not occur then there may be an adverse effect on the Group's future financial performance. Large capital projects are also scrutinised to ensure the associated risks are appropriately managed to ensure return on capital investment and project milestones are achieved.

Foreign exchange rates

Pact's financial reports are prepared in Australian dollars. However, a substantial proportion of Pact's sales revenue, expenditures and cash flows are generated in, and assets and liabilities are denominated in, New Zealand dollars. Pact is also exposed to a range of other currencies including the US dollar, Chinese yuan, the Philippines peso, the Indonesian rupiah, the Thai baht, the South Korean won, the Indian rupee, the Nepalese rupee, the Hong Kong dollar, the UK pound and the Bangladesh taka in relation to Pact's business operations. Any depreciation of the Australian dollar and adverse movement in exchange rates would have an adverse effect on the Group's future financial performance.

Supply chain

The ability for the supply chain to meet the Group's requirements including the sourcing of raw materials, is reliant on key relationships with suppliers. The price and availability of raw materials, input costs, including energy, and future consolidation in industry sectors could result in a decrease in the number of suppliers or alternative supply sources available to Pact. Additionally, Pact may not always be able to pass on changes in input prices to its customers. Any of these factors may have an adverse effect on the Group's future financial performance.

Interruption to operations

Pact operates across a diverse geographical footprint and situations may arise in which sites are not able to operate. Factors include emergency situations such as natural disasters, failure of information technology systems or security, or industrial disputes. Any of these factors may lead to disruptions in production or increase in costs and may have an adverse effect on the Group's financial performance.

Compliance risks

Pact is required to comply with a range of laws and regulations, and those of particular significance to Pact are in the areas of employment, including modern slavery, work health and safety, property, environmental, competition, anti-bribery and corruption, customs and international trade, taxation and corporations. Changes in Government policy may also have an adverse effect on the Group's financial performance.

Information security

Data security is fundamental to protect privacy of information and to protect critical intellectual property. Advances in technology have resulted in an increased volume of data being stored electronically. There is an increasing risk of and sophistication to cyber-attacks and crime, which may lead to systems and data breaches, interruption to operations and an adverse effect on the Group's future financial performance.

Footnotes

(1) AASB15: Revenue from Contracts with Customers was adopted in the period on a modified retrospective basis. Refer to Note: 6.2 Accounting Policies in the Full Year Consolidated Financial Report. The impact to revenue in the period has not been material.

(2) On a comparable basis, excluding impacts which will arise in FY20 from the adoption of AASB16 by the Group.

In addition, this report includes certain non-IFRS financial information which have not been subject to audit by the Group's external auditor. This information is used by Pact, the investment community and Pact's Australian peers with similar business portfolios. Pact uses this information for its internal management reporting as it better reflects what Pact considers to be its underlying performance.

(3) EBITDA refers to EBITDA before significant items and is a non-IFRS financial measure which is calculated as earnings before significant items, finance costs (net of interest revenue), tax, depreciation and amortisation.

(4) EBIT refers to EBIT before significant items and is a non-IFRS financial measure which is calculated as earnings before significant items, finance costs (net of interest revenue) and tax.

(5) NPAT refers to NPAT before significant items and is a non-IFRS financial measure which is calculated as net profit after tax before significant items.

(6) Gearing is a non-IFRS financial measures which is calculated as net debt divided by rolling 12 months EBITDA. Net debt is calculated as interest-bearing liabilities less cash and cash equivalents

(7) Interest cover is a non-IFRS financial measures which is calculated as rolling 12 months EBITDA divided by rolling 12 months net finance costs and losses on de-recognition of financial assets.

(8) Net debt is a non-IFRS financial measure and is calculated as interest-bearing liabilities less cash and cash equivalents

Strategic Priorities

Creating long-term value

Pact is a diversified provider of speciality packaging and materials handling solutions generating over $1.8 billion in revenue in FY19. It has grown from a rigid packaging business generating revenue of $200 million in 2002.

The Group has diversified its product and service portfolio through transformational investments in areas offering attractive growth opportunities. Today, Pact is:

- The largest manufacturer of rigid packaging products in Australasia, with a growing presence in Asia.
- A leading supplier of recycling and reconditioning services.
- The leading supplier of returnable produce crate pooling services in Australia and New Zealand. Pooling provides a sustainable packaging alternative to single-use packaging for fresh produce.
- A leading global supplier of closed loop plastic garment hanger and accessories reuse services. Reuse is an innovative and sustainable supply chain solution which reduces plastic waste.
- A leading contract manufacturing services business for the home, personal care and health and wellness categories in Australia.

The Group has broad-end market reach and an attractive and diverse customer base, including supply to trusted major regional and global brands.

Priorities

The Group is focused on delivering long-term value for all stakeholders. Pact's priorities are:

- Delivering improvements in core business fundamentals.
- Continuing progress towards our *2025 End of Waste Sustainability Promise*.
- Completing a detailed strategy review.

The review will define the strategic priorities for the next stage of the Group's evolution and enable the creation of long-term value for all of its stakeholders.

Core Business Fundamentals — Packaging Network Redesign

The restructuring of our packaging network is a priority. The program targets the delivery of our scale advantage and will create an integrated supply network, delivering efficiencies and improved customer satisfaction.

The future: an integrated supply network

- Reduced manufacturing footprint
- Integrated sales and operations planning
- Increased automation
- Focussed centre of excellence
- Import supply chain that leverages the Asian Acquisition
- A portfolio strategy driving future investment
- Period to achieve future state of three to five years

The opportunity

- Improved operations management and higher asset utilisation
- Improved productivity
- Improved quality
- Lower freight costs
- Improved inventory control and reduced warehousing costs
- Improved training and safety

FY19 Outcomes

- Two facilities (food packaging) closed in the second half of FY19, including one of the largest facilities in Australia
- A further facility (beverage closure) has been rationalised
- Import supply chain established for select product categories
- An additional two facilities closed in FY18

Progress towards our *2025 End of Waste Sustainability Promise*

Sustainability is a core pillar of Pact's commitment to its employees, customers and the communities in which it operates. Pact actively reduces the impact of packaging on the environment through unique and innovative sustainability services.

Pact is the largest processor and consumer of post-industrial resin in Australia and New Zealand.

- We offer several schemes for hard to recycle packaging.
- We launder, recondition and refurbish bulk packaging.
- We actively replace single-use packaging with pooling and reuse solutions.
- We design products which minimise the impact on the environment.

In FY18 Pact launched its 2025 Promise. The Group made significant progress towards achieving its 2025 promise in FY19 across its service portfolio.

In FY18, Pact launched its *2025 End of Waste Sustainability Promise*. The Group made significant progress towards achieving its 2025 Promise in FY19 across its service portfolio.

Reduce

- Decreased consumption of Expanded Polystyrene (EPS) by 30% (715 metric tonnes)
- Successfully transitioned 100% of New Zealand largest supermarket's EPS trays to recycled polyethylene terephthalate (rPET) trays effectively diverting 107 million single-use EPS trays per annum from landfill

Reuse

- Grown the use of Returnable Produce Crates (RPC's) in one of Australia's major supermarket's supply chain by 4%, and in the process reduced single use corrugate secondary packaging by 927 tonnes
- Secured contract to provide major US retailer for the supply of garment hanger reuse services in FY20

Recycle

- Grown recycling capability and leveraged government co-investment support
- Increased our consumption of recycled resin by 2,712 tonnes
- Launched numerous new products that have been light-weighted and/or contain recycled content

PACT'S 2025 PROMISE IS

END OF WASTE

We have made a promise to become the number one partner of sustainable choices for our customers.

OUR TARGETS

REDUCE

Eliminate all non recyclable packaging that we produce

REUSE

Have solutions to reduce, reuse and recycle all single use secondary packaging

RECYCLE

Offer 30% recycled content across our packaging portfolio

Growth in Sustainability Services

Crate pooling

Pact has built a world class produce crate pooling platform for two of Australia's largest supermarkets delivering market leading quality and efficiency.

Quality

- World standard in hygiene and food safety
- Unique grower interface providing extensive data analytics for improved supply chain control has delivered market leading grower satisfaction
- Low environmental footprint
- Innovation capability, supported by global technology partners, to deliver tailored product and design solutions

Efficiency

- National crate pool delivers significant cost efficiencies to both growers and retailers
- Low cycle times and improved asset availability
- Patented Intellicrate™ system
- Innovation and technology developments will further enhance asset tracking and enable real time decision-making

Reuse services

Pact's reuse platform is an innovative and sustainable supply chain solution which reduces waste and cost.

A global leader in reuse services

- A long-term partnership with a major US retailer for the supply of reuse services will establish Pact as the global leader in garment hanger reuse
- Partnership reflects Pact's proven capability in supporting global retailers reduce waste and improve their environmental footprint
- Provides a major step into the largest retail market in the world
- Leverages established manufacturing and reuse operations in Asia
- $30 million revenue from 300 million hangers annually
- $10 million cash investment, with operations expected to commence H2 FY20

Recycling

Pact is partnering with governments in other jurisdictions to expand the Group's local recycling capability.

Support from the New Zealand Waste Minimisation Fund will enable Pact to produce an extensive range of 100% recycled PET food grade packaging products, including meat trays, bakery trays, deli containers, food containers, produce containers and beverage bottles. A new plant in Auckland will have the ability to process around 10,000 tonnes of recycled PET every year. This new capability will enable Pact to substitute imported resin with recycled food-contact approved resin, enhancing the circular economy.

Shampoo bottles

made entirely of recycled content and 20% lighter than the previous bottle

Dishwashing liquid bottles,

75% of each made from plastic sourced from recycled milk, juice and water bottles

Personal care bottles made from

100% recycled content and 25% lighter than the previous bottles

Innovation

FINANCIAL REVIEW BOSS
MOST INNOVATIVE COMPANIES

Pact Group ranked second on the Manufacturing & Consumer Goods category in the 2019 Australian Financial Review (AFR) BOSS Most Innovative Companies list, from more than 800 nominated organisations across Australia and New Zealand

In 2019 Pact Group named as one of Australasia's Most Innovative Companies for the seventh consecutive Year. Pact Group ranked second on the Manufacturing & Consumer Goods list, from more than 800 nominated organisations across Australia and New Zealand. The assessment measures a top innovation implemented in the past 12 months. Specifically, the judges look at how valuable the problem is that the innovation is solving, the quality and uniqueness of the solution, and the level of impact that the innovation has had. Also assessed are internal elements such as innovation culture, strategy, resources and process, which demonstrate a sustainable and repeatable approach to innovation.

Case study

250 used milk bottles in landfill

OR

250 recycled milk bottles to make a wheelie bin

In Australia, there are approximately 70,000 tonnes of bailed post-consumer milk bottles per annum destined for landfill. Pact's 2019 Australian Financial Review BOSS Most Innovative Companies nomination was for designing and manufacturing a household mobile garbage bin (or wheelie bin) made from 60% recycled milk bottles.

Each bin is made using up to 4.8kg of recycled milk bottle plastic, or 250 milk bottles — the average number every Australian household consumes each year.

Pact's 2019 nomination forms part of the Group's *End of Waste* strategy to create large sinkholes for recycled content into innovative solutions such as mobile garbage bins, telecommunication pits, freeway noisewalls walls, slip sheets and underground cable covers that create a true circular economy for packaging waste.

Of the seven years Pact has made the list, five of the Group's winning nominations have been for innovative sustainability initiatives that increase the circularity of plastic material.

Awards

We're very proud that throughout FY19 we received multiple awards and recognition for our unwavering focus on sustainable packaging innovation.

Corporate

Australian Financial Review (AFR) BOSS Most Innovative Companies List
2019, 2018, 2017, 2016, 2015, 2014, 2013

Wealth & Finance International Global Excellence Awards
— 2018 Most Innovative Packaging Company of the Year

Acquisition International Leading Advisor Awards
— 2019 Leading Creative Packaging Solutions Provider of the Year

Industry

2019 Winner Australasian Packaging Innovation & Design Awards (PIDA)
— *Sustainable Packaging Design Category* — Lewis Road's 100% rPET Milk Bottle Range

2019 Winner Australasian Packaging Innovation & Design Awards (PIDA)
— Beverage Category — Lewis Road's 100% rPET Milk Bottle Range

2019 Runner Up Australasian Packaging Innovation & Design Awards (PIDA)
— Health, Beauty and Wellness Category — Essano 100% rPET Shampoo and Conditioner bottle range

2019 Product of the Year — ALDI Green Action Cleaners 500ml

2019 Canstar Blue — ALDI Almat Laundry Liquid

2019 Choice Awards — ALDI Trimat Laundry Power

PIDA PACKAGING INNOVATION & DESIGN AWARDS 2019 PACKAGING INNOVATION & DESIGN OF THE YEAR BEVERAGE — GOLD AWARD

PIDA PACKAGING INNOVATION & DESIGN AWARDS 2019 SUSTAINABLE PACKAGING DESIGN SPECIAL AWARD - CIRCULAR ECONOMY — GOLD AWARD

PIDA PACKAGING INNOVATION & DESIGN AWARDS 2019 PACKAGING INNOVATION & DESIGN OF THE YEAR HEALTH, BEAUTY & WELLNESS — SILVER AWARD

CANSTAR BLUE 2019 MOST SATISFIED CUSTOMERS

VOTED PRODUCT OF THE YEAR Consumer Survey of Product Innovation 2019

Governance

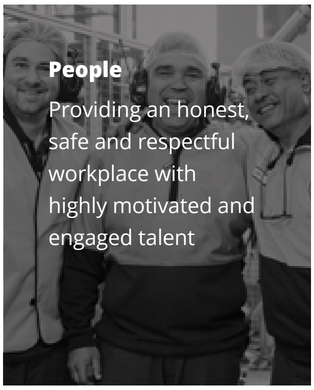

BANANA BOAT
KIDS
VERY HIGH PROTECTION ROLL ON SUNSCREEN
SPF 50
4 HOUR WATER RESISTANT

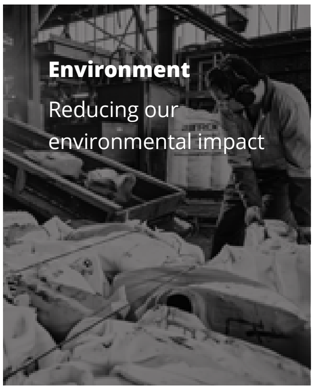
Sustainability Review

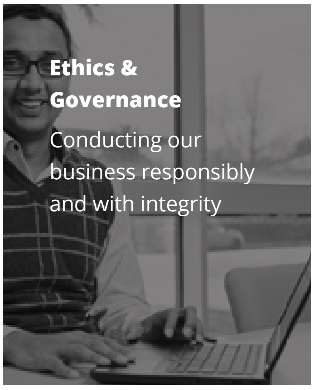
Pact is committed to sustainability and this is embedded in the way we work. Our vision is to enrich lives everyday through sustainable packaging and manufacturing solutions.

At Pact we understand that our business operations have an impact on many people, including our employees, customers, shareholders, suppliers and the broader communities in which we operate. Our sustainability framework is built around four pillars that provide the business with a clear focus and drive our sustainability practices:

Our annual *Sustainability Review* is prepared based on the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G4 version) and, addresses the challenges and opportunities facing our business. The Review allows our stakeholders to see how we've addressed our responsibilities and showcases examples of our approach to sustainability in action. The *Review* is available on the Company's website: www.pactgroup.com/sustsainability/







Corporate Governance

The Board recognises the importance of good corporate governance and its role in ensuring the accountability of the Board and Management to shareholders.

The Board's role is to ensure that the Group is properly managed to protect and enhance shareholder interests and that the Group, including the Company, Directors, Officers, and Employees, operate in an appropriate environment of control and corporate governance.

The corporate governance framework adopted comprises of principles and policies that are consistent with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (fourth edition).

The annual Corporate Governance Statement outlines the key aspects of the Group's corporate governance framework and practices. The Board considers that the Company's corporate governance framework and practices have complied with the ASX recommendations for the financial year, except as otherwise detailed in the Corporate Governance Statement.

The 2019 Corporate Governance Statement is available on the website: www.pactgroup.com.au/investors/corporate-governance/corporate-statement.

Financial Reports

Financial Report

Consolidated Financial Report For the year ended 30 June 2019

Introduction

This is the *Consolidated Financial Report* of Pact Group Holdings Ltd ("Pact" or the "Company") and its subsidiaries (together referred to as the "Group") and including the Group's jointly controlled entities at the end of, or during the year ended 30 June 2019. This *Consolidated Financial Report* was issued in accordance with a resolution of the Directors on 14 August 2019.

Information is only included in the *Consolidated Financial Report* to the extent the Directors consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the dollar amount is significant in size and/or by nature;
- the Group's results cannot be understood without the specific disclosure;
- it is critical to allow a user to understand the impact of significant changes in the Group's business during the year; and
- it relates to an aspect of the Group's operations that is important to its future performance.

Preparing this Consolidated Financial Report requires management to make a number of judgements, estimates and assumptions to apply the Group's accounting policies. Actual results may differ from these judgements and estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Key judgements and estimates, which are material to this report, are highlighted in the following notes:

- Note 1.2 Taxation
- Note 2.1 Business combinations
- Note 2.2 Control and significant influence
- Note 3.2 Estimation of useful lives of assets
- Note 3.2 Recoverability of property, plant and equipment
- Note 3.2 Impairment of goodwill and other intangibles
- Note 3.4 Business restructuring
- Note 5.1 Actuarial assessments

To assist in identifying key accounting estimates and judgements, they have been highlighted as follows:

Contents

Directors' Report

The Directors present their report on the consolidated entity consisting of Pact Group Holdings Ltd ("Pact" or the "Company") and the entities it controlled (collectively the "Group") at the end of, or during, the year ended 30 June 2019.

Left to right:
Jonathan Ling, Peter Margin, Ray Horsburgh, Raphael Geminder, Lyndsey Cattermole, Sanjay Dayal, Carmen Chua

Directors' Report

DIRECTORS

The following persons were Directors of the Company from their date of appointment up to the date of this report:

Non-Executive

Raphael Geminder
Non-Executive Chairman

Member of the Board since 19 October 2010
Member of the Nomination and Remuneration Committee

Raphael founded Pact in 2002. Prior to this, Raphael was the co-founder and Chairman of Visy Recycling, growing it into the largest recycling company in Australia. Raphael was appointed Victoria's first Honorary Consul to the Republic of South Africa in July 2006. He also holds a number of other advisory and Board positions.

Raphael holds a Masters of Business Administration in Finance from Syracuse University, New York.

Other current directorships
Director of several private companies.

Lyndsey Cattermole AM
Independent Non-Executive Director

Member of the Board since 26 November 2013
Member of the Audit, Business Risk and Compliance Committee
Member of the Nomination and Remuneration Committee

Lyndsey founded Aspect Computing Pty Limited and remained as Managing Director from 1974 to 2001, before selling the business to KAZ Group Limited, where she served as a Director from 2001 to 2004. Lyndsey has held many board and membership positions including with the Committee for Melbourne, the Prime Minister's Science and Engineering Council, the Australian Information Industries Association, the Victorian Premier's Round Table and the Women's and Children's Health Care Network.

Lyndsey holds a Bachelor of Science from the University of Melbourne and is a Fellow of the Australian Computer Society.

Other current directorships
Non-Executive Director of Myer Holdings Ltd, Melbourne Rebels Rugby Union Ltd, and the Florey Institute of Neuroscience and Mental Health and several private companies.

Former listed company directorships in last three years
Non-Executive Director of Treasury Wine Estates Limited (2011–2017), Tatts Group Limited (2005–2017).

Ray Horsburgh AM
Independent Non-Executive Director

Member of the Board since 5 October 2015
Member of the Audit, Business Risk and Compliance Committee

Ray has extensive management experience in the glass and steel manufacturing sectors and in mergers and acquisitions. He was Managing Director and Chief Executive Officer of Smorgon Steel Group Limited (1993–2007) and held various senior roles in packaging company ACI Limited including Chief Executive Officer of ACI Glass Group.

Ray has a Bachelor of Chemical Engineering, Hon DUniv, is a fellow of the Australian Institute of Company Directors and a Fellow of the Institute of Engineers Australia.

Other current directorships
Ray is currently the Chairman of AFL Victoria. He is also a Director of the Ricky Ponting Foundation and Libery Infrabuild.

Former listed company directorships in last three years
Chairman of Calibre Global Limited (2012–2015), Chairman of Toll Holdings Limited (2007–2016).

Directors’ Report

Peter Margin
Independent Non-Executive Director

Member of the Board since 26 November 2013

Chairman of the Audit, Business Risk and Compliance Committee

Member of the Nomination and Remuneration Committee

Peter has many years of leadership experience in major Australian and international food companies. He is currently the Executive Chairman of Asahi Beverages ANZ, and previously was Chief Executive Officer of Goodman Fielder Limited. Prior to that Peter was Chief Executive Officer and Chief Operating Officer of National Foods Limited. Peter has also held senior management roles in Simplot Australia Limited, Pacific Brands Limited (formerly known as Pacific Dunlop Limited), East Asiatic Company and HJ Heinz Company Australia Limited.

Peter holds a Bachelor of Science from the University of New South Wales and a Master of Business Administration from Monash University.

Other current directorships
Non-Executive Director of Nufarm Limited and Costa Group Holdings Limited.

Former listed company directorships in last three years
Non-Executive Director of PMP Limited (retired August 2016), Huon Aquaculture Limited (retired August 2016) and Bega Cheese Limited (retired January 2019).

Jonathan Ling
Independent Non-Executive Director

Member of the Board since 28 April 2014
Chairman of the Nomination and Remuneration Committee

Jonathan has extensive experience in complex manufacturing businesses. He was the Chief Executive Officer and Managing Director of GUD Holdings Limited from 2013 to 2018, and Chief Executive Officer and Managing Director of Fletcher Building Limited during the period 2006 to 2012. He also held leadership roles with Nylex, Visy and Pacifica.

Jonathan has a Bachelor of Engineering (Mechanical) from the University of Melbourne and a Masters of Business Administration from the Royal Melbourne Institute of Technology.

Other current directorships
Independent Non-Executive Director and Chairman of Pro Pac Packaging Ltd.

Carmen Chua
Independent Non-Executive Director

Member of the Board since 1 September 2018.

Carmen is based in Hong Kong and has broad base management experience in the packaging and material science industry. Carmen was most recently the Global President for Laird PLC. Previously she held position of VP and GM of Materials Group at Avery Dennison Corporation from 2008 to 2016. Carmen has also held leadership positions across sales, marketing and business development with organisations such as Worldmark International, Dell Corporation and Adampak.

Carmen has a Bachelor of Arts (Hons) from University Science Malaysia, a Master of Business Administration from the University of Portsmouth, UK and Advanced Management Program from Wharton School of Business.

Directors' Report

Executive

Sanjay Dayal
Managing Director and Group Chief Executive Officer

Member of the Board since 3 April 2019.

Sanjay joined Pact Group from BlueScope Steel where he held the position of Chief Executive, Building Products, Corporate Strategy and Innovation. This followed several other senior positions in Asia and Australia over a nine year period with the company. Prior to BlueScope, Sanjay had a very successful career with Orica and ICI, including Regional General Manager for Manufacturing and Supply Chain and General Manager for the DynoNobel Integration, based out of London.

Sanjay holds a Bachelor of Technology (Chemical Engineering) from Indian Institute of Technology, Delhi.

Company Secretary

Jonathon West
Company Secretary

Jonathon West was appointed to the positions of General Counsel and Company Secretary as well as Head of Corporate Development of Pact on 1 June 2016.

Prior to this appointment, Jonathon was most recently at Goodman Fielder Limited where he held a variety of roles over a ten year period, including Group Strategy and Corporate Development Officer, Group General Counsel and Company Secretary and Group Commercial Director. Prior to that Jonathon worked in both private practice and industry in Australia and the UK, including with Burns Philp Limited, Sportal.com, AOL Europe, Linklaters and Herbert Smith Freehills.

Jonathon holds Bachelor of Laws (Honours) and Bachelor of Science degrees from the University of Melbourne.

Directors' shareholding

As at the date of this report, the relevant interests of the Directors in the shares of the Company or a related body corporate were as follows:

	Relevant Interest in Ordinary Shares
Raphael Geminder	133,951,614
Lyndsey Cattermole	391,329
Peter Margin	35,257
Jonathan Ling	31,179
Ray Horsburgh	44,971
Carmen Chua	30,000
Sanjay Dayal	40,000

Directors' Report

Directors' meetings

The table below shows the number of Directors' meetings (including meetings of Board committees), and the number of meetings attended by each Director in their capacity as a member during the year:

	Directors' Meetings		Audit, Business Risk and Compliance Committee		Nomination and Remuneration Committee	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
Raphael Geminder	12	12	NM	NM	4	4
Lyndsey Cattermole	12	11	6	6	4	4
Peter Margin	12	12	6	6	4	4
Jonathan Ling	12	12	NM	NM	4	4
Ray Horsburgh	12	12	6	6	NM	NM
Carmen Chua[(1)]	10	10	NM	NM	NM	NM
Sanjay Dayal[(2)]	2	2	NM	NM	NM	NM
Former Director's						
Malcolm Bundey[(3)]	1	1	NM	NM	NM	NM

NM — Not a member of the relevant committee

(1) Carmen Chua was appointed as a Non-executive Director on 1 September 2018

(2) Sanjay Dayal was appointed as an Executive Director on 3 April 2019

(3) Malcom Bundey resigned as an Executive Director on 10 September 2018

Principal activities

Pact is a leading provider of specialty packaging solutions, servicing both consumer and industrial sectors. Pact specialises in the manufacture and supply of rigid plastic and metal packaging, materials handling solutions, contract manufacturing services and recycling and sustainability services.

Operating and financial review

A review of the operations of the Group during the year and of the results of those operations is contained on page 14.

Dividends

The Directors have determined to not pay a final dividend after the end of the financial year (2018: 11.5 cents, 65% franked).

The table below shows dividends paid (or payable) during the year ended 30 June 2019 and the comparative year.

Dividends	Amount per security	Franked amount per security	Unfranked amount per security sourced from the conduit foreign income account	Date payable
Current year to 30 June 2019				
Final Dividend (per ordinary share)	-	-	-	-
Interim Dividend (per ordinary share)	-	-	-	-
Prior year to 30 June 2018				
Final Dividend (per ordinary share)	11.50 cents	7.48 cents	4.02 cents	4 October 2018
Interim Dividend (per ordinary share)	11.50 cents	7.48 cents	4.02 cents	5 April 2018

Directors’ Report

Other events of significance

Please refer to the Review of Operations and Financial Performance on page 14.

Significant events after balance date

In the opinion of the Directors, there have been no other material matters or circumstances which have arisen between 30 June 2019 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial periods.

Workplace health, safety and environmental regulation

The Group operates under an integrated Workplace Health, Safety and Environment (WHSE) Management System, with a goal of Towards Zero Harm to both people and the planet. The system is aligned with ISO 14001 and operates under an Environmental Policy and a Workplace Health and Safety Policy. The system is fundamental to achieving compliance with WHSE regulations in all jurisdictions in which we operate and is implemented at all of our sites.

Where applicable, licences and consents are in place in respect of each site within the Group. An interactive database is used to ensure compliance and completion of all required actions.

On occasion, the Group receives notices from relevant authorities pursuant to local WHSE legislation and in relation to the Group’s WHSE licences and consents. The Group takes all notices seriously, conducting a thorough investigation into the cause and ensures that there is no reoccurrence. Pact works with the appropriate authorities to address any requirements and to proactively manage any obligations.

The Group is also subject to the reporting and compliance requirements of the *Australian National Greenhouse and Energy Reporting Act 2007* (Cth). The *National Greenhouse and Energy Reporting Act 2007* requires that Pact reports its annual greenhouse gas emissions and energy use. Pact has submitted all annual reports, and is due to submit its next report in September 2019.

Share options and rights

Refer to the Remuneration Report (Section 3) for further details on share rights on issue. There are no share options on issue in the Company.

Indemnification and insurance of officers

The Company’s Constitution requires the Company to indemnify current and former Directors, alternate Directors, executive officers and such other officers of the Company as the Board determines on a full indemnity basis and to the full extent permitted by law against all liabilities incurred as an officer of the Group. Further, the Company’s Constitution permits the Company to maintain and pay insurance premiums for Director and Officer liability insurance, to the extent permitted by law.

Consistent with (and in addition to) the provisions in the Company’s Constitution outlined above, the Company has also entered into deeds of access, indemnity and insurance with all Directors of the Company and the Company Secretary which provide indemnities against losses incurred in their role as Directors or Company Secretary, subject to certain exclusions, including to the extent that such indemnity is prohibited by the *Corporations Act 2001* (the Act) or any other applicable law. In addition, a wholly owned subsidiary of the Company has entered into deeds of indemnity in 2015 for five years with its then current and former Directors and Secretaries involved in a transaction which was being contemplated at the time, to provide indemnities against losses incurred in the event of breaches of their obligations under confidentiality deeds entered into by them for the purpose of such transaction, and in the course of their employment, subject to certain exclusions including to the extent that such indemnity is prohibited by the Act. The deeds stipulate that the Company will meet the full amount of any such liabilities, costs and expenses (including legal fees).

During the financial year the Company paid insurance premiums for a Directors' and Officers' liability insurance contract that provides cover for the current and former Directors, alternate Directors, secretaries, executive officers and officers of the Group. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

Directors’ Report

Indemnification of auditors

Pursuant to the terms of the Company’s standard engagement letter with Ernst & Young (EY), it indemnifies EY against all claims by third parties and resulting liabilities, losses, damages, costs and expenses (including reasonable legal costs) arising out of, or relating to, the services provided by EY or a breach of the engagement letter. The indemnity does not apply in respect of any matters finally determined to have resulted from EY’s negligent, wrongful or wilful acts or omissions nor to the extent prohibited by applicable law including the *Act*.

Proceedings on behalf of the company

No person has applied to the court under section 237 of the *Act* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with the leave of the court under section 237 of the *Act*.

Non-audit services

During the year, EY, the Company’s auditor, performed other assignments in addition to it's statutory audit responsibilities.

Details of the amounts paid or payable to EY for non-audit services provided in respect of the Group during the year are as follows:

$	2019	2018
Tax services	158,000	356,000

The Board has considered the position and, in accordance with the advice received from the Audit, Business Risk and Compliance Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Act*.

The Directors are satisfied that the provision of non-audit services by EY, given the amounts paid and the type of work undertaken, did not compromise the auditor independence requirements of the *Act* for the following reasons:

- all non-audit services have been reviewed by the Audit, Business Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110: *Code of Ethics for Professional Accountants*, including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

Directors’ Report — Remuneration Report

Remuneration report (audited)

This Remuneration Report for the year ended 30 June 2019 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Act* and its regulations. This information has been audited as required by section 308(3C) of the *Act*.

The Remuneration Report is presented under the following sections:

1. Introduction
2. Governance
3. Executive remuneration arrangements
4. Executive remuneration outcomes for 2019
5. Executive KMP contracts
6. Non-Executive Directors’ remuneration arrangements
7. Equity holdings of KMP
8. Related party transactions with KMP

1. Introduction

The Remuneration Report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term KMP includes all non-Executive Directors of the Board, the Managing Director and Group Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of the Company and the Group.

Key Management Personnel

Name	Position	Term as KMP in 2019
Non-Executive Directors (NEDs)		
Raphael Geminder	Non-Executive Chairman	Full Year(1)
Lyndsey Cattermole	Non-Executive Director	Full Year
Peter Margin	Non-Executive Director	Full Year
Jonathan Ling	Non-Executive Director	Full Year
Ray Horsburgh	Non-Executive Director	Full Year
Carmen Chua	Non-Executive Director	Appointed 1 September 2018
Other KMP		
Sanjay Dayal	Managing Director and Group CEO	Appointed 3 April 2019
Richard Betts	Chief Financial Officer	Full Year
Other KMP		
Malcolm Bundey	Former Managing Director and CEO	Resigned 10 September 2018

(1) Mr Geminder held the position of Executive Chairman from 10 September 2018 to 3 April 2019. For the remainder of the year he held the position of non-Executive Chairman.

There have been no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

Directors' Report — Remuneration Report (cont.)

2. Governance

Nomination and Remuneration Committee

The Nomination and Remuneration Committee (the Committee) is delegated responsibility by the Board for managing appropriate remuneration policy and governance procedures including to:

- review and recommend to the Board appropriate remuneration policies and arrangements including incentive plans for the CEO and CFO;
- review and approve short term incentive plans, long term incentive plans, performance targets and bonus payments for the CEO and CFO;
- review the performance of the CEO;
- review the Senior Executives' performance assessment processes to ensure they are structured and operate to realise business strategy; and
- review and recommend to the Board, remuneration arrangements for the Chairman and NEDs.

The Committee comprises four non-Executive Directors and meet as often as the Committee members deem necessary to fulfil the Committee's obligations. It is intended they meet no less than three times a year. A copy of the Committee's charter is available at www.pactgroup.com.au.

Use of remuneration consultants

To ensure the Committee is fully informed when making remuneration decisions it will seek remuneration advice where required.

Decisions to engage remuneration consultants are made by the Committee or the Board. Contractual engagements and briefing of the consultants is undertaken by the Chairman of the Committee and the remuneration recommendations of the consultants are to be provided directly to the Chairman of the Committee.

The Group did not engage any remuneration consultants during the year.

Directors’ Report — Remuneration Report (cont.)

3. Executive remuneration arrangements

Remuneration principles and strategy

Pact’s executive remuneration strategy is designed to attract, retain, reward and motivate high performing individuals through remuneration arrangements that are based on performance and experience, are competitive for companies of a similar size and nature, and are aligned with the interests of shareholders.

Remuneration for executive KMP includes fixed remuneration, and benefits that are at risk, awarded only on the achievement of performance conditions. This includes a short term incentive plan (STI) and a LTIP for both the CEO and CFO.

Fixed Remuneration

Comprises base salary and company superannuation contributions. The Group’s strategy is to provide competitive fixed remuneration to attract high quality executives with the right experience, qualifications and industry expertise to manage the business.

STI

An “at risk” component of remuneration paid in cash, awarded on the achievement of performance conditions (financial and non-financial) over a twelve month period, that is intended to drive performance against the Group’s short term objectives.

LTIP

An “at risk” component of remuneration comprising the issue of Performance Rights to acquire fully paid ordinary shares in the Company for nil consideration, awarded on the achievement of performance conditions over a three year period, that is intended to drive performance against the Group’s long term objectives.

Approach to setting remuneration

Remuneration levels are considered annually through a remuneration review that considers market data, insights into remuneration trends, the performance of the Group and individual, and the broader economic environment. The target remuneration mix for the 2019 year was as follows[1]:

Executive KMP remuneration component at target	Sanjay Dayal %	Richard Betts %
Fixed Remuneration	51%	65%
Short term incentives	49%	31%
Long Term incentives (LTIP)	-	4%
Total	**100%**	**100%**

(1) Target remuneration is calculated as Fixed Remuneration, plus STI at target, plus long term incentives at target (based on the fair value of Performance Rights at grant date).

Directors’ Report — Remuneration Report (cont.)

Detail of incentive plans

STI

Both the CEO and CFO participate in a STI which is paid in cash and dependent on achieving agreed performance targets for the following:

- EBITDA before significant items;
- cash conversion and working capital management; and
- non-financial measures that include safety, risk management, diversity targets and talent management.

The CEO’s participation in the current year has been assessed on a pro rata basis from his commencement of employment on 3 April 2019. Participation in the STI for both the CEO and CFO is dependent on the Group exceeding an EBITDA hurdle equal to 95% of target EBITDA. If this hurdle is not achieved no rewards are required to be paid under the STI.

The Board considers these measures to be appropriate as they are strongly aligned with the interests of shareholders. Group EBITDA, cash conversion and working capital targets are key indicators of the underlying growth of the business, enabling the payment of dividends to shareholders.

The table on page 51 provides additional information on these performance measures, including an overview of performance versus target in the current year.

LTIP

Both the CEO and CFO participate in the LTIP, with an entitlement to performance rights to acquire fully paid shares in the Company, equal to 100% of fixed annual remuneration for the CEO and 30% of fixed annual remuneration for the CFO.

Key features of the LTIP are outlined below:

Grant Value

Performance rights are granted based on the volume weighted average price (VWAP) of the Pact Group share price over the five day period following the Company’s announcement of the prior year’s full year financial results. The number of performance rights granted to the CEO are on a pro rata entitlement based on a commencement date of 3 April 2019. The number of performance rights granted to the CFO represents the entitlement for that full year. For details on the performance rights granted for the FY2018 LTIP and FY2017 LTIP please refer to the respective Annual Reports.

Share based payments expense is based on the fair value of the performance rights over the performance period.

Performance Period

The performance period commences on the first day of that fiscal year and is measured over 3 years.

Directors' Report — Remuneration Report (cont.)

Performance Hurdles

Vesting of each LTIP tranche will be subject to the Company achieving its relative Total Shareholder Return (TSR) hurdle:

- This hurdle was selected by the Committee as it is clearly aligned with returns to shareholders. TSR is calculated by measuring the return to shareholders based on the Company's share price growth combined with the value of dividends declared and paid over the three year performance period.
- The TSR is then ranked on a relative basis with the TSR performance measured against the S&P/ASX 200 comparator group, excluding companies in the Financials, Metals and Mining sectors. The peer group has been selected by the Board at the time of the grant.
- The percentage of rights that vest, if any, will be determined by the Committee with reference to the percentile ranking achieved by the Company over the relevant Performance Period, compared to other entities in the relative TSR comparator peer group, as follows:

Vesting Schedule

TSR Relative to peer group	Vesting %
At or above the 75th percentile	100%
Between the 50th and 75th percentile	pro rata vesting between 50% to 100%
At the 50th percentile	50%
Below the 50th percentile	Nil

Cessation of Employment

If an executive resigns or is terminated for cause, any unvested LTIP awards are forfeited, unless otherwise determined by the Board. A "good leaver" will retain a pro rata number of Performance Rights based on time elapsed since the initial grant date. Any such performance rights will be subject to the original terms and conditions, and discretion of the Board.

Rights Attaching to Performance Rights

Performance rights do not carry any dividend or voting entitlements prior to vesting. Shares allocated upon vesting of performance rights will carry the same rights as other ordinary shares.

Clawback

100% of the award can be forfeited where there has been any fraud, dishonesty, or breach of obligations, including a material misstatement of the Financial Statements.

Change of Control Provisions

In the event of change of control, the performance period end date will be brought forward to the date of change of control, and awards will vest based on performance over this shortened period (subject to Board discretion).

Directors' Report — Remuneration Report (cont.)

4. Executive remuneration outcomes for FY2019

Business performance in FY2019

The Group's FY2019 financial performance reflects a challenging operating environment with earnings impacted by higher raw material and energy costs and weaker demand conditions in some sectors.

The table below summarises key indicators of the performance of the Company and relevant shareholder returns over the past five financial years.

Performance measure	2015	2016	2017	2018	2019
Statutory net profit after tax ($000)	67,632	85,051	90,341	74,488	**(289,587)**
Net profit after tax (NPAT)[1] ($000)	85,214	94,310	100,003	94,661	**77,307**
NPAT growth %[1]	42.7%	10.7%	6.0%	(5.3%)	**(18.3%)**
EBITDA[1] ($000)	208,678	220,157	233,116	237,251	**230,694**
EBITDA[1] growth %	5.3%	5.5%	5.9%	1.8%	**(2.8%)**
Dividends per ordinary share (cps)	19.5	21.0	23.0	23.0	**-**
Closing share price (30 June)	4.68	6.03	5.99	5.27	**2.79**
3 month average share price (1 April to 30 June)	4.28	5.46	6.44	5.57	**2.51**
Earnings per share[1](cps)	29	32	33	30	**23**
Earnings per share[1] growth %	45.0%	10.3%	3.1%	(9.1%)	**(23.3%)**
Cumulative TSR %[2]	31.1%	71.6%	106.9%	88.1%	**1.8%**

(1) Before significant items (refer to note 1.1 in the Consolidated Financial Report).

(2) Cumulative TSR has been calculated using the same start date for each period (1 July 2014). The three month average share price has been used in all periods (the three month average share price for the starting period was $3.41).

STI Outcomes — Executive KMP

The table below outlines the components of the STI, and how performance has been measured in fiscal year 2019.

Performance measure	Weighting	Overview of performance v target
EBITDA	64%	EBITDA decrease of 2.8% compared to last year, minimum EBITDA hurdle of 95% of target was not achieved.
Cash Conversion	8%	Cash conversion is defined as operating cash flow divided by EBITDA, with operating cash defined as EBITDA less the change in working capital, less changes in other assets and liabilities. During the year target performance was achieved.
Working Capital Management	8%	Working capital management is measured by rolling working capital as a percentage of sales. During the year target performance was partially achieved.
Non-Financial Measures	20%	This measure is based on various safety, risk management, diversity and talent management targets. During the year target performance was partially achieved.

The minimum EBITDA hurdle was not achieved, therefore the KMP did not participate in the STI for fiscal year 2019.

LTIP Outcomes — CEO and CFO

The table below outlines the performance rights granted to the CEO and CFO for participating in the LTIP, and the relevant performance period for each fiscal year.

Sanjay Dayal – CEO

Year	Grant date	Performance rights granted	Fair value of right	Value of rights included in compensation for the year	Performance period
2019 LTIP	27 March 2019	69,784[1]	$17,446	$2,025	1 July 2018 to 30 June 2021

(1) The performance rights granted to Mr Dayal were on a pro-rata basis aligning with his commencement date of 3 April 2019.

Richard Betts – CFO

Year	Grant date	Performance rights granted	Fair value of right	Value of rights included in compensation for the year	Performance period
2018 LTIP	15 November 2017	33,182	$87,932	$29,311	1 July 2017 to 30 June 2020
2019 LTIP	14 November 2018	43,301	$32,909	$10,970	1 July 2018 to 30 June 2021

The performance measure for the LTIP is achievement of relative TSR targets. The vesting conditions have been outlined on page 50. All performance rights granted to the former CEO Mr Bundey were forfeited following his departure from the company.

Directors' Report — Remuneration Report (cont.)

Executive KMP remuneration for the year ended 30 June 2019

Executive	Year	Short term benefits				Post-employment benefits	Long-term benefits	Share based payments		Total	Performance related %
		Salary and fees	STI and bonuses	Non-monetary benefits (1)	Other Benefits (2)	Super-annuation	Long Service Leave(3)	LTIP (4)	Initial Grant		
		$	$	$	$	$	$	$	$	$	%
Mr Sanjay Dayal	**2019**	**269,886**	**-**	**-**	**22,677**	**25,000**	**-**	**2,025**	**-**	**319,588**	**1%**
(CEO)	2018	-	-	-	-	-	-	-	-	-	-
Mr Richard Betts	**2019**	**556,728**	**59,000(5)**	**50,558**	**2,802**	**25,000**	**-**	**40,281**	**-**	**734,369**	**14%**
(CFO)	2018	530,485	-	49,584	10,351	25,000	-	29,311	-	644,731	5%
Former Executive KMP											
Mr Malcom Bundey	**2019**	**958,848(6)**	**-**	**31,059**	**48,793**	**18,750**	**-**	**(656,030)(7)**	**138,889(8)**	**540,309**	**(121%)(7)**
(Former CEO)	2018	1,230,000	-	91,437	(16,346)	25,000	-	647,275	333,334	2,310,700	28%
Total Executive	**2019**	**1,785,462**	**59,000**	**81,617**	**74,272**	**68,750**	**-**	**(613,724)**	**138,889**	**1,594,266**	**(35%)(9)**
KMP remuneration	2018	1,760,485	-	141,021	(5,995)	50,000	-	676,586	333,334	2,955,431	23%

(1) Non-monetary benefits includes motor vehicle lease payments and FBT payments made by the Company on behalf of Mr Bundey and Mr Betts.

(2) Other benefits are the movement in the annual leave provision for Mr Dayal, Mr Betts and Mr Bundey.

(3) The Company policy is to provide for long service leave entitlements after five years of continuous service.

(4) An independent valuation of the performance rights was performed to establish the fair value in accordance with AASB2 Share Based Payments. Valuation of the rights was done using Monte Carlo valuation simulations.

(5) Mr Betts received a discretionary bonus for duties performed following the departure of the former CEO.

(6) Mr Bundey received a motor vehicle allowance as part of his salary and fees.

(7) Following Mr Bundey's cessation of employment 421,801 unvested LTIP rights were forfeited. Negative percentage is due to the reversal of share based payment expense in the current year.

(8) The initial share grant was approved at the AGM on 16 November 2016, where shares totalling $1 million will be issued to Mr Bundey on 3 December 2018. Mr Bundey ceased to be a KMP on 10 September 2018, but continued to be employed until 8 March 2019.

(9) Negative percentage is due to the reversal of share based payment expense in the current year (refer footnote 7).

The table above shows KMP remuneration in accordance with statutory obligations and accounting standards. The following table, which is audited, provides additional voluntary disclosure as the Directors believe this information is helpful to assist shareholders in understanding the benefits that the Executive KMP received during the financial year ended 30 June 2019. The table below has not been prepared in accordance with Australian accounting standards. The benefits disclosed below excludes the expense for options that are unvested.

	Fixed Remuneration(1) $	STI and bonuses(2) $	Other Benefits(3) $	Performance rights vested in 2019 $	Initial share grant $	Total $
Mr Sanjay Dayal	294,886	-	22,677	n/a (4)	-	317,563
Mr Richard Betts	581,728	59,000	53,360	n/a (5)	-	694,088
Former KMP						
Mr Malcolm Bundey	977,598	-	79,852	n/a (6)	1,000,000 (7)	2,057,450

(1) Fixed remuneration includes salary and fees, and superannuation contributions, calculated on the same basis as the remuneration table above.

(2) Mr Betts received a discretionary bonus for duties performed following the departure of the former CEO.

(3) Other benefits includes motor vehicle lease payments and FBT payments made by the Company on behalf of Mr Betts and Mr Bundey, and movement in the annual leave provision for Mr Dayal, Mr Betts and Mr Bundey, both shown on an accruals basis.

(4) Not applicable as the first opportunity for performance rights to vest for My Dayal will be on 30 June 2021 (the vesting of the 2019 LTIP), therefore no benefits were received during the current financial year.

(5) Not applicable as the first opportunity for performance rights to vest for Mr Betts will be on 30 June 2020 (the vesting of the 2018 LTIP), therefore no benefits were received during the current financial year.

(6) All performance rights granted to Mr Bundey are no longer eligible to vest following his departure from the company.

(7) On 3 December 2018 Mr Bundey was issued 209,205 shares at $4.78 per share in relation to an initial share grant at the commencement of his employment on 1 December 2015.

Directors' Report — Remuneration Report (cont.)

5. Executive KMP contracts

Remuneration arrangements for Executive KMP are formalised in employment agreements.

The following outlines the key details of contracts relating to Executive KMP:

Chief Executive Officer (CEO)

The CEO, Mr Sanjay Dayal, is employed under an employment contract with a notice period for termination of three months. There is no fixed term. Mr Dayal's remuneration package consists of the following components:

- The CEO receives fixed remuneration of $1,225,000 per annum.
- The CEO has a maximum STI of 100% of fixed annual remuneration. Please refer to section 3 of the Remuneration Report for further details of the CEO's STI plan.
- The CEO participates in an LTIP, key features of the LTIP are outlined on pages 49 and 50.
- There are no provisions for redundancy payments. The Company is not required to make any payment of a benefit which is not permitted by Part 2D.2, Division 2 or Chapter 2E of the *Act* in the absence of shareholder approval or the ASX Listing Rules. The Company must use its reasonable endeavours to try and obtain shareholder approval, if required.

Chief Financial Officer (CFO)

The CFO, Mr Richard Betts, is employed under an employment contract with a notice period for termination of three months. There is no fixed term. Mr Betts' remuneration package consists of the following components:

- The CFO receives fixed remuneration of $581,728 per annum.
- The CFO has a maximum STI of 50% of annual base salary (fixed remuneration excluding superannuation). Please refer to section 3 of the Remuneration Report for further details of the CFO's STI plan.
- The CFO participates in an LTIP, key features of the LTIP are outlined on pages 49 and 50.
- The CFO receives non-monetary benefits including motor vehicle lease payments and FBT payments made by the Company on his behalf.
- In the event a redundancy occurs, the CFO is entitled to receive a redundancy payment of 3 weeks for every year of service which is capped at 52 weeks. The Company is not required to make any payment of a benefit which is not permitted by Part 2D.2, Division 2 or Chapter 2E of the *Act* in the absence of shareholder approval or the ASX Listing Rules. The Company must use its reasonable endeavours to try and obtain shareholder approval, if required.

6. Non-Executive Directors' remuneration arrangements

Remuneration policy

The Committee seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain non-Executive directors (NEDs) of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies (S&P/ASX 200 comparator group, excluding companies in the Financials, Metals and Mining sectors).

The Company's Constitution and the ASX Listing Rules specify that the NED fee pool shall be determined from time to time by a general meeting. Consistent with prior years, the total amount paid to NEDs must not exceed a fixed sum of $1,000,000 per financial year in aggregate. Raphael Geminder does not receive a fee for his position as Chairman and a NED of the Company.

Directors' Report — Remuneration Report (cont.)

Structure

The remuneration of NEDs consists of Directors' fees and committee fees. The payment of additional fees for serving on a committee or being the Chair of a committee recognises the additional time commitment required by NEDs who serve on committees.

The table below summarises payments made for NED fees.

Responsibility	2019	2018
Board Fees		
Non-Executive Directors (excluding the Chairman)	$112,750	$112,750
Audit, Business Risk and Compliance Committee		
Chair	$30,750	$30,750
Member	$7,688	$7,688
Nomination and Remuneration Committee		
Chair	$30,750	$30,750
Member	$7,688	$7,688

NEDs do not participate in any incentive programs.
The remuneration of NEDs for the year ended 30 June 2019 is detailed in the following table.

Non executive KMP remuneration for the year ended 30 June 2019

		Short-term benefits	Post-employment benefits	
		Fees $	Superannuation $	Total $
Ms Lyndsey Cattermole	**2019**	**117,009**	**11,116**	**128,125**
	2018	117,009	11,116	128,125
Mr Raphael Geminder	**2019**	**-**	**-**	**-**
	2018	-	-	-
Mr Jonathan Ling	**2019**	**143,500**	**-**	**143,500**
	2018	143,500	-	143,500
Mr Peter Margin	**2019**	**151,187**	**-**	**151,187**
	2018	151,187	-	151,187
Mr Ray Horsburgh	**2019**	**109,989**	**10,449**	**120,438**
	2018	109,989	10,449	120,438
Ms Carmen Chua	**2019**	**93,958**	**-**	**93,958**
	2018	-	-	-
Total non-Executive KMP remuneration	**2019**	**615,643**	**21,565**	**637,208**
	2018	**521,685**	**21,565**	543,250

7. Equity holdings of KMP

The following table shows the respective shareholdings of KMP (directly and indirectly) including their related parties and any movements during the year ended 30 June 2019:

KMP	Balance 1 July 2018	Movements	Balance 30 June 2019
Raphael Geminder	131,668,287	2,283,327	133,951,614
Lyndsey Cattermole	275,419	115,910	391,329
Peter Margin	28,080	7,177	35,257
Jonathan Ling	17,467	13,712	31,179
Ray Horsburgh	41,632	3,339	44,971
Carmen Chua	-	30,000	30,000
Sanjay Dayal	-	40,000	40,000
Richard Betts	5,581	3,703	9,284
Former KMP			
Malcolm Bundey(1)	-	-	-

(1) Equity holdings for Mr Bundey in the above table is for his tenure during the year as a KMP (from 1 July 2018 to 10 September 2018). Mr Bundey was issued 209,205 shares on 3 December 2018, which he still holds at 30 June 2019.

Directors' Report — Remuneration Report (cont.)

8. Related party transactions with KMP

The following table provides the total amount of transactions with related parties for the year ended 30 June 2019:

$'000's		Sales	Purchases	Other expenses	Net amounts receivable
Related parties — Directors' interests[1]	**2019**	**13,789**	**11,043**	**6,667**	**609**
	2018	11,469	12,312	5,958	2,573

(1) Related parties – Director's interests includes the following entities: P'Auer Pty Ltd, Pro-Pac Packaging Limited, Centralbridge Pty Ltd (as trustee for the Centralbridge Unit Trust), Centralbridge Two Pty Ltd, Centralbridge (NZ) Limited, Albury Property Holdings Pty Ltd, Green's General Foods Pty Ltd and Remedy Kombucha Pty Ltd.

P'Auer Pty Ltd (P'Auer)

P'Auer, an entity controlled by Mr Raphael Geminder (the non-Executive Chairman of Pact), has a supply agreement to provide label products to Pact. Pact has a Transitional Services and Support Agreement with P'Auer to provide support services. Agreements are on arm's length terms. In addition, P'Auer provides Pact with periodic warehousing services.

Pro-Pac Packaging Limited (Pro-Pac)

Pro-Pac, an entity for which Mr Raphael Geminder owns 49.8% (2018 40%), is an exclusive supplier of certain raw materials such as flexible film packaging, flexible plastic bags and tapes to Pact. The agreement was extended in early 2017 through to 31 December 2021. Total value of sales under this arrangement is approximately $4.2 million (2018: $4.3 million). The supply arrangement is at arm's length terms.

Mr Jonathan Ling was appointed as an Independent non-Executive Director and Chairman of Pro-Pac on 8 April 2019.

Terms and conditions of transactions with related parties

The Group leased 13 properties (10 in Australia and three in New Zealand) from Centralbridge Pty Ltd (as trustee for the Centralbridge Unit Trust), Centralbridge Two Pty Ltd, Centralbridge (NZ) Limited and Albury Property Holdings Pty Ltd ("Centralbridge Entities"), which are each controlled by entities associated with Mr Raphael Geminder and are therefore related parties of the Group ("Centralbridge Leases"). The aggregate annual rent payable by Pact under the Centralbridge Leases for the year ended 30 June 2019 was $6.4 million (2018: $6.1 million). The rent payable under these leases was determined based on independent valuations and market conditions at the time the leases were entered into, and are therefore at arm's length.

Terms and conditions of transactions with related parties

As detailed above, all transactions with related parties are made at arm's length. Outstanding balances at the end of the period are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Directors’ Report — Remuneration Report (cont.)

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Act* is set out at page 57.

Rounding

Is presented in Australian dollars with all values rounded to the nearest $1,000, unless otherwise stated, in accordance with the ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 dated 1 April 2016.

Signed in accordance with a resolution of the Board of Directors:

Raphael Geminder
Chairman

Sanjay Dayal
Managing Director and Group Chief Executive Officer

14 August 2019

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 Pact Group Holdings Ltd

As lead auditor for the audit of the financial report of Pact Group Holdings Ltd for the financial year ended 30 June 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 Pact Group Holdings Ltd and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
14 August 2019

Financial Report —
Consolidated Statement Of Comprehensive Income
For the year ended 30 June 2019

$'000	Notes	2019[1]	2018
Revenue	1.1, 1.4	1,834,076	1,674,188
Raw materials and consumables used		(843,167)	(734,260)
Employee benefits expense	5.2	(430,035)	(410,018)
Occupancy, repair and maintenance, administration and selling expenses		(341,539)	(306,299)
Interest and other income		11,068	11,199
Other (losses) / gains	6.3	(55,889)	(22,404)
Depreciation and amortisation expense	3.2	(82,290)	(72,745)
Impairment expense	3.2	(368,765)	-
Finance costs and loss on de-recognition of financial assets	4.1	(39,675)	(32,695)
Share of profit in associates	2.3	2,336	2,159
(Loss) / profit before income tax expense		(313,880)	109,125
Income tax benefit / (expense)	1.2	24,293	(34,637)
Net (Loss) / profit for the year		(289,587)	74,488
Net (Loss) / profit attributable to equity holders of the parent entity		(289,587)	74,488

Other comprehensive income

Items that will be not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit liability / (asset)	(10)	125
Items that will be reclassified subsequently to profit or loss		
Cash flow hedges (losses) / gains taken to equity	(6,453)	2,293
Foreign currency translation gains / (losses)	10,932	(78)
Income tax on items in other comprehensive income	1,762	(692)
Other comprehensive income for the year, net of tax	6,231	1,648
Total comprehensive (loss) / income for the year	(283,356)	76,136

Attributable to:		
Equity holders of the parent entity	(283,356)	76,136
Total comprehensive (loss) / income for the Group	(283,356)	76,136

cents			
Basic earnings per share	1.1	(85.3)	23.4
Diluted earnings per share	1.1	(85.3)	23.3

(1) Reflects the adoption of AASB 15 *Revenue from contracts with customers* from 1 July 2018. Comparatives have not been restated.

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Financial Report —
Consolidated Statement of Financial Position
As at 30 June 2019

$'000	Notes	2019(1)	2018
Current assets			
Cash and cash equivalents	4.1	49,950	67,980
Trade and other receivables	3.1	145,282	161,734
Inventories	3.1	211,846	210,956
Contract assets		8,895	-
Current tax assets	1.2	3,360	-
Other current financial assets		349	2,683
Prepayments		14,617	10,263
Total current assets		434,299	453,616
Non-current assets			
Trade and other receivables		718	2,570
Prepayments		4,392	4,284
Property, plant and equipment	3.2	638,542	755,413
Investments in associates and joint ventures	2.3	24,353	19,507
Intangible assets and goodwill	3.2	477,054	584,193
Deferred tax assets	1.2	42,100	31,004
Total non-current assets		1,187,159	1,396,971
Total assets		1,621,458	1,850,587
Current liabilities			
Trade and other payables	3.1	365,615	418,184
Current tax liability	1.2	-	19,075
Employee benefits provisions	5.2	36,292	36,932
Other provisions	3.4	13,914	4,424
Other current financial liabilities		2,369	79
Total current liabilities		418,190	478,694
Non-current liabilities			
Trade and other payables		66,313	17,594
Employee benefits provisions	5.2	7,270	7,549
Other provisions	3.4	32,358	28,817
Interest-bearing loans and borrowings	4.1	733,490	667,253
Other non-current financial liabilities		4,296	616
Deferred tax liabilities	1.2	36,946	66,864
Total non-current liabilities		880,673	788,693
Total liabilities		1,298,863	1,267,387
Net assets		322,595	583,200
Equity			
Contributed equity	4.2	1,750,476	1,690,476
Reserves	4.2	(896,911)	(902,984)
Retained earnings		(530,970)	(204,292)
Total equity		322,595	583,200

(1) Reflects the adoption of AASB 15 *Revenue from contracts with customers* from 1 July 2018. Comparatives have not been restated.

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Financial Report —
Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

$'000	Contributed equity	Common control reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payments reserve	Retained earnings	Total equity
	Attributable to equity holders of the Parent entity						
Year ended 30 June 2019							
As at 1 July 2018	1,690,476	(928,385)	111	22,965	2,325	(204,292)	583,200
Adjustment on adoption of AASB 15	-	-	-	-	-	1,155	1,155
Restated balance as at 1 July 2018	1,690,476	(928,385)	111	22,965	2,325	(203,137)	584,355
Loss for the period	-	-	-	-	-	(289,587)	(289,587)
Other comprehensive income / (loss)	-	-	(4,691)	10,932	-	(10)	6,231
Total comprehensive income	-	-	(4,691)	10,932	-	(289,597)	(283,356)
Issuance of share capital	60,000	-	-	-	-	-	60,000
Total equity transactions	60,000	-	-	-	-	-	60,000
Dividends paid	-	-	-	-	-	(38,236)	(38,236)
Share based payments expense	-	-	-	-	(168)	-	(168)
Transactions with owners in their capacity as owners	-	-	-	-	(168)	(38,236)	(38,404)
Balance as at 30 June 2019	1,750,476	(928,385)	(4,580)	33,897	2,157	(530,970)	322,595

$'000	Contributed equity	Common control reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payments reserve	Retained earnings	Total equity
Year ended 30 June 2018							
As at 1 July 2017	1,517,097	(928,385)	(1,490)	23,043	1,100	(206,257)	405,108
Profit for the year	-	-	-	-	-	74,488	74,488
Other comprehensive income/(loss)	-	-	1,601	(78)	-	125	1,648
Total comprehensive income/loss)	-	-	1,601	(78)	-	74,613	76,136
Issuance of share capital	175,559	-	-	-	-	-	175,559
Transaction costs taken to equity	(2,986)	-	-	-	-	-	(2,986)
Tax benefit on transaction costs	806	-	-	-	-	-	806
Total equity transactions	173,379	-	-	-	-	-	173,379
Dividends paid	-	-	-	-	-	(72,648)	(72,648)
Share based payments expense	-	-	-	-	1,225	-	1,225
Transactions with owners in their capacity as owners	173,379	-	-	-	1,225	(72,648)	101,956
Balance as at 30 June 2018	1,690,476	(928,385)	111	22,965	2,325	(204,292)	583,200

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Financial Report —
Consolidated Statement of Cash Flows
For the year ended 30 June 2019

$'000	Notes	2019	2018
Cash flows from operating activities			
Receipts from customers		1,160,215	998,426
Receipts from securitisation program		944,281	874,417
Payments to suppliers and employees		(1,931,802)	(1,658,784)
Income tax paid		(38,438)	(33,148)
Interest received		168	151
Proceeds from securitisation of trade debtors		13,611	3,181
Borrowing, trade debtor securitisation and other finance costs paid		(39,352)	(33,820)
Net cash flows provided by operating activities	4.1	108,683	150,423
Cash flows from investing activities			
Payments for property, plant and equipment		(69,455)	(90,180)
Purchase of businesses and subsidiaries, net of cash acquired	2.1	(78,725)	(127,863)
Proceeds from sale of property, plant and equipment		88	5,844
Sundry items		867	546
Net cash flows used in investing activities		(147,225)	(211,653)
Cash flows from financing activities			
Proceeds from borrowings		433,786	529,715
Repayment of borrowings		(376,630)	(540,053)
Net proceeds from share issue		-	172,573
Payment of dividend		(38,236)	(72,648)
Net cash flows provided by financing activities		18,920	89,587
Net (decrease) / increase in cash and cash equivalents		(19,622)	28,357
Cash and cash equivalents at the beginning of the year		67,980	39,592
Effect of exchange rate changes on cash and cash equivalents		1,592	31
Cash and cash equivalents at the end of the year		49,950	67,980

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Financial Report — Notes to the Financial Statements

Section 1 — Our performance

A key element of Pact's strategy is to maximise long-term shareholder value. This section highlights the results and performance of the Group for the year ended 30 June 2019.

1.1 Group results

$'000	Packaging and Sustainability	Materials Handling and Pooling	Contract Manufacturing Services	Eliminations	Total
Year ended 30 June 2019					
Revenue	**1,208,468**	**296,386**	**372,263**	**(43,041)**	**1,834,076**
EBITDA(1)	**154,577**	**51,054**	**25,063**	**-**	**230,694**
EBIT(2)	**97,409**	**35,710**	**15,285**	**-**	**148,404**

$'000	Packaging and Sustainability	Materials Handling and Pooling	Contract Manufacturing Services	Eliminations	Total
Year ended 30 June 2018					
Revenue	1,101,971	220,134	384,760	(32,677)	1,674,188
EBITDA(1)	152,796	44,575	39,880	-	237,251
EBIT(2)	100,417	32,006	32,083	-	164,506

(1) EBITDA - Earnings before finance costs and loss on de-recognition of financial assets, net of interest income, tax, depreciation and amortisation and significant items.

(2) EBIT - Earnings before finance costs and loss on de-recognition of financial assets, net of interest income, tax and significant items.

Pact's chief operating decision maker is the Managing Director and CEO, who has a focus on the financial measures reported in the above table. As required by AASB 8: *Operating Segments*, the results above have been reported on a consistent basis to that supplied to the Managing Director and CEO.

The Group has adopted a new operating model in the current year. The Managing Director and CEO monitor results by reviewing the reportable segments based on a product perspective as outlined in the table below. The resource allocation to each segment, and the aggregation of reportable segments is based on that product portfolio. Prior year comparatives have been restated on a consistent basis.

Reportable segments	Products/services		
Packaging and Sustainability	Manufacture and supply of rigid plastic and metal packaging and associated services Recycling and sustainability services	Australia New Zealand China Indonesia Philippines Singapore	Thailand Hong Kong South Korea Nepal India
Materials Handling and Pooling	Manufacture and supply of materials handling products and the provision of associated services Pooling services	Australia New Zealand China Hong Kong United States of America	India Bangladesh United Kingdom Sri Lanka
Contract Manufacturing Services	Contract manufacturing and packing services	Australia	

Financial Report —
Notes to the Financial Statements

1.1 Group results (continued)

Net (loss) / profit after tax

The reconciliation of EBIT before significant items shown above and the net (loss) / profit after tax disclosed in the Consolidated Statement of Comprehensive Income is as follows:

$'000	Notes	2019	2018
EBITDA		230,694	237,251
Depreciation and Amortisation		(82,290)	(72,745)
EBIT		148,404	164,506
Significant items			
Acquisition costs[1]		(3,666)	(4,411)
Deferred settlement costs (earn-out)[2]		-	(8,781)
Inventory write downs and related disposal costs		(13,031)	-
Impairment expenses	3.1, 3.2		
• Tangible asset write downs		(136,330)	-
• Intangible assets		(232,435)	-
Business Restructuring Programs[3]			
• restructuring costs		(37,842)	(8,524)
• asset write downs		-	(1,589)
		(37,842)	(10,113)
Total significant items		(423,304)	(23,305)
EBIT after significant items		(274,900)	141,201
Net finance costs[4]		(38,980)	(32,076)
Net (loss) / profit before tax		(313,880)	109,125
Income tax benefit / (expense)		24,293	(34,637)
Net (loss) / profit after tax		(289,587)	74,488

(1) Acquisition costs include professional fees, stamp duty and all other costs associated with business acquisitions.

(2) Adjustments to contingent consideration provisions raised in the comparative year relate to acquisitions made in the year ended 30 June 2017.

(3) The business restructuring programs relate to the optimisation of business facilities across the Group.

(4) Net finance costs includes interest income of $695,000 (2018: $619,000).

Financial Report — Notes to the Financial Statements

1.1 Group results (continued)

Basic and diluted earnings per share

	2019	2018
Earnings per share (EPS) (cents) — basic	**(85.3)**	23.4
Earnings per share (EPS) (cents) — diluted	**(85.3)**	23.3
Calculated using:		
• Net profit attributable to ordinary equity holders ($'000s)	**(289,587)**	74,488
• Weighted average of ordinary shares (shares) — basic	**339,600,703**	318,642,850
• Weighted average of ordinary shares (shares) — diluted	**340,687,214**	319,695,783

Earnings per share is calculated by dividing the net (loss) / profit for the year attributable to ordinary equity holders of Pact by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to include the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive shares. This would include items such as performance rights as disclosed in Note 5.3.

1.2 Taxation

Reconciliation of tax expense

$'000	2019	2018
Accounting (loss) / profit before tax	**(313,880)**	109,125
Income tax calculated at 30% (2018: 30%)	**(94,164)**	32,737
Adjustments in respect of income tax of previous years	**(344)**	(345)
Impairment of goodwill	**69,340**	-
Tax on unremitted foreign income	**1,879**	443
Overseas tax rate differential	**(2,115)**	(1,300)
Sundry items	**1,111**	3,102
Income tax (benefit) / expense reported in the Consolidated Statement of Comprehensive Income	**(24,293)**	34,637
Comprising of:		
• Current year income tax (benefit) / expense	**17,065**	35,303
• Deferred income tax (benefit) / expense	**(41,014)**	(321)
• Adjustments in respect of previous years income tax	**(344)**	(345)

Included in the above is a tax benefit on significant items of $56.4 million for the year ended 30 June 2019 (2018: $3.1 million).

Financial Report — Notes to the Financial Statements

1.2 Taxation (continued)

Recognised current and deferred tax assets and liabilities

$'000	2019 Current Income tax Asset/(Liability)	2019 Deferred Income tax	2018 Current Income tax Asset/(Liability)	2018 Deferred Income tax
Opening balance	(19,075)	(35,860)	(16,913)	(32,772)
Charged to income	(15,899)	39,848	(35,303)	321
Adjustments in respect of income tax of previous years	(154)	102	977	(632)
Charged to other comprehensive income	-	1,762	-	(692)
Tax benefit on equity raising	-	-	-	806
Net payments / (receipts)	38,438	-	33,148	-
Acquisitions/disposals	188	(390)	(1,073)	(3,102)
Foreign exchange translation movement	(138)	(308)	89	211
Closing balance	3,360	5,154	(19,075)	(35,860)
Comprises of:				
Deferred tax assets				
• Employee entitlements provision		12,522		12,517
• Provisions		13,688		9,813
• Hedges		1,694		-
• IPO transaction costs		533		1,319
• Unutilised tax losses		4,864		87
• Lease incentives and rent free		4,616		5,071
• Other		4,183		2,197
		42,100		31,004
Deferred tax liabilities				
• Property, plant and equipment		(23,730)		(51,587)
• Intangibles		(8,659)		(9,754)
• Other		(4,557)		(5,523)
		(36,946)		(66,864)

Key estimates and judgements — taxation

Pact is subject to income tax in Australia and foreign jurisdictions. The calculation of the Group's tax charge requires management to determine whether it is probable that there will be sufficient future taxable profits to recoup deferred tax assets.

Judgements and assumptions are subject to risk and uncertainty, hence if final tax determinations or future actual results do not align with current judgements, this may have an impact to the carrying value of deferred tax balances and corresponding credits or charges to the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position.

Financial Report — Notes to the Financial Statements

1.2 Taxation (continued)

How Pact accounts for taxation

Income tax charges:

- Comprise of current and deferred income tax charges and represent the amounts expected to be paid to and recovered from the taxation authorities in the jurisdictions that Pact operates.
- Are recorded in Equity when the underlying transaction that the tax is attributable to is recorded within Other Comprehensive Income.

Pact uses the tax laws in place or those that have been substantively enacted at reporting date to calculate income tax. For deferred income tax, Pact also considers whether these tax laws are expected to be in place when the related asset is realised or liability is settled. Management periodically re-evaluate their assessment of their tax positions, in particular where they relate to specific interpretations of applicable tax regulation.

Deferred tax assets and liabilities are recognised on all assets and liabilities that have different carrying values for tax and accounting, except for:

- initial recognition of goodwill; and
- any undistributed profits of Pact's subsidiaries, associates or joint ventures where either the distribution of those profits would not give rise to a tax liability or the Directors consider they have the ability to control the timing of the reversal of the temporary differences.

Specifically for deferred tax assets:

- They are recognised only to the extent that it is probable that there is sufficient future taxable amounts to be utilised against. This assessment is reviewed at each reporting date.
- They are offset against deferred tax liabilities in the same tax jurisdiction, when there is a legally enforceable right to do so.
- If acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in the Consolidated Statement of Comprehensive Income.

Australian tax consolidated group

Pact Group Holdings Ltd (the head entity) and its wholly-owned Australian subsidiaries formed a tax consolidated group (Australian tax consolidated group), effective January 2014.

The Australian tax consolidated group continues to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current and deferred taxes to allocate to members of the tax consolidated group. The head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

A tax funding agreement is in place such that Pact Group Holdings Ltd pays/receives any taxes owed by/owed to the Group to/from the Australian Tax Office. Assets or liabilities arising under this tax funding agreement are recognised as amounts receivable from or payable to the head entity. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

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1.3 Dividends

$'000	2019	2018
Dividends paid during the financial year	38,236	72,648
Proposed dividend[(1)]	-	38,236

(1) The Directors have determined to not pay a final dividend after the end of the financial year (2018: 11.5 cents, 65% franked).

Franking credit balance	2019	2018
Franking account balance as at the end of the financial year at 30% (2018: 30%)	21,519	5,038
Franking credits / (debits) that will arise from the payment / (refund) of income tax payable as at the end of the financial year	(16,829)	10,103
Franking credits that will be utilised from the payment of dividends as at the end of the financial year	-	(10,651)
Total franking credit available for the subsequent financial year	4,690	4,490

1.4 Revenue from contracts with customers

The Group has adopted AASB 15: *Revenue from Contracts with Customers* from 1 July 2018. AASB 15 replaces all revenue recognition requirements under AASB 111: *Construction Contracts* and AASB 118: *Revenue*, and it applies to all revenue arising from contracts with customers, unless those contracts or transactions are captured in the scope of other standards (refer Note 6.2 Accounting policies).

Disaggregation of revenue from contracts with customers

$'000	Packaging and Sustainability[(1)]	Materials Handling and Pooling	Contract Manufacturing Services[(1)]	Eliminations	Total[(3)]
Year ended 30 June 2019					
Australia	664,215	178,148	372,207	-	1,214,570
New Zealand	294,482	-	-	-	294,482
Asia	210,024	42,296	-	-	252,320
Revenue from contracts with customers	1,168,721	220,444	372,207	-	1,761,372
Revenue from asset hire services[(4)]	-	72,704	-	-	72,704
Inter-segment revenue	39,747	3,238	56	(43,041)	-
Revenue	1,208,468	296,386	372,263	(43,041)	1,834,076

(1) 0.2% of total revenue for Packaging and Sustainability is recognised over time, while 99.8% is recognised at a point in time.

(2) 2% of total revenue for Contract Manufacturing Services is recognised over time, while 98% is recognised at a point in time.

(3) If revenue from contracts with customers continued to be measured and disclosed under the previous revenue standard AASB 118, revenue would have been $1,752.5 million in the current year.

(4) Revenue from asset hire services is accounted for under AASB 117: *Leases*.

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Section 2 — Our operational footprint

This section provides details of acquisitions which the Group has made in the financial year, as well as details of controlled entities and interests in associates and joint ventures.

2.1 Businesses acquired

Summary of 30 June 2019 acquisitions:

$'000	TIC Retail Accessories
Consideration paid or payable	160,794
Comprising of:	
• Cash consideration paid	28,333
• Shares issued as consideration	60,000
• Contingent consideration	30,000
• Deferred consideration[1]	42,461
• Assets	
- Cash	2,814
- Trade and other receivables	19,432
- Inventory	16,502
- Property, plant & equipment	8,571
- Intangibles	1,300
- Other assets	3,330
• Liabilities	
- Trade payables and other provisions	(17,749)
- Employee benefits provisions	(780)
- Deferred tax liability	(390)
Fair value of identifiable net assets	33,030
Provisional goodwill arising on acquisition	127,764

(1) On 26 April 2019 the Group paid $20.8 million deferred consideration to the vendor. The remaining deferred consideration of $21.7 million is payable on 31 October 2020.

On 31 October 2018 the Group purchased 100% of the net assets of TIC Retail Accessories (TIC) for a provisional consideration of $160.8 million. TIC is a closed loop plastic garment hanger and accessories re-use business. The acquisition of TIC expands the Group's closed loop pooling platform and provides the opportunity for future growth in this market.

Provisional goodwill of $127.8 million has arisen as a result of the purchase consideration exceeding the fair value of identifiable net assets acquired, and represents the value attributed to TIC's reputation for quality and service. Goodwill is allocated to the Materials Handling and Pooling reportable segment. This goodwill will not be deductible for tax purposes. The assessment of separately identifiable intangible assets is ongoing and is expected to be completed by 31 October 2019.

The fair value of TIC's trade and other receivables acquired amounted to $19.4 million. It is expected that the stated fair value amount will be collected.

From the date of acquisition to 30 June 2019 TIC contributed $77.3 million of revenue and other income, and $8.6 million to net profit before tax of the Group. If the combination had taken place at 1 July 2018, contributions to revenue for the period ended 30 June 2019 would have been $36.7 million higher and the contribution to profit before tax for the Group would have been $6.2 million higher.

Financial Report — Notes to the Financial Statements

2.1 Businesses acquired (continued)

The fair value contingent consideration is dependent on EBITDA hurdles over the two years ending 31 October 2020, with a range of outcomes from $0-$30.0 million. The contingent consideration represents managements best estimate.

Included within the Consolidated Statement of Comprehensive Income are acquisition-related costs of $1.3 million. The costs include advisory, legal, accounting and other professional fees.

Completion of prior year acquisition accounting

During the period a total amount of $32.4 million was paid in relation to the Pascoe's Group and CSI International and Graham Packaging Group acquisitions made in prior years.

Key estimates and judgements — business combinations

Certain assets and liabilities either given up or acquired as part of a business combination may not be normally traded in active markets, thus management judgement is required in determining the fair values. Management judgement is also required in ascertaining the assets and liabilities which should be recognised, in particular with respect to intangible assets such as brand names, customer relationships, patents and trademarks and contingent liabilities.

How Pact accounts for business acquisitions

When Pact acquires a business, if it satisfies the conditions of being a business combination under AASB 3: *Business Combinations*, then:

- the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree;
- where settlement of any part of the consideration is deferred, and if the impact of discounting is significant, the amounts payable in the future are discounted to their present value. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions;
- assets given, shares issued or liabilities incurred or assumed at the date of exchange are recorded at fair value;
- acquisition related costs are expensed as incurred;
- transaction costs arising on the issue of any equity instruments are recognised directly in equity;
- if the cost of the business combination is in excess of the net fair value of the Group's share of the identifiable net assets acquired, the difference is recognised as goodwill. For impairment testing, this goodwill has been allocated to and tested at the level of their respective CGU's, or group of CGU's, in accordance with the level at which management monitors goodwill; and
- if the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement.

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2.2 Controlled entities

Australian incorporated entities that are party to the Deed of Cross Guarantee at 30 June 2019[1]	
Pact Group Industries (ANZ) Pty Ltd	Jalco Group Pty Ltd
Australian Pharmaceutical Manufacturers Pty Ltd	Jalco Automotive Pty Ltd
Pact Group Holdings (Australia) Pty Ltd	Jalco Powders Pty Ltd
Pact Group Finance (Australia) Pty Ltd	Jalco Plastics Pty Ltd
Power Plastics Pty Ltd	Jalco Australia Pty Ltd
Pascoes Pty Ltd	Jalco Care Products Pty Ltd
Bidware Pty Ltd	Packaging Employees Pty Ltd
Middleton Asset Financing & Leasing Pty Ltd	Jalco Cosmetics Pty Ltd
Alto Packaging Australia Pty Ltd	Jalco Promotional Packaging Pty Ltd
Summit Manufacturing Pty Ltd	VIP Plastic Packaging Pty Ltd
Astron Plastics Pty Ltd	Skyson Pty Ltd
Sunrise Plastics Pty Ltd	Brickwood (VIC) Pty Ltd
Inpact Innovation Pty Ltd	Brickwood (Dandenong) Pty Ltd
Cinqplast Plastop Australia Pty Ltd	Brickwood (NSW) Pty Ltd
Steri-Plas Pty Ltd	Brickwood (QLD) Pty Ltd
Sulo MGB Australia Pty Ltd	Alto Manufacturing Pty Ltd
VIP Steel Packaging Pty Ltd	Baroda Manufacturing Pty Ltd
VIP Drum Reconditioners Pty Ltd	Salient Asia Pacific Pty Ltd
Vmax Returnable Packaging Systems Pty Ltd	Plaspak Closures Pty Ltd
Viscount Plastics Pty Ltd	Plaspak Pty Ltd
Viscount Plastics (Australia) Pty Ltd	MTWO Pty Ltd
Viscount Rotational Mouldings Pty Ltd	Snopak Manufacturing Pty Ltd
Viscount Logistics Services Pty Ltd	Pact Group Industries (Asia) Pty Ltd
Viscount Pooling Company Pty Ltd*	Viscount Plastics (China) Pty Ltd
Viscount Pooling Systems Pty Ltd	Ruffgar Holdings Pty Ltd
TIC RA AU Pty Ltd[2]	Davmar Investments Pty Ltd[2]

* There is currently an option granted to a 3rd party to purchase 50% shares in this entity. This option has not been exercised.

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2.2 Controlled entities (continued)

Entities that are not party to the Deed of Cross Guarantee, incorporated in the following jurisdictions[1]

Australia
Plaspak Contaplas Pty Ltd[3]
Plaspak Management Pty Ltd[3]
Plaspak (PET) Pty Ltd[3]
Plaspak Minto Pty Ltd[4]
Sustainapac Pty Ltd

New Zealand
Pact Group Holdings (NZ) Ltd
Pact Group Finance (NZ) Ltd
Pact Group (NZ) Ltd
VIP Steel Packaging (NZ) Ltd
VIP Plastic Packaging (NZ) Ltd
Alto Packaging Ltd
Auckland Drum Sustainability Services Ltd
Viscount FCC Ltd
Tecpak Industries Ltd
Astron Plastics Ltd
Pacific BBA Plastics (NZ) Ltd
Viscount Plastics (NZ) Ltd
Stowers Containment Solutions Ltd
Sulo NZ Ltd[5]
TIC RA NZ Ltd[2][6]

China
Guangzhou Viscount Plastics Co Ltd[7]
Langfang Viscount Plastics Co Ltd[7]
Changzhou Viscount Plastics Co Ltd[7]
Pact Group Closure Systems (Guangzhou) Co. Ltd[8]
Pact Group Closure Systems (Tianjin) Co. Ltd)[8]
Graham Packaging (Guangzhou) Co. Ltd)[10]
Dongguan Top Rise Trading Co. Ltd[2][11]
Regent Plastic Products Ltd[2][9]
Ningbo Xunxing Trade Co. Ltd[2][12]

Hong Kong
Pact Group Holdings (Hong Kong) Limited[13]
Roots Investment Holding Private Limited[8]
TIC Group (HK) Ltd[2][14]
TIC Group (Asia) Ltd[2][14]
Talent Group Development Ltd[2][14]
Fast Star International Holdings Ltd[2][14]
TIC Group Ltd[2][14]

India
Closure System International (I) Private Limited[13]
AMRS Business Services Private Limited[2][14]

Indonesia
PT Plastop Asia Indonesia[15]
PT Plastop Asia Indonesia Manufacturing[15]

Korea
Closure System International (Korea), Ltd [8]

Nepal
CSI Nepal Private Limited[13]

Philippines
Plastop Asia Inc[16]
Closure System International (Philippines), Inc[13]

Singapore
Asia Peak Pte Ltd[13]

United States of America
Pact Group (USA) Inc[17]

United Kingdom
TIC Group (Europe) Ltd[2][17]

(1) All entities are wholly owned unless otherwise stated
(2) Entities acquired in the 2019 financial year (see Note 2.1)
(3) Owned by Skyson Pty Ltd
(4) Owned by Snopak Manufacturing Pty Ltd
(5) Owned by Sulo MGB Australia Pty Ltd
(6) Owned by Pact Group Holdings (NZ) Ltd
(7) Owned by Viscount Plastics (China) Pty Ltd
(8) Owned by Pact Group Holdings (Hong Kong) Limited
(9) Owned by Talent Group Development Ltd
(10) Owned by Roots Investment Holding Private Limited
(11) Owned by TIC Group (Asia) Ltd
(12) Owned by Fast Star International Ltd
(13) Owned by Pact Group Industries (Asia) Pty Ltd
(14) Owned by Davmar Investments Pty Ltd
(15) Owned by Asia Peak Pte Ltd
(16) Owned by Ruffgar Holdings Pty Ltd
(17) Owned by Pact Group Industries (ANZ) Pty Ltd

Key estimates and judgements — control and significant influence

Determining whether Pact can control or exert significant influence over an entity can at times require judgement. It requires management to consider whether Pact is exposed to, or has the rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In making such an assessment, a range of factors are considered, including if and only if the Group has: power over the investee (ie. 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; and the ability to use its power over the investee to affect its returns.

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2.2 Controlled entities (continued)

How Pact accounts for controlled entities

Controlled entities are fully consolidated when the Group obtains control and cease to be consolidated when control is transferred out of the Group. The Group controls an entity when it:

- is exposed, or has the rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the entity, for example has the ability to direct the relevant activities of the entity, which could affect the level of profit the entity makes.

2.3 Associates and joint ventures

Pact has entered into a number of strategic partnering arrangements with third parties and / or associates and jointly controlled entities. The following are entities that Pact have significant influence or joint control over:

Entity	Principal place of operation	About	Pact's ownership interest	Carrying Value	
$'000				2019	2018
Changzhou Viscount Oriental Mould Co Ltd (Oriental Mould)[1]	China	Is an associate company, which is a manufacturer of moulds, of which a proportion is purchased by the local Chinese subsidiaries of Viscount Plastics (China) Pty Ltd.	40%	205	202
Spraypac Products (NZ) Ltd (Spraypac)[1]	New Zealand	Is an associate company distributing plastic bottles and related spray products.	50%	732	694
Weener Plastop Asia Inc (Weener)[1]	Philippines	A joint venture with Weener Plastik GMBH which manufactures plastic jars and bottles for the personal care, food and beverage and home care markets.	50%	1,256	1,997
Gempack Weener (Gempack)[1]	Thailand	A joint venture with Weener Plastik GMBH which manufactures plastic jars and bottles for the personal care, food and beverage and home care markets.	50%	19,323	15,552
Weener Plastop Indonesia Inc[1]	Indonesia	A joint venture with Weener Plastik GMBH which manufactures closures and roll-on balls for the personal care and home care markets.	50%	2,837	1,063

(1) Ownership interest at 30 June 2019 and 30 June 2018.

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2.3 Associates and joint ventures (continued)

Summary of associates and joint venture financial information at 30 June

$'000	2019	2018
Summarised statement of financial position		
Current assets	**24,984**	18,604
Non-current assets	**34,978**	27,351
Current liabilities	**(11,918)**	(7,575)
Net assets	**48,044**	38,380
Carrying amount of the Group's investment	**24,353**	19,507
Summarised statement of comprehensive income		
Revenue	**39,470**	34,745
Expense	**(34,812)**	(30,426)
Net profit after tax	**4,658**	4,319
Group's share of profit for the year	**2,336**	2,159

Dividends received from associates and joint ventures during the year was $0.9 million (2018: $1.6 million).

The joint ventures and associates had no contingent liabilities or significant capital commitments at 30 June 2019 (2018: nil).

How Pact accounts for investment in associates and joint ventures and jointly controlled entities

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group uses the equity method to account for their investments in associates and joint ventures, where they consider they have significant influence but they do not have control. Generally significant influence is deemed if Pact has more than 20% of the voting rights.

Under the equity method:

- Investments in the associates are carried at cost plus post-acquisition changes in the Group's share of associates' net assets.
- Goodwill relating to an associate is included in the carrying amount of the investment and is not tested for impairment separately.
- The Group's share of its associates' post-acquisition profits or losses is recognised in the Consolidated Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves.
- When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit in associates' in the Consolidated Statement of Comprehensive Income.

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Section 3 — Our operating assets

This section highlights the primary operating assets used and liabilities incurred to support the Group's operating activities.

Liabilities relating to the Group's financing activities are disclosed in Note 4.1 *Net Debt*, Deferred tax assets and liabilities are disclosed in Note 1.2 *Taxation* and employee benefits provisions are disclosed in Note 5.2 *Employee Benefits Expenses and Provisions*.

3.1 Working capital

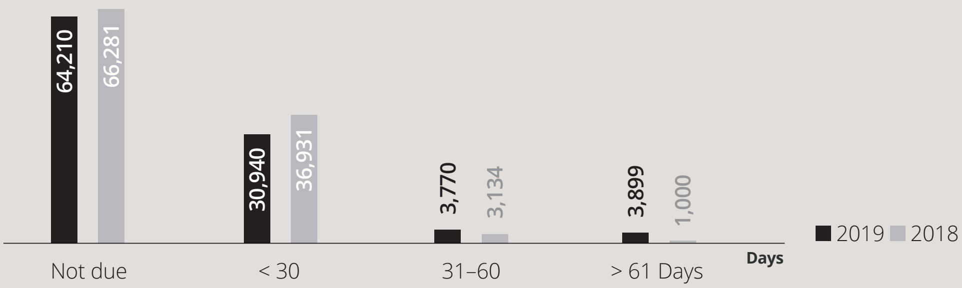
Trade and other receivables

Trade and other receivables at 30 June comprise of:

$'000	2019	2018
Trade receivables[1]	103,812	107,951
Allowance for expected credit losses	(993)	(605)
Other receivables[2]	42,463	54,388
Total current trade and other receivables	**145,282**	161,734

(1) Below is a breakdown of the ageing of trade receivables:

Ageing of trade receivables as at 30 June ($'000)



(2) At 30 June 2019 $26.3 million (2018: $32.4 million) has been recognised as part of other receivables representing the Group's participation in a securitisation program. The program requires the Group (or an entity other than the bank) to be a participant. Given the short term nature of this financial asset, the carrying value of the associated receivable approximates its fair value and represents the Group's maximum exposure to the receivables derecognised as part of the program.

At 30 June 2019, trade receivables with an invoice value of $1.0 million (2018: $0.6 million) were impaired and fully provided for. The Group has a number of mechanisms in place which assist in minimising financial losses due to customer non-payment. These include:

- all customers who wish to trade on credit terms are subject to strict credit verification procedures, which may include an assessment of their independent credit rating, financial position, past experience and industry reputation;
- individual risks limits, which are regularly monitored in-line with set parameters;
- monitoring receivable balances on an ongoing basis; and
- debtors securitisation programs which allow Pact to sell receivables, at a discount to a third party on a non-recourse basis. The securitisation programs have a committed facility limit of $130.0 million (2018: $115.0 million).

Expected credit loss model

Information about the credit risk exposure on the Group's trade receivables using a provision matrix has not been disclosed due to the immaterial amount of expected credit losses as at 30 June 2019.

Financial Report — Notes to the Financial Statements

3.1 Working capital (continued)

Trade and other receivables (continued)

How Pact accounts for trade and other receivables

Pact's trade receivables are non-interest bearing, are recorded at the amount on the sales invoice and include Goods and Services Tax (GST). Trade receivables generally have 30 day terms from the end of the month.

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Under the Group's debtors securitisation programs:

- The Group transfers substantially all the risks and rewards of receivables within the programs to a third party.
- Receivables are sold at a discount and at the date of sale the receivable is derecognised and the discount is included as part of the loss on derecognition of financial assets in the Consolidated Statement of Comprehensive Income. The costs associated with establishing the program are also recognised on a pro rata basis within the same account (refer Note 4.1).
- The Group may act as a servicer to the programs to facilitate the collection of receivables. Income received for being a servicer is recorded as an offset to the loss on derecognition of receivables.
- At balance date, a liability is recognised if received collections have not been paid to other participants of the programs.

Inventories

Inventories at 30 June comprise of:

$'000	2019	2018
Raw materials and stores	98,216	98,886
Work in progress	21,448	22,844
Finished goods	92,182	89,226
Total inventories	**211,846**	210,956

How Pact accounts for inventories

Inventories are recorded at cost, which for Pact includes:

- Raw materials: the invoice price of the product, net of any discount, rebates, duties and taxes, as well as the cost of internal freight.
- Work in Progress and Finished Goods: cost of raw materials, direct labour and a proportion of manufacturing overheads based on a normal level of operating capacity, but excluding costs that relate to general administration, finance, marketing, selling and distribution.

If the estimated selling price in the ordinary course of business, less estimated cost of completion and making the sale, is less than the cost of the inventory, the carrying value of inventory is reduced to this lower amount.

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3.1 Working capital (continued)

Trade and other payables

Current trade and other payables at 30 June comprise of:

$'000	2019	2018
Trade payables	304,602	341,077
Other payables	61,013	77,107
Total current trade and other payables	**365,615**	418,184

How Pact accounts for trade and other payables

Trade and other payables are carried at their principal amounts, are not discounted and include GST. They represent amounts owed for goods and services provided to the Group prior to, but were not paid for, at the end of the financial year. The amounts are generally unsecured and are usually paid within 30 to 90 days of recognition.

3.2 Non-current assets

The below outlines the geographical location of Pact's property, plant and equipment, intangible assets and goodwill:

$'000	2019	2018
Australia	669,175	851,994
New Zealand	310,225	303,205
Other	136,196	184,407
Total	**1,115,596**	1,339,606

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3.2 Non-current assets (continued)

Property, plant and equipment

The key movements in property, plant and equipment over the year were:

$'000	Property[1]	Plant and equipment	Capital work in progress	Total
Estimated useful life	Freehold: 40–50 years Leasehold: 10–15 years	3–20 years	n/a	
Year ended 30 June 2019				
At 1 July 2018 net of accumulated depreciation	**43,852**	**611,901**	**99,660**	**755,413**
Additions and transfers	**11,936**	**62,988**	**(11,706)**	**63,218**
Acquisition of subsidiaries and businesses	**1,119**	**24,194**	**-**	**25,313**
Disposals	**-**	**(357)**	**-**	**(357)**
Asset write downs[2]	**-**	**(136,330)**	**-**	**(136,330)**
Foreign exchange translation movement	**1,245**	**7,272**	**1,026**	**9,543**
Depreciation charge for the year	**(4,777)**	**(73,481)**	**-**	**(78,258)**
At 30 June 2019 net of accumulated depreciation	**53,375**	**496,187**	**88,980**	**638,542**
Represented by:				
At cost	**79,625**	**1,227,245**	**88,980**	**1,395,850**
Accumulated depreciation	**(26,250)**	**(731,058)**	**-**	**(757,308)**
Year ended 30 June 2018				
At 1 July 2017 net of accumulated depreciation	33,193	517,662	126,277	677,132
Additions and transfers	-	108,067	(28,578)	79,489
Acquisition of subsidiaries and businesses	15,882	58,098	2,159	76,139
Disposals	(3,376)	(1,602)	-	(4,978)
Asset write downs	-	(1,551)	-	(1,551)
Foreign exchange translation movement	1,371	(2,750)	(198)	(1,577)
Depreciation charge for the year	(3,218)	(66,023)	-	(69,241)
At 30 June 2018 net of accumulated depreciation	43,852	611,901	99,660	755,413
Represented by:				
At cost	79,882	1,325,056	99,660	1,504,598
Accumulated depreciation and impairment	(36,030)	(713,155)	-	(749,185)

(1) Property consists of the following: leasehold improvements of $28.8million (2018: $20.6 million) and accumulated depreciation of $11.6 million (2018: $9.9 million), and freehold property of $50.8 million (2018: $59.3 million) and accumulated depreciation of $14.6 million (2018: $26.1 million).

(2) The impairment loss of $136.3 million represented the write-down of certain property, plant and equipment in the Pact Australia segment as a result of challenging trading conditions and a moderated long-term outlook. The recoverable amount was based on value in use and was determined at the level of the CGU. The CGU consisted of the Australian packaging assets. In determining value in use, cash flows were discounted at a rate of 14.3% (2018: 12.1%) on a pre-tax basis.

The decrease in the recoverable amount reflects challenging trading conditions and a moderated long-term outlook. The recoverable amount of Australian packaging assets is $178.9 million.

3.2 Non-current assets (continued)

Property, plant and equipment (continued)

Key estimates and judgements — estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and lease terms. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Key estimates and judgements — recoverability of property, plant and equipment

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, social, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is assessed.

How Pact accounts for property plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the item and subsequent costs incurred to replace parts that are eligible for capitalisation. Depreciation is calculated on a straight line basis over the estimated useful life of the assets. Where assets are in the course of construction at the reporting date they are classified as capital works in progress. Upon completion, capital works in progress are reclassified to plant and equipment and are depreciated from this date.

The Group assesses at each reporting date whether there is an indication that an asset with a finite life may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset generates cash inflows that are largely dependent on those from other assets or groups of assets and the asset's value in use cannot be estimated to approximate its fair value. In such cases the asset is tested for impairment as part of the CGU to which it belongs. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in the Consolidated Statement of Comprehensive Income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amounts are estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

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3.2 Non-current assets (continued)

Goodwill and other intangibles

Intangible assets are comprised of the following:

$'000	Customer contracts[1]	Other intangibles[1]	Goodwill	Total
Year ended 30 June 2019				
At 1 July 2018 net of accumulated amortisation and impairment	23,070	9,843	551,280	584,193
Additions	-	2,332	-	2,332
Intangible asset arising on acquisition[2]	-	-	119,983	119,983
Impairment expense	-	(1,303)	(231,132)	(232,435)
Foreign exchange translation movements	-	(64)	7,077	7,013
Amortisation	(2,810)	(1,222)	-	(4,032)
At 30 June 2019 net of accumulated amortisation and impairment	20,260	9,586	447,208	477,054
Represented by:				
At cost	28,106	14,949	678,340	721,395
Accumulated amortisation and impairment	(7,846)	(5,363)	(231,132)	(244,341)

(1) Customer contracts are recognised at cost and amortised over their useful lives. Other intangibles includes a balance of $1.8m which has an indefinite life and is not amortised, all other intangibles are recognised at cost and amortised over their useful lives.

(2) Includes the goodwill arising on acquisition of TIC RA AU Pty Ltd and a reduction of $7.8 million goodwill which has been recognised in the period in relation to the prior period acquisition of CSI International and Graham Packaging Group acquisition (Asia acquisition).

$'000	Customer contracts[1]	Other intangibles [1]	Goodwill	Total
Year ended 30 June 2018				
At 1 July 2017 net of accumulated amortisation and impairment	25,881	10,395	511,057	547,333
Additions	-	145	-	145
Intangible asset arising on acquisition[2]	-	-	46,392	46,392
Foreign exchange translation movements	-	(4)	(6,169)	(6,173)
Amortisation	(2,811)	(693)	-	(3,504)
At 30 June 2018 net of accumulated amortisation and impairment	23,070	9,843	551,280	584,193
Represented by:				
At cost	28,106	12,684	551,280	592,070
Accumulated amortisation and impairment	(5,036)	(2,841)	-	(7,877)

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3.2 Non-current assets (continued)

Goodwill and other intangibles (continued)

$'000	2019
Goodwill and intangible assets with indefinite lives are allocated to the following group of CGU's and segments[(1)]:	
Packaging and Sustainability	258,628
Contract Manufacturing Services	21,031
Materials Handling and Pooling	169,311
	448,970

The table below shows the allocation of goodwill and intangible assets to CGU's and segments in the comparative period, prior to the change in operating segments for the current year:

$'000	2018
Goodwill and intangible assets with indefinite lives are allocated to the following group of CGU's and segments[(1)]:	
Pact Australia	310,834
Pact International	242,208

(1) This is the lowest level where goodwill is monitored.

Change in Operating Segments and impairment

During the year, the Group changed operating segments (refer Note 1.1). Operating segments represents the group of Cash Generating Units (CGU) at which goodwill is allocated and monitored. Immediately after the reallocation of goodwill, impairment testing was performed on the new operating segments, being Packaging and Sustainability, Contract Manufacturing Services and Materials Handling and Pooling.

Australian Accounting Standards require that when operating segments containing goodwill are reorganised, an entity must undertake detailed impairment testing immediately prior to and post the reorganisation. When there are indicators of impairment of fixed assets contained within the CGUs in the operating segments, an entity must also complete detailed impairment testing of fixed assets prior to impairment testing for goodwill (refer Note 3.2 for the impairment of fixed assets).

Immediately prior to the reallocation of goodwill, impairment testing was performed on the previous operating segments, being Pact Australia and Pact International. The calculation of value in use for both Pact Australia and Pact International are sensitive to the following assumptions:

- **Gross margins and raw material price movement** – Gross margins reflect current gross margins adjusted for any expected (and likely) efficiency improvements or price changes.
- **Cash Flows** – Cash flows are forecast for a period of five years. Cash flows beyond the one year period are extrapolated using growth rates which are a combination of volume growth and price growth. Rates are based on published industry research and economic forecasts relating to GDP growth rates.
- **Discount rates** – The discount rates are based on an external assessment of the Group's pre-tax weighted average cost of capital in conjunction with risk factors specific to the countries in which the CGUs within the operating segments operate. Foreign currency cash flows are discounted using the functional currency of the CGUs within the operating segments, and then translated to Australian Dollars using the closing exchange rate.

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3.2 Non-current assets (continued)

Goodwill and other intangibles (continued)

The discount rates and terminal growth rates applied to cashflow projections are detailed below.

	Pact Australia		Pact International	
	2019	2018	2019	2018
Discount rate (pre-tax)	15.0%-18.6%	12.0%	9.8%-20.5%	9.8%-20.5%
Terminal growth rate	1.0%	2.2%	1.2%-7.7%	2.1%-7.7%

Impairment testing identified the carrying value of goodwill within Pact Australia exceeded the recoverable amount. A $231.1 million impairment expense was recognised in the current period. The decrease in the recoverable amount reflects challenging trading conditions and a moderated long-term outlook.

Goodwill (net of the impairment) was allocated to the new operating segments on a relative fair value basis.

Annual impairment testing

The discount rates and terminal growth rates applied to cashflow projections are detailed below. The calculation of value in use for the segments below are sensitive to the following assumptions:

- **Gross margins and raw material price movement** — Gross margins reflect current gross margins adjusted for any expected (and likely) efficiency improvements or price changes.
- **Cash Flows** — Cash flows are forecast for a period of five years. Cash flows beyond the one year period are extrapolated using growth rates which are a combination of volume growth and price growth. Rates are based on published industry research and economic forecasts relating to GDP growth rates.
- **Discount rates** — The discount rates are based on an external assessment of the Group's pre-tax weighted average cost of capital in conjunction with risk factors specific to the countries in which the CGUs within the operating segments operate. Foreign currency cash flows are discounted using the functional currency of the CGUs within the operating segments, and then translated to Australian Dollars using the closing exchange rate.

	Packaging and Sustainability	Materials Handling and Pooling	Contract Manufacturing Services
Discount rate (pre-tax)	9.8%-20.5%	11.8%-14.3%	14.3%
Terminal growth rate	1.0%-7.2%	1.0%-1.2%	1.0%

3.2 Non-current assets (continued)

Goodwill and other intangibles (continued)

The recoverable amount of Packaging and Sustainability was 1.08 times the carrying amount of $896.1 million, including non-current assets and net working capital. To illustrate sensitivity to these assumptions in the table above, if they were to differ such that the expected growth rates for Packaging and Sustainability were to decrease by 1.0% or discount rates increase by 0.7%, across the forecast period, without implementation of mitigation plans, the recoverable amount would be equal to the carrying amount.

The recoverable amount of Materials Handling and Pooling was 1.14 times the carrying amount of $342.9 million, including non-current assets and net working capital. To illustrate sensitivity to these assumptions in the table above, if they were to differ such that the expected growth rates for Materials Handling and Pooling were to decrease by 2.0% or discount rates increase by 1.1%, across the forecast period, without implementation of mitigation plans, the recoverable amount would be equal to the carrying amount.

The recoverable amount of Contract Manufacturing Services was 1.05 times the carrying amount of $149.4 million, including non-current assets and net working capital. To illustrate sensitivity to these assumptions in the table above, if they were to differ such that the expected growth rates for Contract Manufacturing were to decrease by 0.7% or discount rates increase by 0.4%, across the forecast period, without implementation of mitigation plans, the recoverable amount would be equal to the carrying amount.

How Pact accounts for goodwill

Goodwill is:

- initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities;
- subsequently measured at cost less any accumulated impairment losses; and
- reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGU's), to which the goodwill relates. When the recoverable amount of the CGU (or group of CGU's) is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a CGU (or group of CGU's) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the CGU's retained.

Key estimates and judgements — impairment of goodwill and other intangibles

The recoverable amount of each of the CGU's has been determined based on value in use calculations using cash flow projections contained within next year's financial budget approved by management and other forward projections up to a period of five years. Management have used their current expectations and what is considered reasonably achievable when assigning values to key assumptions in their value in use calculations.

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3.3 Commitments and contingencies

Operating leases

$'000	2019	2018
Operating lease and rental expense[1]	73,923	61,501

[1] The Group leases buildings and plant and equipment such as office equipment and motor vehicles. The Group has determined that it does not obtain all the significant risks and rewards of the leased property and has thus classified the leases as operating leases. Rental payments are generally fixed, but with inflation escalation clauses. Where the escalation clauses are fixed they are accounted for through the fixed rent provision. Property leases generally provide the Group with a right of renewal at which time terms are renegotiated. There are no restrictions placed upon the lessee by entering into these leases.

The future minimum lease payments under non-cancellable operating leases contracted for but not capitalised in the financial statements are payable as follows:

Within one year	66,096	59,774
After one year but not more than five years	185,458	180,773
More than five years	148,731	125,712
Total lease expenditure commitments[2]	400,285	366,259

[2] Excludes commitments for option periods. Including option periods for leases where the exercise of the option to extend the lease term is reasonably certain applying the Group's AASB 16 accounting policy, would increase the lease expenditure commitments by $278.1 million (refer Note 6.2).

How Pact accounts for Operating lease commitments

Operating lease payments are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Capital expenditure commitments

Capital expenditure commitments contracted for at reporting date, but not provided for are:

Payable within one year	7,395	17,061
Payable after one year but not more than five years	449	16
Total	7,844	17,077

Contingencies

From time to time, the Group may be involved in litigation relating to claims arising out of its operations. The Group is not party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its business, financial position or operating results.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

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3.4 Other provisions

Total other provisions at 30 June comprise of:

$'000's	2019	2018
Current		
Business restructuring	13,914	4,424
Total current provisions	13,914	4,424
Non-current		
Fixed rent	22,765	19,233
Make good on leased premises	9,593	9,584
Total non-current provisions	32,358	28,817

Movement in provisions

$'000	Business restructuring[1]	Fixed rent provision[2]	Make good on leased premises[3]	Total
Year ended 30 June 2019				
At 1 July 2018	4,424	19,233	9,584	33,241
Provided for during the year	37,842	4,284	395	42,521
Utilised	(28,907)	(669)	(146)	(29,722)
Transfers	548	(235)	(313)	-
Foreign exchange translation movement	7	152	73	232
At 30 June 2019	13,914	22,765	9,593	46,272

(1) Business restructuring – The business restructuring programs relate to the optimisation of business facilities across the Group.

(2) Fixed rent provision – Annual rentals for some of the property operating leases increase annually by fixed increments. The provision has been recognised to apportion these increments on a straight line basis over the minimum non-cancellable lease term.

(3) Make good on leased premises – In accordance with the form of lease agreements, the Group may be required to restore leased premises to their original condition at the end of the lease term and upon exiting the site. The provision is based on the costs which are expected to be incurred using historical costs as a guide.

Key estimates and judgements — business restructuring

Business restructuring provisions are only recognised when a detailed plan has been approved and the business restructuring has either commenced or been publicly announced, or contracts relating to the business restructuring have been entered into. Costs related to ongoing activities are not provided for.

How Pact accounts for other provisions

Provisions are recognised when the following three criteria are met:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a financing cost.

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Section 4 — Our capital structure

This section details specifics of the Groups' capital structure. When managing capital, Management's objective is to ensure that the entity continues as a going concern as well as to provide optimal returns to shareholders and other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Primary responsibility for identification and control of capital and financial risks rests with the Treasury Risk Management Committee.

4.1 Net debt

Debt profile

Pact has the following non-current interest bearing loans and borrowings at 30 June 2019:

$'000	2019	2018
Syndicated Facility Agreements[1]	**689,232**	671,279
Subordinated Debt Facility[1]	**50,287**	-
Capitalised borrowing costs	**(6,029)**	(4,026)
Total non-current interest bearing loans and borrowings	**733,490**	667,253

[1] The group has several revolving debt facilities, two term facilities, a subordinated term debt facility and a working capital facility with total commitments of $1,062.2 million, of which of which $314.2 million is undrawn at 30 June 2019. The facilities are spread across multiple maturities, with the working capital facility revolving with an annual review. The debt facilities include a $383.5 million loan facility maturing in January 2022, a $184.3 million loan facility maturing in January 2023, $301.1 million loan facility maturing in March 2023, a $120 million term facility maturing in December 2024, and a subordinated term debt facility of USD 35 million, swapped into AUD ($50.3 million), maturing July 2025. The working capital facility is $23 million at 30 June 2019.

The Group uses interest rate swaps to manage interest rate risk.

(a) Fair values

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Fair values of the Group's interest-bearing loans and borrowings are determined by using a discounted cash flow method, applying a discount rate that reflects the issuer's borrowing rate at the end of the reporting period. As the underlying debt has a floating interest rate (excluding the impact of the separate interest rate swaps), the Group's own performance risk at 30 June 2019 was assessed to be insignificant.

The computation of the fair value of borrowings is derived using significant observable inputs (Fair Value Hierarchy Level 2).

4.1 Net Debt (continued)

The carrying amount and fair value of the Group's non-current borrowings are as follows:

	2019 $'000s		2018 $'000s	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Syndicated Facility Agreements	689,232	689,232	671,279	671,279
Subordinated Debt Facility	50,287	50,287	-	-
Total borrowings	**739,519**	**739,519**	**671,279**	**671,279**

(b) Defaults and breaches

During the current period, there were no defaults or breaches on any of the loan terms and conditions.

Pact has incurred the following finance costs during the year ending 30 June:

$'000	2019	2018
Interest expense	**32,250**	26,152
Capitalised interest	**-**	(110)
Borrowing costs amortisation	**1,499**	1,260
Amortisation of securitisation program costs	**266**	333
Sundry items	**1,581**	1,521
Total finance costs	**35,596**	29,156
Loss on de-recognition of financial assets	**4,079**	3,539
Total finance costs & loss on de-recognition of financial assets	**39,675**	32,695

Finance costs are recognised as an expense when incurred.

How Pact accounts for loans and borrowings

All loans and borrowings are:

- initially recognised at the fair value of the consideration received less directly attributable transaction costs.
- subsequently measured at amortised cost using the effective interest method, which is calculated based on the principal borrowing amount less directly attributable transaction costs.
- are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Fair value of the Group's interest-bearing loans and borrowings are determined by using a discounted cash flow method, applying a discount rate that reflects the issuer's borrowing rate at the end of the reporting period. As the underlying debt has a floating interest rate (excluding the impact of the separate interest rate swaps), the Group's own performance risk at 30 June 2019 was assessed to be insignificant.

The carrying amount of the Group's current and non-current borrowings materially approximates fair value. The computation of the fair value of borrowings is derived using significant observable inputs (Fair Value Hierarchy Level 2).

Finance costs are recognised as an expense when incurred. Finance costs which are directly attributable to the acquisition of, or production of, a qualifying asset are capitalised as part of the cost of that asset using the weighted average cost of borrowings.

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4.1 Net Debt (continued)

Reconciliation of net profit after tax to net cash flows from operations

$'000	2019	2018
Net (loss) / profit for the year	(289,587)	74,488
Non cash flows in operating (loss) / profit:		
Depreciation and amortisation	82,290	72,745
Loss / (gain) on sale of property, plant and equipment	269	(866)
Share of net profit in associates	(2,336)	(2,159)
Share based payments expense	(168)	1,225
Impairment expense	368,765	-
Other	2,794	(1,510)
Changes in assets and liabilities:		
Decrease / (increase) in trade and other receivables	39,961	(3,684)
Decrease / (increase) in inventory	11,977	(21,892)
Increase in current tax assets	(3,360)	-
Decrease / (increase) in deferred tax assets	(11,076)	(196)
(Decrease) / increase in trade and other payables	(54,468)	22,951
(Decrease) / increase in employee entitlement provisions	(1,921)	1,698
Increase in other provisions	12,809	5,315
(Decrease) / increase in current tax liabilities	(20,037)	1,809
(Decrease) / increase in deferred tax liabilities	(27,229)	499
Net cash flow provided by operating activities	108,683	150,423

Non-cash activities

$'000	Notes	2019	2018
Acquisition of assets, liabilities and business via issue of shares	2.1	60,000	-

How Pact accounts for cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise cash at bank and on hand and short-term deposits with a maturity of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdraft balances. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Consolidated Statement of Financial Position. Cash flows are included in the Consolidated 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 are classified as operating cash flows.

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4.2 Contributed equity and reserves

Terms, conditions and movements of contributed equity

Ordinary shares are classified as equity. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

	2019		2018	
	Number of shares	$'000s	Number of shares	$'000s
Movements in contributed equity				
Ordinary shares:				
Beginning of the year	**332,483,890**	**1,690,476**	299,234,086	1,517,097
Issued during the period[(1)(2)]	**11,509,705**	**60,000**	33,249,804	175,559
Transaction costs taken to equity	**-**	**-**	-	(2,986)
Tax benefit on transaction costs	**-**	**-**	-	806
End of the year	**343,993,595**	**1,750,476**	332,483,890	1,690,476

(1) Shares issued as consideration

On 14 November 2018, 11,300,500 shares in the Company were issued for $5.31 as consideration for the acquisition of TIC Retail Accessories (refer Note 2.1). This includes 3,766,834 shares that are divided into four tranches. Each of these tranches are subject to contractual trading restrictions from the date of issue to the dates as follows; 31 January 2019, 30 April 2019, 31 July 2019 and 31 October 2019.

The remaining 7,533,666 shares are subject to customary voluntary escrow restrictions across four tranches, and are required to be held in escrow from the date of issue to the dates as follows; 31 January 2020, 30 April 2020, 31 July 2020 and 31 October 2020.

(2) Employee share issue

On 3 December 2018, 209,205 shares were issued to the former CEO, Mr Malcolm Bundey, as part of his employment arrangements. The associated share based reserve has not been transferred out to contributed equity.

How Pact accounts for contributed equity

Issued and paid up capital is classified as contributed equity and recognised at the fair value of the consideration received by the entity. Incremental costs directly attributable to the issue of new shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

Reserves

$'000	2019	2018
Foreign currency translation reserve[(1)]	**33,897**	22,965
Cash flow hedge reserve[(2)]	**(4,580)**	111
Common control transaction reserve[(3)]	**(928,385)**	(928,385)
Share based payments reserve[(4)]	**2,157**	2,325
Total reserves	**(896,911)**	(902,984)

(1) The foreign currency translation reserve is used to record foreign exchange fluctuations arising from the translation of the financial statements of foreign subsidiaries.

(2) This reserve records the portion of the gain or loss on a hedging instrument and the related transaction in a cash flow hedge that are determined to be an effective relationship.

(3) The common control reserve of $928.4 million includes a balance of $942.0 million that arose through a Group restructure in the financial year ended 30 June 2011, less $13.6 million in relation to the acquisition of Viscount Plastics (China) Pty Ltd and Asia Peak Pte Ltd in the year ended 30 June 2014.

(4) The share based payments reserve records items recognised as expenses representing the fair value of employee rights.

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4.3 Managing our financial risks

There are a number of financial risks the Group is exposed to that could adversely affect the achievement of future business performance. The Group's risk management program seeks to mitigate risks and reduce volatility in the Group's financial performance. Financial risk management is managed centrally by the Treasury Risk Management Committee.

The Group's principal financial risks are:

- Interest rate risk;
- Foreign currency risk;
- Liquidity risk;
- Credit risk; and
- Commodity price risk.

Managing interest rate risk

Pact seeks to manage its finance costs by assessing and, where appropriate, utilising a mix of fixed and variable rate debt. When variable debt is utilised it exposes the Group to interest rate risk.

What is the risk?	How does Pact manage this risk?	Impact at 30 June 2019
Pact has variable interest rate debt, and therefore if interest rates increase, the amount of interest Pact is required to pay would also increase.	• Utilises interest rate swaps to lock in the amount of interest that Pact will be required to pay. • Considers alternative financing and mix of fixed and variable debt, as appropriate.	At 30 June 2019, the Group hedge cover is 51% (2018: 37%) of its long term variable debt excluding working capital facilities. Sensitivity analysis performed by the Group showed that a +1 percentage point movement in AUD interest rates would reduce net profit after tax by $0.9 million and increase equity by $0.3 million (2018: $1.2 million reduction in net profit after tax and increase equity by $0.2 million). Sensitivity analysis performed by the Group showed that a +1 percentage point movement in NZD interest rates would reduce net profit after tax and equity by $1.4 million (2018: $1.3 million reduction). Sensitivity analysis performed by the Group showed that a +1 percentage point movement in USD interest rates would reduce net profit after tax and equity by $0.4 million (2018: $0.6 million).

(1) The impact of a +/- 1% movement in interest rates was determined based on the Group's mix of debt, credit standing with finance institutions, the level of debt that is expected to be renewed and economic forecasters' expectations.

Managing foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's (i) operating activities which are denominated in a different currency from the entity's functional currency, (ii) financing activities, and (iii) net investments in foreign subsidiaries.

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4.3 Managing our financial risks (continued)

The Group currently operates in twelve countries outside of Australia, with the following functional currencies[1]:

Country of domicile	Functional currency
New Zealand	NZD
Thailand	THB
Singapore	USD
China	RMB
Philippines	PHP
Indonesia	IDR
Hong Kong	HKD / USD
Nepal	NPR
India	INR
South Korea	KRW
Bangladesh	BDT
United Kingdom	GBP

(1) TIC RA AU Pty Ltd is domiciled in Australia and has USD as its functional currency.

As Pact has an Australian dollar (AUD) presentation currency, which is also the functional currency of its Australian entities, this exposes Pact to foreign exchange rate risk.

What is the risk?	How does Pact manage this risk?	Impact at 30 June 2019
If transactions are denominated in currencies other than the functional currency of the operating entity, there is a risk of an unfavourable financial impact to earnings if there is an adverse currency movement.	Utilises forward foreign currency contracts to eliminate or reduce currency exposures of individual transactions once the Group has entered into a firm commitment for a sale or purchase.	The Group has a significant exposure to the USD against the AUD and NZD from USD purchase commitments, while the Group's exposure to sales denominated in currencies other than the functional currency of the operating entity is less than 5%. At 30 June 2019, the Group has the majority of its foreign currency committed purchase orders hedged. Sensitivity analysis of the foreign currency net transactional exposures (including hedges) was performed to movements in the Australian dollar against the relevant foreign currencies, with all other variables held constant, taking into account all underlying exposures and related hedges. This analysis showed that a 10% movement in its major trading currencies would not materially impact net profit after tax or equity.
As Pact has entities that do not have an Australian dollar (AUD) functional currency, if currency rates move adversely compared to the AUD, then the amount of AUD-equivalent profit would decrease and the balance sheet net investment value would decline.	Pact utilises borrowing in the functional currency of the overseas entity to naturally hedge offshore entities where considered appropriate. The foreign currency debt provides a balance sheet hedge of the asset, while the foreign currency interest cost provides a natural hedge of the offshore profit.	Sensitivity analysis performed by management showed that a 10% +/- movement in its major translational currencies as at 30 June 2019 would have the following impact on equity: AUDNZD ($10.0) million to $12.0 million AUDCNY ($13.0) million to $16.0 million AUDUSD ($2.0) million to $2.0 million AUDPHP ($2.0) million to $2.0 million Sensitivity analysis performed by management showed that a 10% +/- movement in its major translational currencies during the year, would have the following impact on net profit after tax: AUDNZD ($2.0) million to $3.0 million AUDUSD ($1.0) million to $1.5 million

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4.3 Managing our financial risks (continued)

Effect on financial position and performance – hedging instruments

Pact Group has entered into foreign exchange forward contracts to minimise the variability of cash flows relating to stock and capital purchases denominated in foreign currencies. Furthermore, the Group has also entered into Interest rate swaps to minimise the variability of cash flows relating to the floating component of debt.

The impact of hedged instrument and hedged item on the consolidated statement of financial position of the Group is as follows:

$'000	Hedged item	Notional amount	Carrying amount Asset/ (Liability)	Change in fair value for measuring ineffectiveness for the period	Cash flow hedge reserve
Year ended 30 June 2019					
Foreign exchange forward contracts	Committed purchases	**65,910**	**349**[1] **(556)**[2]	**(2,655)**	**(93)**
Interest rate swaps	Floating component of debt	**350,000**	**(1,774)**[2] **(4,296)**[3]	**(5,453)**	**(4,248)**
Year ended 30 June 2018					
Foreign exchange forward contracts	Committed purchases	81,239	2,683[1] (79) [2]	448	543
Interest rate swaps	Floating component of debt	250,000	(616) [3]	(805)	(431)

(1) The carrying amount is included in Other current financial assets in the consolidated statement of financial position.

(2) The carrying amount is included in Other current financial liabilities in the consolidated statement of financial position.

(3) The carrying amount is included in Other non-current financial liabilities in the consolidated statement of financial position.

The effect of cash flow hedge noted in Other (losses)/gains line item in the consolidated statement of comprehensive income is as follows:

$'000	Total hedging gain/(loss) recognised in OCI	Amount reclassified from OCI to profit or loss
Year ended 30 June 2019		
Committed purchases	**(93)**	**(73)**
Floating component of debt	**(4,248)**	**-**
Year ended 30 June 2018		
Committed purchases	543	1,829
Floating component of debt	(431)	-

The impact of hedging on cash flow hedge reserve contained within the other comprehensive income/(loss) is as follows:

$'000	2019	2018
Opening balance of cash flow hedge reserve	**111**	(1,490)
Effective portion of changes in fair value arising from:		
- Foreign exchange forward contracts	**(93)**	543
- Interest rate swaps	**(4,248)**	(431)
Reversal of prior year cash flow hedge reserve	**(111)**	1,490
Tax effect	**(239)**	(1)
Closing balance of cash flow hedge reserve	**(4,580)**	111

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4.3 Managing our financial risks (continued)

How Pact accounts for foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency of the individual entity by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at reporting date.

Non-monetary items that are measured at:

- Historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.
- Fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of the controlled entities with non-Australian dollar functional currencies are translated into the presentation currency of Pact at the rate of exchange at the reporting date and their statements of comprehensive income are translated at the weighted average exchange rate for the year (where appropriate).

The exchange rate differences arising on the translation to presentation currency are taken directly to the foreign currency translation reserve, in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Consolidated Statement of Comprehensive Income.

Managing liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's ability to meet its obligations to repay these financial liabilities as and when they fall due. Pact has a range of liabilities at 30 June that will be required to be settled at some future date.

What is the risk?	How does Pact manage this risk?	Impact at 30 June 2019
The risk that Pact cannot meet its obligations to repay its financial liabilities as and when they fall due.	• Having access to an adequate amount of committed credit facilities. • Maintains a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and debtor securitisation.	The Directors have assessed that due to the Group's access to undrawn facilities and forecast positive cash flows into the future they will be able to pay their debts as and when they fall due, and therefore it is appropriate the financial statements are prepared on a going concern basis.

Financial Report — Notes to the Financial Statements

4.3 Managing our financial risks (continued)

Managing liquidity risk (continued)

The maturity profile of the Group's assets and liabilities based on contractual undiscounted receipt / payments terms is as follows:

$'000	≤ 6 months	6–12 months	1–5 years	> 5 years	Total
Year ended 30 June 2019					
Financial assets[1]					
Cash and cash equivalents	49,950	-	-	-	49,950
Trade and other receivables	145,282	-	718	-	146,000
Foreign exchange forward contracts[2]	63,183	72	-	-	63,255
Total inflows	258,415	72	718	-	259,205
Financial liabilities[1]					
Trade and other payables	(417,285)	-	(14,643)	-	(431,928)
Foreign exchange forward contracts[2]	(63,334)	(72)	-	-	(63,406)
Interest rate swaps	(1,814)	(1,238)	(3,183)	-	(6,235)
Interest bearing loans and borrowings[3]	(14,891)	(14,648)	(643,184)	(181,559)	(854,282)
Total outflows	(497,324)	(15,958)	(661,010)	(181,559)	(1,355,851)
Net outflow	(238,909)	(15,886)	(660,292)	(181,559)	(1,096,646)
Year ended 30 June 2018					
Financial assets[1]					
Cash and cash equivalents	67,980	-	-	-	67,980
Trade and other receivables	161,734	-	2,570	-	164,304
Foreign exchange forward contracts[2]	84,439	1,597	-	-	86,036
Total inflows	314,153	1,597	2,570	-	318,320
Financial liabilities[1]					
Trade and other payables	(418,184)	-	(17,594)	-	(435,778)
Foreign exchange forward contracts[2]	(81,824)	(1,608)	-	-	(83,432)
Interest rate swaps	(266)	(198)	(176)	-	(640)
Interest bearing loans and borrowings[3]	(12,132)	(11,934)	(610,055)	(124,528)	(758,649)
Total outflows	(512,406)	(13,740)	(627,825)	(124,528)	(1,278,499)
Net outflow	(198,253)	(12,143)	(625,255)	(124,528)	(960,179)

(1) The Group's principal financial instruments comprise cash, receivables, payables, bank loans, bank overdrafts, finance leases and derivative instruments.

(2) Foreign exchange forward contracts are recorded as a net balance in the Consolidated Statement of Financial Position, where in this table the contractual maturities are the gross undiscounted cash flows.

(3) When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The following table represents the changes in financial liabilities arising from financing activities:

$'000	1 July 2018	Cash flows	Foreign exchange movement	30 June 2019
Non-current interest-bearing loans and borrowings	(671,279)	(57,156)	(11,084)	(739,519)
Total liabilities from financing activities	**(671,279)**	**(57,156)**	**(11,084)**	**(739,519)**

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4.3 Managing our financial risks (continued)

Managing credit risk

Credit risk represents the loss that would be recognised if counterparties failed to meet their obligations under a contract or arrangement. The Group is exposed to credit risk arising from its operating activities (primarily from customer receivables) and financing activities. The Group manages this risk through the following measures:

- Operating activities: The Group has in place a number of mechanisms to manage its exposure to customer credit risk, discussed in Note 3.1, including debtor's securitisation programs where substantially all the risks and rewards of the receivables within the program are transferred to a third party.
- Financial activities: Restricting dealings to counterparties with high credit ratings and limiting concentration of credit risk.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount as presented in the Consolidated Statement of Financial Position.

Commodity price risk

The Group is exposed to commodity price risk from a number of commodities, including resin. The Group manages these risks through customer pricing, including contractual rise and fall adjustments.

Utilising hedging contracts to manage risk

As discussed above, the Group utilises interest rate swaps and foreign exchange forward contracts to hedge its risks associated with interest rate and foreign currency fluctuations. All of Pact's hedging instruments are designated in cash flow hedging relationships, providing increased certainty over future cash flows associated with foreign currency purchases or interest payments on variable interest rate debt facilities.

Financial Report — Notes to the Financial Statements

4.3 Managing our financial risks (continued)

How Pact accounts for derivative financial instruments in a cash flow hedge relationship

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes:

- identification of the hedging instrument;
- the hedged item or transaction; and
- the nature of the risk being hedged; and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting period for which they were designated.

Derivative financial instruments are:

- Recorded at fair value at inception and every subsequent reporting date.
- Classified as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value of:

- Forward currency contracts is calculated by using valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs, which are not considered to be significant (Fair value hierarchy level 2).
- Cross currency interest rate swaps and interest rate swap contracts is determined by reference to market values for similar instruments.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Consolidated Statement of Comprehensive Income.

Amounts taken to equity are transferred to the Consolidated Statement of Comprehensive Income when the hedge transaction affects the Consolidated Statement of Comprehensive Income, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Consolidated Statement of Comprehensive Income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction to which the hedging instrument relates is not expected to occur, the amount is taken to the Consolidated Statement of Comprehensive Income.

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Section 5 — Remunerating our people

This section provides financial insight into employee reward and recognition designed to attract, retain, reward and motivate high performing individuals so as to achieve the objectives of the company, in alignment with the interests of the Group and its shareholders.

This section should be read in conjunction with the Remuneration Report, contained within the Directors' Report, which provides specific details on the setting of remuneration for Key Management Personnel.

5.1 Defined Benefit Plans

The Group has defined benefit plans in the following four entities:

- Closure Systems International India Pvt Ltd (CSI India)
- Closure Systems International Philippines Inc (CSI Philippines)
- Closure Systems International Korea Ltd (CSI Korea)
- Plastop Asia Inc (Plastop Asia)

Under the Group's Defined Benefit Plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the Defined Benefit Plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The liability recognised in the statement of financial position for Defined Benefit Plans is the present value of the Defined Benefit Obligation (DBO) at the reporting date less the fair value of plan assets.

Management uses independent actuaries to estimate the DBO annually. Estimates reflect standard rates of inflation, salary growth and mortality in those countries.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income. They are included as a separate component of equity in the statement of financial position and in the statement of changes in equity. Net interest expense on the net defined benefit liability is included in finance costs.

Movement in net defined benefit liability/(asset)

The following table shows a reconciliation of the movement in the net defined benefit liability/(asset) and its components for each entity:

$'000

Present value of the defined benefit obligation	CSI India[1]	CSI Philippines	CSI Korea	Plastop Asia	Total
Discount rate	**7.70%**	**6.24%**	**3.10%**	**5.93%**	
Salary increase rate	**12.0%**	**6.0%**	**4.0%**	**5.0%**	
At 1 July 2018	96	164	703	73	**1,036**
Current service cost	26	17	199	23	**265**
Net interest cost	6	10	19	6	**41**
Actuarial (gains) / losses:					
Changes in financial assumptions	2	47	(58)	42	**33**
Changes in experience assumptions	4	(8)	(61)	1	**(64)**
Changes in demographic assumptions	-	-	15	21	**36**
Benefits paid	(2)	-	(81)	-	**(83)**
Employer contributions	(40)	-	-	-	**(40)**
Foreign exchange translation movements	5	20	11	12	**48**
Present value of defined benefit obligation at 30 June 2019	97	250	747	178	**1,272**

(1) Defined benefit obligations for CSI India comprises of Gratuity liability and Leave encashment liability.

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5.1 Defined Benefit Plans (continued)

$'000 Present value of the defined benefit obligation	CSI India	CSI Philippines	CSI Korea	Plastop Asia	Total
Discount rate	**7.75%**	**7.98%**	**3.51%**	**7.79%**	
Salary increase rate	**12.0%**	**6.50%**	**4.0%**	**5.0%**	
At 1 July 2017	-	-	-	89	89
Acquisition of subsidiaries	98	210	663	-	971
Current service cost	4	14	50	24	92
Net interest cost	1	6	4	5	16
Actuarial (gains) / losses:					
Changes in financial assumptions	(2)	(82)	-	(42)	(126)
Changes in experience assumptions	-	6	1	(6)	1
Benefits paid	-	-	(70)	-	(70)
Employer contributions	(5)	-	-	-	(5)
Foreign exchange translation movements	-	10	55	3	68
Present value of defined benefit obligation at 30 June 2018	96	164	703	73	1,036

Measurement assumptions

India

The discount rate assumption is based upon the market yields available on Government bonds at the accounting date with a term that matches that of the liabilities.

The salary rate assumption takes into account the inflation seniority, promotion and other relevant factors.

Philippines

The discount rate assumption is based on the theoretical spot yield curve calculated from the Bankers Association of the Philippines (BAP) benchmark reference curve for the government securities market by stripping the coupons from government bonds to create virtual zero coupon bonds.

The salary rate assumption is based on the actual salary increment during the financial year.

Korea

The discount rate assumption is based on yields available on high quality AA- corporate bonds.

The salary rate assumption is based on long term expectations of salary increases for the employees within the plan.

Plastop Asia

The discount rate assumption is based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment, as published by the Philippine Dealing Exchange.

The salary rate assumption is based on the prevailing inflation rate and company policy.

Reconciliation of DBO and Fair Value of Plan Assets

The following table shows a reconciliation of the DBO and the fair value of plan assets that comprises the net defined benefit liability/(asset) for each entity:

$'000			2019		
	CSI India[1]	CSI Philippines[2]	CSI Korea[3]	Plastop Asia[2]	Total
Defined Benefit Obligation	130	250	1,358	178	**1,916**
Fair value of plan assets	(33)	-	(611)	-	**(644)**
Present value of net defined benefit obligation at end of the year	97	250	747	178	**1,272**

(1) The plan assets for CSI India relating to the gratuity liability comprises of investments in 100% insurance policies
(2) The plan assets for CSI Philippines and Plastop Asia are held in the companies own bank accounts
(3) The plan assets for CSI Korea comprises of investments in 100% fixed interest securities

Financial Report — Notes to the Financial Statements

5.1 Defined Benefit Plans (continued)

Reconciliation of DBO and Fair Value of Plan Assets (continued)

$'000			2018		
	CSI India	CSI Philippines	CSI Korea	Plastop Asia	Total
Defined Benefit Obligation	116	164	1,300	73	1,653
Fair Value of plan assets	(20)	-	(597)	-	(617)
Present value of net defined benefit obligation at end of the year	96	164	703	73	1,036

Sensitivity analysis

The present value of the DBO is based on the assumptions detailed on pages 96 and 97. Changes at the reporting date to one of the assumptions, holding other assumptions constant, would have affected the DBO by the amounts shown below:

$'000		2019	2018
Discount rate	Increase by 1 percentage point	(194)	(145)
	Reduction by 1 percentage point	228	169
Salary increase rate	Increase by 1 percentage point	220	159
	Reduction by 1 percentage point	(191)	(141)

Key estimate and judgements — actuarial assessments

In accordance with AASB 119: *Employee Benefits*, defined benefit obligations are recognised to cover obligations arising from current and future pension entitlements of active and (after the vesting period has expired) former employees of the Group. For each geographic location, the discount rate used to calculate the defined benefit obligations at each reporting date is determined on the basis of current capital market data and long-term assumptions of future salary increases. These assumptions vary depending on the economic conditions affecting the currency in which benefit obligations are denominated and in which fund assets are invested, as well as capital market expectations. Benefit obligations are calculated on the basis of current biometric probabilities as determined in accordance with actuarial principles. The calculations also include assumptions about future employee turnover based on employee age and years of service, probability of retirement and mortality rate.

5.2 Employee benefits expenses and provisions

The Group's employee benefits expenses for the year ended 30 June were as follows:

$'000	2019	2018
Wages and salaries	387,922	367,699
Defined contribution superannuation expense	20,604	19,439
Other employee benefits expense	21,677	21,655
Share based payments expense	(168)	1,225
Total employee benefits expense	430,035	410,018

The current employee benefits provisions as at 30 June comprise of the following:

Annual leave	19,976	20,602
Long service leave	16,316	16,330
Total current provisions	36,292	36,932

The Group's non-current employee benefits provisions of $7.3 million relate to long service leave entitlements of $6.0 million (2018: $6.5 million), and a defined benefit net liability of $1.3 million (2018: $1.0 million)

Financial Report — Notes to the Financial Statements

5.2 Employee benefits expenses and provisions (continued)

How Pact accounts for employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Benefits expected to be settled within 12 months of the reporting date are classified as current and are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Under this method consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds (except for Australia where high quality corporate bond rates are used in accordance with the standards) with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

5.3 Share based payments

Long-term Incentive Plan (LTIP)

Under the 2019 LTIP scheme 69,784 performance rights were granted to Sanjay Dayal (CEO), with a fair value of $0.25 for each right at the valuation date of 27 March 2019. Senior executives were granted 354,742 performance rights during the year, with a fair value of $0.76 for each right at the valuation date of 14 November 2018. The rights were independently valued to establish the fair value in accordance with AASB 2: *Share Based Payments*.

The key assumptions in the independent valuation in relation to the 2019 LTIP were as follows:

	CEO	Senior Executives
Share price at valuation date	$2.68	$3.25
Annualised volatility	30.0%	30.0%
Annual dividend yield	5.0%	5.5%
Risk free rate	1.4%	2.1%
Expected life of performance right	36 months	36 months
Model used	Monte Carlo Simulation Model	Monte Carlo Simulation Model

Initial share grant

At the Annual General Meeting on 16 November 2016, a resolution was approved for a grant of 209,205 performance rights in relation to the initial share grant to the former CEO, Mr Malcolm Bundey. The shares were held in escrow until 1 December 2018, and were issued to Mr Bundey on 3 December 2018.

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5.4 Key management personnel

Compensation of Key Management Personnel (KMP) of the Group

The amounts disclosed in the table below are the amounts recognised as an expense during the year relating to KMP:

$'000	2019	2018
Short-term employee benefits	2,616	2,417
Post-employment benefits	90	72
Share based payments expense	(475)	1,010
Total compensation	**2,231**	3,499

The following table provides the total amount of transactions with related parties for the year ended 30 June 2019:

$'000		Sales	Purchases	Other expenses	Net amounts receivable
Related parties — Directors' interests[(1)]	2019	13,789	11,043	6,667	609
	2018	11,469	12,312	5,958	2,573

(1) Related parties – Director's interests includes the following entities: P'Auer Pty Ltd, Pro-Pac Packaging Limited, Centralbridge Pty Ltd (as trustee for the Centralbridge Unit Trust), Centralbridge Two Pty Ltd, Centralbridge (NZ) Limited, Albury Property Holdings Pty Ltd, Green's General Foods Pty Ltd and Remedy Kombucha Pty Ltd.

P'Auer Pty Ltd (P'Auer)

P'Auer, an entity controlled by Mr Raphael Geminder (the Non-Executive Chairman of Pact), has a supply agreement to provide label products to Pact. Pact has a Transitional Services and Support Agreement with P'Auer to provide support services. Agreements are on arm's length terms. In addition, P'Auer provides Pact with periodic warehousing services.

Pro-Pac Packaging Limited (Pro-Pac)

Pro-Pac, an entity for which Mr Raphael Geminder owns 49.8% (2018: 40%), is an exclusive supplier of certain raw materials such as flexible film packaging, flexible plastic bags and tapes to Pact. The agreement was extended in early 2017 through to 31 December 2021. The total value of sales under this arrangement is approximately $4.2 million (2018: $4.3 million). The supply arrangement is at arm's length terms.

Mr Jonathan Ling was appointed as an Independent Non Executive Director and Chairman of Pro-Pac on 8 April 2019.

Property leases with related parties

The Group leased 13 properties (10 in Australia and three in New Zealand) from Centralbridge Pty Ltd (as trustee for the Centralbridge Unit Trust), Centralbridge Two Pty Ltd, Centralbridge (NZ) Limited and Albury Property Holdings Pty Ltd ("Centralbridge Entities"), which are each controlled by entities associated with Mr Raphael Geminder and are therefore related parties of the Group ("Centralbridge Leases"). The aggregate annual rent payable by Pact under the Centralbridge Leases for the period ended 30 June 2019 was $6.4 million (June 2018: $6.1 million). The rent payable under these leases was determined based on independent valuations and market conditions at the time the leases were entered into, and are therefore at arm's length.

Terms and conditions of transactions with related parties

As detailed above, all transactions with related parties are made at arm's length. Outstanding balances at the end of the year are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Financial Report — Notes to the Financial Statements

Section 6 — Other disclosures

This section includes additional financial information that is required by the accounting standards and the *Corporations Act 2001*.

6.1 Basis of preparation

Basis of preparation and compliance

This financial report:

- Comprises the financial statements of Pact Group Holdings Ltd, being the ultimate parent entity, and its controlled entities as specified in Note 2.2.
- Is a general purpose financial report.
- Has been prepared in accordance and complies with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
- Complies with International Financial Reporting Standards (IFRS) and Interpretations as issued by the International Accounting Standards Board.
- Has been prepared on a historical cost basis except for derivative financial instruments, which are measured at fair value.
- Has revenues, expenses and assets recognised net of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case GST is recognised as part of the acquisition of the asset or as part of the expense item to which it relates. The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.
- Has research and development costs of $427,000 (2018: $430,000).
- Is presented in Australian dollars with all values rounded to the nearest $1,000, unless otherwise stated, in accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016.
- Has all intercompany balances, transactions, income and expenses and profit and losses resulting from intra-group transactions eliminated in full.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

6.2 Accounting policies

The table below includes standards that were adopted during the period:

New Standards, Interpretations or Amendments	Pact financial year that it is adopted	Impact on Pact financial results
AASB 15: *Revenue from Contracts with Customers*	Adopted on 1 July 2018	AASB 15: *Revenue from Contracts with Customers* replaces AASB 118: *Revenue and AASB 111: Construction Contracts*. The Group adopted AASB 15 based on a modified retrospective basis effective from 1 July 2018. The Group has assessed where branded goods are manufactured for customers with no alternate use, revenue is recognised using an overtime revenue model. As such, an adjustment of $1,155,000 to opening retained earnings has been recognised on adoption of AASB 15.
AASB 9: *Financial Instruments*	Adopted on 1 July 2018	AASB 9: *Financial Instruments* replaces AASB 139: Financial Instruments: Recognition and Measurement and introduces a new approach for classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The impact to the Group results on the adoption of AASB 9 is immaterial.

Financial Report — Notes to the Financial Statements

6.2 Accounting policies (continued)

There are also a number of Australian Standards and Interpretations that have been issued but are not yet effective and have not been adopted by the Group at 30 June 2019. The following table includes those standards that have been identified as those which may impact the Group in the period of initial application:

New Standards, Interpretations or Amendments	Pact financial year that it is adopted	Impact on Pact financial results
AASB 16: *Leases*[(1)]	Commencing 1 July 2019	The Group plans to adopt AASB 16 on a modified retrospective basis to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4. Where applicable, the Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. On adoption of AASB 16, the Group EBITDA is expected to increase, however there will also be an increase in depreciation and interest expense as a result.

(1) Including the associated amendments issued by the AASB that would need to be adopted upon adopting this standard.

Comparatives

Comparative figures can be adjusted to conform to changes in presentation for the current financial period where required by accounting standards or as a result of changes in accounting policy.

Where necessary, comparatives have been reclassified and repositioned for consistency with current period disclosure. No material reclassifications have been made to prior period disclosures.

AASB 15: *Revenue from Contracts with Customers*

The Group has adopted AASB 15 using a modified retrospective approach. The Group did not apply any of the practical expedients available on transition. A cumulative catch-up adjustment relating to the transition to AASB 15 of $1.1 million was recognised as an adjustment to opening retained earnings on 1 July 2018. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled to in exchange for those goods and services.

A key judgement applied by management is whether the goods or products manufactured have an alternate use to Pact, including whether these goods or products can be repurposed and sold without significant economic loss to the Group.

Pact recognises revenue on the following basis:

(a) Delivery of goods or products

Where the goods or products are not branded and can be sold to more than one specific customer, the performance obligation is the delivery of finished goods or product to the customer. The performance obligation is satisfied when control of the goods or products has transferred to the customer.

(b) Manufacture of goods or products

Where the goods or products are manufactured for a specific customer which have no alternate use and at all times throughout the contract Pact has the enforceable right to payment for performance completed to date, a performance obligation is the service of manufacturing the specific goods or products. This performance obligation is satisfied as the goods and products are manufactured. An output method has been adopted to recognise revenue for performance obligations satisfied over time. This method reflects Pact's short manufacturing period.

In addition, Pact has obligations to store and deliver manufactured goods or products. These obligations are satisfied as the goods or products are stored (on an over time basis) and when and as delivery occurs.

Financial Report — Notes to the Financial Statements

6.2 Accounting policies (continued)

Contract assets are recognised for the manufacture and storage of goods or products as the performance obligations are satisfied. Upon completion of delivery of the goods or products and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

The Group allocates the transaction price to each performance obligation on a stand-alone selling price basis. The stand-alone selling price of the products is based on list prices or a cost plus margin approach, which is determined by the Group's expertise in the market and also taking into consideration the length and size of contracts.

Some contracts for sale of goods have variable consideration including items such as volume rebates. Variable consideration is estimated at contract inception using the expected value method based on forecast volumes and is subject to the constraint on estimates. This estimate is reassessed at each reporting date.

AASB 9: *Financial Instruments*

The new accounting standard AASB 9: *Financial Instruments* became effective for the Group on 1 July 2018. The Group adopted AASB 9 retrospectively except for hedge accounting which has been applied prospectively.

Classification and Measurement

(a) Financial assets

AASB 9 classifies financial assets based on an entity's business model for managing the financial assets (whether they are held to collect or held to sell) and the contractual terms of the cash flows (whether the contractual cash flows to be received relate only to principal and interest or contain other features). The changes in classification of the Group's financial assets under AASB 9 have not materially impacted their carrying values.

Under AASB 139, all trade and other receivables were subsequently measured at amortised cost. Derivatives were recognised at fair value through profit and loss, except for designated and effective hedging instruments.

Under AASB 9, unsecuritised trade receivables and other receivables are subsequently measured at amortised cost. Trade receivables to be sold into the securitisation program is subsequently measured at fair value through profit or loss. Derivative assets are subsequently measured at fair value.

(b) Financial liabilities

The requirements for the Group's financial liabilities under AASB 9 remain largely the same as AASB 139. Financial liabilities are classified at amortised cost or at fair value through profit and loss.

Under AASB 9, the Group's trade and other payables and interest-bearing loans and borrowings are subsequently measured at amortised cost. Derivative liabilities are subsequently measured at fair value.

(c) Impairment

AASB 9 replaces the 'incurred loss' impairment model of AASB 139 with a new 'expected credit loss' (ECL) impairment model. The objective of the ECL model is to recognise debtor provisions on a forward-looking basis, rather than when there is historical evidence of an impairment occurring.

The Group assessed that the impact of adopting the ECL approach to impairment was not material.

The Group assess the ECLs on trade and other receivables (other than those subsequently measured at fair value), contract assets and loan receivable from joint ventures. The Group has applied the simplified approach to calculating ECLs which requires the lifetime ECLs to be recognised from initial recognition. Lifetime ECLs represent ECLs that arise from all possible default events over the expected life of the financial asset and are a probability weighted estimate of a range of possible outcomes. To calculate ECLs the Group utilises a provision matrix which incorporates historical debt write off information as well as considering forward indicators. Individual debts that are known to be uncollectible are written off when identified.

(d) Hedge accounting

The Group applied hedge accounting prospectively. At the date of the initial application, all the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the derivatives in the Group's cash flow hedge relationships to other comprehensive income and, as such, the adoption of the hedge accounting requirements of AASB 9 had no significant impact on the Group's financial statements.

Financial Report — Notes to the Financial Statements

6.3 Other (losses) / gains

The amounts disclosed in the table below are the amounts recognised in the Statement of Comprehensive Income:

$'000	2019	2018
Significant items		
Acquisition costs	(3,666)	(4,411)
Deferred settlement costs (earnout)	-	(8,781)
Inventory write downs and related disposal costs	(13,031)	-
Business restructuring programs		
• restructuring costs	(37,842)	(8,524)
• asset write downs	-	(1,589)
Business restructuring programs total	(37,842)	(10,113)
Total significant items before tax	(54,539)	(23,305)
Other gains/(losses)		
Unrealised losses on revaluation of foreign exchange forward contracts	(306)	(81)
(Loss) / Gain on sale of property, plant and equipment	(269)	866
Realised net foreign exchange (losses) / gains	(775)	116
Total other (losses) / gains	(1,350)	901
Total losses before tax	(55,889)	(22,404)

6.4 Pact Group Holdings Ltd — Parent Entity Financial Statements Summary

$'000	2019	2018
Current assets	389,861	367,809
Total assets	1,675,353	1,653,344
Net assets	1,675,353	1,653,344
Issued capital	1,570,477	1,510,477
Reserves	2,157	2,325
Retained earnings	64	64
Profit reserve	102,655	140,478
Total equity	1,675,353	1,653,344
Profit of the parent entity	413	173,845
Total comprehensive income of the parent entity	413	173,845

The above is a summary of the individual financial statements for Pact Group Holdings Ltd at 30 June. Pact Group Holdings Ltd:

- is the ultimate parent of the Group;
- is a for-profit company limited by shares;
- is incorporated and domiciled in Australia;
- has its registered office at Building 3, 658 Church Street, Cremorne, Victoria, Australia; and
- is listed on the Australian Stock Exchange (ASX) and its shares are publicly traded.

How Pact accounted for information within parent entity financial statements

The financial information for the Company has been prepared on the same basis as the consolidated financial statements, except as set out below:

- Investments in subsidiaries are accounted for at cost in the financial statements of Pact Group Holdings Ltd.

Financial Report — Notes to the Financial Statements

6.5 Deed of Cross Guarantee

$'000	2019	2018
Closed group consolidated income statement		
(Loss) / Profit before income tax	**(363,219)**	57,964
Income tax benefit /(expense)	**36,665**	(20,252)
Net (loss) / profit for the year	**(326,554)**	37,712
Retained earnings at beginning of the year	**61,653**	60,797
Net (loss) / profit for the year	**(326,554)**	37,712
Dividends provided for or paid	**(15,670)**	(36,856)
(Accumulated losses) / Retained earnings at end of the year	**(280,571)**	61,653

$'000	2019	2018
Closed group consolidated balance sheet		
Current assets		
Cash and cash equivalents	**-**	25,829
Trade and other receivables	**77,422**	88,894
Inventories	**137,779**	147,691
Loans to related parties	**84,492**	80,539
Current tax assets	**17,488**	-
Other financial assets	**349**	2,684
Prepayments	**16,912**	15,592
Total current assets	**334,442**	361,229
Non-current assets		
Trade and other receivables	**695**	1,319
Property, plant and equipment	**366,386**	511,852
Investments in subsidiaries	**507,924**	507,924
Investments in associates	**20,809**	17,581
Intangible assets and goodwill	**235,456**	340,143
Deferred tax assets	**39,482**	31,831
Total non-current assets	**1,170,752**	1,410,650
Total assets	**1,505,194**	1,771,879
Current liabilities		
Cash and cash equivalents	**2,937**	-
Trade and other payables	**231,596**	287,955
Loans from related parties	**80,937**	80,311
Current tax liabilities	**-**	9,655
Provisions	**32,141**	32,871
Other current financial liabilities	**6,666**	695
Total current liabilities	**354,277**	411,487
Non-current liabilities		
Trade and other payables	**66,312**	17,593
Provisions	**45,469**	34,174
Interest bearing loans and borrowings	**530,209**	473,374
Deferred tax liabilities	**24,173**	54,368
Other non-current financial liabilities	**65**	-
Total non-current liabilities	**666,228**	579,509
Total liabilities	**1,020,505**	990,996
Net assets	**484,689**	780,883
Equity		
Contributed equity	**1,750,476**	1,690,476
Reserves	**(985,216)**	(971,246)
(Accumulated losses) / Retained earnings	**(280,571)**	61,653
Total equity	**484,689**	780,883

Financial Report — Notes to the Financial Statements

6.5 Deed of Cross Guarantee (continued)

Pact has a number of Australian entities that are party to a Deed of Cross Guarantee (Deed), representing the 'Closed Group', entered into in accordance with ASIC Class Order 98/1418. This Deed grants these entities relief from preparing and lodging audited financial statements under the *Corporations Act 2001*.

The Closed Group is in a net current asset deficiency at balance date, however the Directors have assessed that due to the Group's access to undrawn facilities and forecast positive cash flows into the future they will be able to pay their debts as and when they fall due (refer Note 4.3 Managing our liquidity risks).

6.6 Auditors remuneration

During the year, the following fees were paid or payable for services provided by Pact Group Holdings Ltd's external auditors Ernst & Young:

$	2019	2018
Ernst & Young		
Audit and audit related services		
Audit services	1,931,000	1,614,000
Audit related services	251,000	302,000
Total audit and audit related services	2,182,000	1,916,000
Other Services		
Tax compliance	113,000	140,000
Tax advisory	45,000	216,000
Total other services	158,000	356,000
Total auditor's remuneration of Ernst & Young	2,340,000	2,272,000

6.7 Segment assets and segment liabilities

Segment assets

$'000	2019
Packaging and Sustainability	1,297,798
Materials Handling and Pooling	154,432
Contract Manufacturing Services	123,768
Total Segment Assets	1,575,998
Reconciliation to total assets[1]:	
Current tax assets	3,360
Deferred tax assets	42,100
Total Assets	1,621,458

Segment liabilities

$'000	2019
Packaging and Sustainability	373,755
Materials Handling and Pooling	78,311
Contract Manufacturing Services	76,361
Total Segment Liabilities	528,427
Reconciliation to total assets[1]:	
Interest-bearing liabilities	733,490
Deferred tax liabilities	36,946
Total Liabilities	1,298,863

(1) These reconciling items are managed centrally and not allocated to reportable segments.

Financial Report — Notes to the Financial Statements

6.7 Segment assets and segment liabilities (continued)

The table below shows segment assets and liabilities for the comparative period, prior to the change in operating segments:

Segment assets

$'000	2018
Pact Australia	1,175,138
Pact International	675,449
Total segment assets	1,850,587

Segment liabilities

$'000	2018
Pact Australia	924,907
Pact International	342,480
Total segment liabilities	1,267,387

6.8 Revenue from services rendered

Revenue from asset hire services of $72.7 million was recognised for the year ended 30 June 2019 (2018 $70.3 million), which is included in the Group revenue number of $1,834.1 million for the year ended 30 June 2019 (2018 $1,674.2 million).

6.9 Geographic revenue

The table below shows revenue recognised in each geographic region that Pact operates in.

$'000	2019	2018
Australia	**1,291,238**	1,279,857
New Zealand	**289,258**	285,296
Asia	**253,580**	109,035
Total	**1,834,076**	1,674,188

6.10 Subsequent events

In the opinion of the Directors, there have been no material matters or circumstances which have arisen between 30 June 2019 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial periods.

Directors' Declaration

In the Directors' opinion:

1. The consolidated financial statements and notes, and the Remuneration Report included in the Directors' report are in accordance with the *Corporations Act 2001* including:
   (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date;
   (b) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
   (c) complying with International Financial Reporting Standards as disclosed in Note 6.1;
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. As at the date of this Declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 6.5 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee described in Note 6.5.

This declaration has been made after receiving the declarations required to be made to the Directors by the Group Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2019.

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

Raphael Geminder
Chairman

Sanjay Dayal
Managing Director and
Group Chief Executive Officer

Dated 14 August 2019

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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 Report to the Members of Pact Group Holdings Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pact Group Holdings Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the Consolidated Statement of Financial Position as at 30 June 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 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Recoverability of non-current assets including goodwill and intangible assets

Why significant	How our audit addressed the key audit matter
The Group performs an annual impairment test of goodwill and intangible assets. Goodwill and intangible assets of $477.1 million represents 30% of total assets. The annual impairment tests were significant to our audit as the assessment process is complex and is based upon the use of judgement in determining future market conditions. Items that are subject to judgement which were key areas of focus of the audit includes: • Future cash flow assumptions; • Discount and long-term growth rate assumptions; and • Appropriateness of sensitivities applied to the impairment test. The Group's disclosures regarding goodwill and intangible assets are included in Note 3.2.	We examined the Group's forecast cash flows used in the impairment models, which underpin the Group's impairment assessment. We assessed the basis of preparing those forecasts, considering the accuracy of previous forecasts and the historic evidence supporting underlying assumptions. In considering future cash flow assumptions, we: • Performed a comparison to the Group's current trading performance; • Compared future cash flows to board approved budgets; and • Assessed the continuity of customer contracts underlying revenue assumptions and where relevant, obtained signed contracts for new customers. We assessed the appropriateness of the Cash Generating Units where impairment testing is performed, taking into consideration the levels at which Management monitors business performance and the interdependency of cash flows. We assessed the appropriateness of other key assumptions such as discount rates and growth rates with reference to publicly available information on comparable companies in the industry and markets in which the Group operates. We assessed the mathematical accuracy of the impairment models and evaluated the Group's sensitivity calculations, including evaluating the Group's assessment of whether any reasonably possible change in these key assumptions would result in an impairment to goodwill or indefinite life intangible assets. We involved our valuation specialists in performing these procedures. We also assessed the adequacy of the goodwill and intangible assets disclosure.

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Fair value measurement on business combinations

Why significant	How our audit addressed the key audit matter

The Group completed the accounting for the acquisition of the CSI and GPC entities during the financial year. The accounting for the acquisition of TIC Retail Accessories ("TIC") remains provisional at 30 June 2019.
 	
As disclosed in Note 3.2, the finalisation of the accounting for the CSI and GPC entities resulted in a reduction to goodwill of $7.8 million with corresponding changes to property, plant and equipment, other assets and other liabilities.
 	
The finalisation of the purchase price accounting for the acquisition of CSI and GPC during the year was considered a KAM due to the significant judgements required in the assessment of the fair value of assets acquired and liabilities assumed.
 	
The key judgements subject to our focus included those used in:
• The valuation of property, plant and equipment;
• The assessment of the fair value of liabilities to be recognised at acquisition date; and
• The assessment of contingent consideration payable based on the achievement of expected earn-out targets.
 	
The Group disclosed key matters relating to the business combinations undertaken during the year ended 30 June 2019 in Note 2.1 and Note 3.2 of the financial report.
 	
At 30 June 2019, as disclosed in Note 2.1, the Group chose to account for the acquisition of TIC on a provisional basis, in accordance with Australian Accounting Standards.
	Our audit procedures in respect of the acquisition of the CSI and GPC entities included the following:
	• Assessed the Group's identification and valuation of the fair value of assets acquired and liabilities assumed at the date of acquisition. In performing our procedures, we:
	  • Obtained external valuation reports to support the fair value of fixed assets recognised on acquisition; and
	  • Selected a sample of other assets and liabilities and agreed these to supporting documentation.
	• Considered the appropriateness of the disclosures relating to the acquisition.
	
	Our audit procedures in respect to the acquisition of TIC included the following:
	• Assessed the Group's assumptions on the likelihood of achieving earn-out targets used in valuing the contingent consideration payable, with reference to current and expected future performance.
	• Considered the appropriateness of the disclosures relating to the acquisition.

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information 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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 17 of the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Pact Group Holdings Ltd for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
Melbourne
14 August 2019

Shareholder Information

Shareholder Information

The shareholder information set out below is based on the information in the Pact Group Holdings Ltd share register as at 31 August 2019.

Ordinary shares

Pact has on issue 343,993,595 fully paid ordinary shares.

Voting rights

The voting rights attaching to the only class of equity securities, being fully paid ordinary shares, are on a show of hands every member present at a meeting in person or by proxy, attorney or representative has one vote and on a poll has one vote for each fully paid ordinary share held.

Substantial shareholders

The following is a summary of the current substantial shareholders in the Company pursuant to notices lodged with the ASX in accordance with section 671B of the *Corporations Act* as at 10 September 2019:

Name	Date of interest	Number of ordinary shares	% of issued capital
Kin Group Pty Ltd	17/12/13	141,932,367	41.26%
Investors Mutual Ltd	29/02/16	40,753,173	11.85%

On market buy-back

There is no current on-market buy-back in respect of the Company's ordinary shares.

Distribution of securities held

Analysis of number of ordinary shareholders by size of holding.

	Ordinary Shares	
Range	Number of holders	Number of securities
1-1,000	4,871	2,611,499
1,001 – 5,000	6,484	16,944,102
5,001 – 10,000	1,737	13,109,632
10,001 – 100,000	1,167	26,554,732
100,001 and over	63	284,773,630
Total	14,322	343,993,595

There were 749 holders of less than a marketable parcel of ordinary shares (minimum of $500 which is equivalent to 97,579 ordinary shares based on a market price of $2.43 at the close of trading on 31 August 2019).

Top 20 largest shareholders

The names of the 20 largest quoted equity security holders as they appear on the Pact Group Holdings Ltd share register are listed below:

	Ordinary Shares	
Name	**Number of shares**	**% of total shares**
Kin Group Pty Ltd	138,296,438	40.20
HSBC Custody Nominees (Australia) Ltd	65,905,446	19.16
JP Morgan Nominees Australia Ltd	22,963,197	6.68
Citicorp Nominees Pty Ltd	13,118,300	3.81
Manipur Nominees Pty Ltd <The Harris (Manipur) A/C>	5,650,250	1.64
Stanningfield Pty Ltd <The Lipkies/Gandur Unit A/C>	5,650,250	1.64
Argo Investments Limited	5,172,314	1.50
Citicorp Nominees Pty Ltd <Colonial First State Inv A/C>	3,771,338	1.10
Salvage Pty Limited	3,635,929	1.06
National Nominees Limited	1,885,651	0.55
Sandurst Trustees Limited <SISF A/C>	1,600,000	0.47
S&J Capital Pty Limited	1,514,339	0.44
Mr Russell Stanley Barber	1,476,520	0.43
Custodial Services Limtied <Beneficiaries Holding A/C>	1,376,725	0.40
BNP Paribas Nominees Pty Ltd <Agencies Lending DRP A/C	1,143,877	0.33
Forum Investments Pty Ltd	1,040,000	0.30
Gaja Consolidated Pty Ltd	911,569	0.26
BNP Paribas Noms (NZ) Ltd	629,334	0.18
HSBC Custody Nominees (Australia) Ltd	587,446	0.17
Ecapital Nominees Pty Ltd <Accumulation A/C>	500,346	0.15
Total: Top 20 holders of fully paid ordinary shares (Total)	**276,829,269**	80.48
Total Remaining Holders Balance	**67,164,326**	19.52

Unquoted equity securities

There are no unquoted equity securities on issue.

Restricted equity securities

There are no restricted equity securities in the Company. However, there are 8,475,375 ordinary shares which are subject to voluntary escrow. These shares will cease to be subject to voluntary escrow as follows: 941,708 on 31 October 2019; 1,883,417 on 31 January 2020; 1,883,417 on 30 April 2020; 1,883,417 on 31 July 2020 and 1,883,417 on 31 October 2020.

Manage your shareholding online

To view and update your details online and access all your holdings and other valuable information, visit the Computershare Investor Centre www.investorcentre.com.

FY20 Shareholder Calendar

Event	Dates
Half-year results announcement	19 February 2020
Ex-dividend	27 February 2020
Record date	28 February 2020
Dividend payment	3 April 2020
Full year results announcement	19 August 2020
Ex-dividend	27 August 2020
Record date	28 August 2020
Dividend payment	2 October 2020
Annual General Meeting	18 November 2020

All dates and events may be subject to change.

Corporate Directory

Registered and Principal Administrative office in Australia

Pact Group Holdings Limited
Building 3, 658 Church Street
Richmond, Victoria 3121, Australia
Telephone: + 61 3 8825 4100
ABN: 55 145 989 644

Website Address

www.pactgroup.com.

Australian Securities Exchange (ASX) Listing

Pact Group Holdings Ltd shares are listed on the ASX under the code PGH.

Directors

Refer to profiles on pages 39.

General Counsel, Company Secretary & Head of Corporate Development

Jonathon West

Auditor

Ernst & Young
8 Exhibition Street
Melbourne, Victoria 3000, Australia

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, Victoria 3067, Australia

Telephone within Australia: 1300 850 505
Telephone outside of Australia: +61 3 9415 5000
Fax: +61 3 9473 2500

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www.pactgroup.com.au