

# ASX ANNOUNCEMENT

DATE: 19 August 2020

## Pact Group Holdings Ltd 2020 Full-Year Report and Accounts

In accordance with the Listing Rules, enclosed for release is the following information:

1. Appendix 4E
2. Full-Year Report and Accounts

**Jonathon West**  
Company Secretary

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This document has been authorised for release by the Board of Directors.

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## APPENDIX 4E

### Preliminary Final Report

Name of entity:	<b>Pact Group Holdings Ltd</b>
ABN:	<b>55 145 989 644</b>

Year ended (‘current period’)	Year ended (‘previous corresponding period’)
<b>30 June 2020</b>	<b>30 June 2019</b>

#### Results for announcement to the market

\$'000

Revenue and other income from ordinary activities	Down	1.1%	to	1,823,986
Net profit from ordinary activities after tax attributable to members	Up	130.7%	to	88,847
Net profit for the period attributable to members	Up	130.7%	to	88,847

<b>Dividends</b>	Amount per security	Franked amount per security	Total dividend amount (\$'000)
<b>Current year to 30 June 2020</b>			
Final Dividend (per ordinary share) <sup>(1)</sup>	3.00 cents	1.95 cents	10,320
Interim Dividend (per ordinary share)	-	-	-
<b>Prior year to 30 June 2019</b>			
Final Dividend (per ordinary share)	-	-	-
Interim Dividend (per ordinary share)	-	-	-

Record date for determining entitlements to the dividend:	Ordinary shares	28 August 2020
Payment date of dividend:	Ordinary shares	7 October 2020

	Current period	Previous corresponding period
<b>Net tangible asset backing per ordinary security</b> <sup>(2) (3) (4)</sup>	\$(0.24)	\$(0.45)

<sup>(1)</sup> The Directors have determined that there will be a final dividend of 3 cents in the current year.

<sup>(2)</sup> Net tangible assets excludes goodwill and other intangible assets (refer to Note 3.2 in the Full Year Consolidated Financial Report).

<sup>(3)</sup> The net tangible asset backing per ordinary security would be \$(1.34) if contract assets and right of use assets were excluded from the calculation.

<sup>(4)</sup> The net tangible asset backing per ordinary security includes the application of the accounting standard AASB 16 Leases in the current year, the comparative previous corresponding period has not been restated (refer to Note 6.2 in the Full year Consolidated Financial Report).

For the profit commentary and any other significant information needed by an investor to make an informed assessment of the results for Pact Group Holdings Ltd ('Pact') please refer to the accompanying Full Year Consolidated Financial Report.



Jonathon West  
Company Secretary

Dated: 19 August 2020

# REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

## Pact Group Holdings Ltd

For the year ended 30 June 2020

The Group has reported revenue of \$1,809.2 million for the year ended 30 June 2020, down 1% compared to the prior corresponding period (pcp). The statutory net profit after tax (NPAT) for the year was \$88.8 million, compared to a statutory net loss after tax of \$289.6 million in the pcp. NPAT before significant items<sup>3</sup> for the year was \$73.2 million. Excluding the impact of AASB 16 Leases (adopted from 1 July 2019), NPAT before significant items<sup>3</sup> was \$80.8 million (pcp: \$77.3 million).

### NOTE:

Statutory financial results for the year reflect the adoption of AASB 16 Leases. Comparatives have not been restated. Results excluding the impact of AASB 16 are included in this report for comparative purposes.

### OVERVIEW

- Revenue down 1.4% to \$1,809.2 million (pcp: \$1,834.1 million)
- EBITDA<sup>1</sup> of \$301.8 million (pcp: \$230.7 million); excluding AASB 16 EBITDA up 1.3% to \$233.7 million
- EBIT<sup>2</sup> of \$166.3 million (pcp: \$148.4 million); excluding AASB 16 EBIT up 1.5% to \$150.6 million
- NPAT<sup>3</sup> of \$73.2 million (pcp: \$77.3 million); excluding AASB 16 NPAT up 4.5% to \$80.8 million
- Solid operating performance despite COVID-19 challenges
  - Group EBITDA and margins improved
  - Solid organic growth in the Contract Manufacturing businesses (primarily in the hygiene category), and in Materials Handling crate pooling services, along with modest underlying growth in New Zealand and Asia
  - Lower underlying packaging volumes in Australia partly due to COVID-19 impacts to volume in the industrial and clothing retail sectors
  - Lower resin costs and recovery of pricing lags, tight control of discretionary spend
- Net debt reduced and leverage improved
  - Reduction in net debt<sup>6</sup> of \$70.0 million (excluding AASB 16 impact) through disciplined balance sheet and working capital management
  - Gearing<sup>4</sup> at 2.6x (excluding AASB 16) substantially improved and well within targeted range
- Execution of strategy to *Lead the Circular Economy* progressing well
  - Phase one of the turnaround of the ANZ packaging business complete and new senior leadership appointed
  - Recycling capability to be expanded through strategic investments
    - Agreement to acquire Flight Plastics Ltd in New Zealand, investing in post-consumer recycling capability in New Zealand (remains subject to regulatory approval)
    - Formalised joint venture arrangements with Cleanaway and Asahi to develop post-consumer recycling capability in Australia (expected to be operational by 2022)
  - Reuse platform expanded to support crate pooling services into the ALDI fresh produce supply chain and the start-up of hanger reuse services to support a major contract in the USA
  - Consolidation of the closures business into Asia has commenced
  - Sale process in respect of Contract Manufacturing business to recommence following suspension due to COVID-19
- Dividends resumed
  - Final ordinary dividend of 3 cents per share (65% franked to be paid in October 2020)

Key Financial Highlights - \$ millions	Statutory 2020	Exc AASB 16 2020	2019	Change % Exc AASB 16
Revenue	1,809.2	1,809.2	1,834.1	(1.4%)
<b>Segment EBITDA<sup>1</sup></b>				
Packaging & Sustainability	181.3	137.8	154.6	(10.9%)
Materials Handling & Pooling	73.0	56.0	51.1	9.6%
Contract Manufacturing Services	47.5	40.0	25.1	59.5%
EBITDA <sup>1</sup>	301.8	233.7	230.7	1.3%
EBIT <sup>2</sup>	166.3	150.6	148.4	1.5%
NPAT <sup>3</sup>	73.2	80.8	77.3	4.5%
Statutory Net Profit/(Loss) After Tax	88.8	91.8	(289.6)	131.7%
Total Dividends – cents per share	3.0	3.0		-

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 11 for definitions.

# REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

## COVID-19

The Group's COVID-19 response plan is focused on protecting the health and safety of employees, supporting customers and the community, and safeguarding the balance sheet.

### Protecting our people

- Strict health and safety protocols implemented to protect employees, customers, and the community

### Supporting our customers and the community

- Comprehensive business continuity plans supporting demand and supply planning
- Close regulatory engagement to reduce the impact of government enforced lockdowns
- Investment in resources and capacity to meet changing customer needs

### Safeguarding the balance sheet

- Reduction in discretionary spend
- Deferment of non-essential capital
- Robust controls to manage working capital
- Strong liquidity and debt capacity to support new business opportunities

The Group's strong local manufacturing and service capability has enabled it to provide security of supply to its customers and respond rapidly to their changing needs. During the COVID-19 affected period in FY20, the resilience of the Group's diversified portfolio was clearly demonstrated.

### Packaging and Sustainability

- Volumes in most consumer packaging sectors in Australia, New Zealand and Asia were resilient. Higher supermarket demand early in the period arising through panic-buying moderated by the end of the period. Some categories outperformed, such as hygiene and homecare, whilst others underperformed, including kiwi fruit trays in New Zealand, where packing restrictions meant that fruit was delivered to supermarkets loose. Beverages were also lower, impacted by country lockdowns, particularly in Asia.
- Volumes into the industrial packaging sector were down
- Net adverse impact to segment earnings of around \$5 million

### Materials Handling and Pooling

- Crate pooling volumes were improved, with strong demand for fresh produce
- Several bin and infrastructure projects were delayed
- Demand from the clothing retail sector was weak, with hanger reuse services well down
- Net adverse impact to segment earnings of around \$7 million

### Contract Manufacturing Services

- The hygiene category outperformed. The business responded rapidly to meet demand for hand sanitisers and other hygiene products by expanding manufacturing capacity and establishing a reliable localised raw material supply chain. Volumes in the period were up significantly. Whilst demand in this category moderated by the end of the period, demand is expected to remain above historical levels going forward.

### Covid-19 Financial Assistance and Other Support Initiatives

During the year, the Group received financial assistance from government and other key stakeholders in various jurisdictions to support business operations adversely impacted by the COVID-19 pandemic. This assistance included wages subsidies, property rent relief, waiver of payroll tax obligations and other miscellaneous subsidies with a total benefit to the Group of \$2.8 million, of which \$0.7 million was in Australia. This benefit has been recognised in other income within the Consolidated Statement of Comprehensive Income for the period. In addition, the Group received early settlement of an income tax refund of \$6.2 million, as a timing benefit through COVID-19 assistance.

# REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

## GROUP RESULTS

\$'000	Statutory 2020	Exc AASB 16 2020	2019	Exc AASB 16 Change %
<b>Revenue</b>	<b>1,809,158</b>	<b>1,809,158</b>	1,834,076	(1.4%)
Other income (excluding interest revenue)	17,276	17,276	12,709	
Expenses	(1,524,627)	(1,592,728)	(1,616,091)	
<b>EBITDA<sup>1</sup></b>	<b>301,807</b>	<b>233,706</b>	230,694	1.3%
<i>EBITDA margin</i>	<b>16.7%</b>	<b>12.9%</b>	12.6%	
Depreciation and amortisation	(135,544)	(83,122)	(82,290)	
<b>EBIT<sup>2</sup></b>	<b>166,263</b>	<b>150,584</b>	148,404	1.5%
<i>EBIT margin</i>	<b>9.2%</b>	<b>8.3%</b>	8.1%	
Significant items (before tax)	6,537	1,993	(423,304)	
<b>EBIT after significant items</b>	<b>172,800</b>	<b>152,577</b>	(274,900)	155.5%
Net finance costs expense	(62,754)	(36,390)	(38,980)	
Income tax expense	(30,264)	(33,405)	(32,117)	
Tax on significant items and other significant tax items	9,065	9,065	56,410	
<b>Net profit / (loss) after tax</b>	<b>88,847</b>	<b>91,847</b>	(289,587)	131.7%

### Revenue

Group revenue for the year of \$1,809.2 million was 1.4% lower than the pcg of \$1,834.1 million. The full year included an incremental four months of results from TIC Retail Accessories ("TIC"). Excluding this impact of TIC (\$34.2 million), revenue was 3.2% lower than the pcg. Lower overall net Group volumes and lower pricing (reflecting the partial pass through of lower raw material input costs) were partly offset by favourable foreign exchange translation benefits. Strong volume growth was delivered in the Contract Manufacturing segment, driven by significantly increased demand in the hygiene category, partly offset by lower health and wellness volumes. Revenue in the Materials Handling and Pooling segment was ahead through the expansion of crate pooling operations in Australia to support ALDI, and the incremental impact of the TIC acquisition, which more than offset the impact of COVID-19 on industrial demand and reuse services. Packaging and Sustainability volumes were down due to the impact of COVID-19, mostly affecting industrial volumes, and lower underlying volumes in the Australian packaging business. Underlying volumes were modestly improved in New Zealand and Asia.

### EBITDA

EBITDA of \$301.8 million was \$71.1 million higher than the pcg including a positive impact of \$68.1 million from the adoption of AASB 16 (which has the effect of reducing operating costs and increasing depreciation and interest costs relating to right of use assets). Excluding the impact of AASB 16, EBITDA was \$233.7 million, an increase of \$3.0 million or 1.3% on the pcg. Earnings were favourably impacted by the incremental contribution of the TIC acquisition along with the partial recovery of prior period pricing lags following lower resin input costs in the period. In addition, operating costs and overheads were tightly managed and the Group also benefitted from generally favourable foreign exchange movements (as the New Zealand dollar and Asian currencies strengthened against the Australian dollar compared to the pcg). These benefits were, however, largely offset by the adverse impact of overall lower net Group volumes, as noted above, along with some increased costs to serve during the COVID-19 impacted period.

Excluding AASB 16, the EBITDA margin for the year was 12.9%, up from 12.6% in the pcg.

### EBIT

EBIT of \$166.3 million for the year was \$17.9 million higher than the pcg including a positive impact of \$15.7 million relating to AASB 16. Excluding this impact, EBIT was \$2.2 million (1.5%) up on the pcg due primarily to the earnings impacts noted above. Underlying depreciation and amortisation (excluding an additional \$52.4 million relating to right of use assets under AASB 16) was \$0.8 million higher, primarily due to the full year impact of the TIC acquisition.

Excluding AASB 16, the EBIT margin for the year was 8.3%, up from 8.1% in the pcg.

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 delivered net income of \$6.5 million. This includes \$4.5 million of benefits relating to a net gain on lease modification (following the adoption of AASB 16), and \$30.0 million from the reversal of a contingent consideration obligation (relating to the acquisition of TIC). These items were partly offset by transaction costs of \$4.0 million, expenses relating to the finalisation of acquisition consideration of \$7.2 million, a write off expense of \$11.8 million (relating to customer contract intangible assets in the contract manufacturing business), and \$5.0 million of costs associated with business restructuring.

Pre-tax significant items for the prior year were an expense of \$423.3 million. This represented 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 of \$37.8 million and transaction costs of \$3.7 million.

## REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

### Net Finance Expense

Net financing costs for the year were \$62.8 million, an increase of \$23.8 million compared to the pcip, including \$26.4 million related to the adoption of AASB 16. Underlying net financing costs were \$2.6 million lower than the pcip due to lower net debt levels during the year and benefits from lower market interest rates.

### Income Tax Expense and Significant Tax Items

The income tax expense for the year (before significant items) was \$30.3 million, representing an average tax rate of 29.2% of net profit before tax and significant items, in line with the prior year and consistent with the statutory tax rates payable by the Group across its main operating geographies. Tax expense includes a benefit of \$3.1 million relating to the impact of AASB16. Tax on significant items and other significant tax items were a benefit of \$9.1 million (with no impact from AASB16).

### Net (Loss) / Profit after Tax

The statutory net profit after tax for the year was \$88.8 million compared to a statutory net loss after tax for the prior half year of \$289.6 million. Excluding significant items, NPAT was \$73.2 million compared to \$77.3 million in the pcip. NPAT excluding the impact of AASB 16 was \$80.8 million, an increase of \$3.5 million or 4.5% on the pcip of \$77.3 million.

## BALANCE SHEET

\$'000	2020	2019	Change %
Cash	76,004	49,950	52.2%
Other current assets	400,495	384,349	4.2%
Property plant & equipment	996,002	638,542	56.0%
Intangible assets	456,068	477,054	(4.4%)
Other assets	67,066	47,295	41.8%
<b>Total Assets</b>	<b>1,995,635</b>	1,597,190	24.9%
Interest bearing liabilities	1,144,389	733,490	56.0%
Other Liabilities payables & provisions	478,597	541,105	(11.6%)
<b>Total Liabilities</b>	<b>1,622,986</b>	1,274,595	27.3%
<b>Net Assets</b>	<b>372,649</b>	322,595	15.5%
<b>Statutory Net Debt<sup>6</sup></b>	<b>1,068,385</b>	683,540	56.3%
<b>Net Debt<sup>8</sup> excluding AASB 16</b>	<b>613,526</b>	683,540	(10.2%)

Statutory net debt at 30 June 2020 was \$1,068.4 million, an increase of \$384.8 million from 30 June 2019, inclusive of the recognition of \$454.9 million in interest bearing lease liabilities following the adoption of AASB 16. Excluding this impact, net debt was \$613.5 million, \$70.0 million lower than 30 June 2019. The improvement has been driven by strong operating cash flows, lower outflows from investing activities and no dividend payments in the period.

The increase in property plant and equipment of \$357.5 million primarily reflects the recognition of \$364.1 million in net book value of right of use assets at 30 June 2020 following the adoption of AASB16.

The decrease in intangible assets of \$21.0 million includes \$11.8 million relating to a write off of customer contracts in the Contract Manufacturing business, with the balance of the reduction attributable to amortisation and foreign exchange translation movements.

The increase in other assets of \$19.8 million mainly reflects increased deferred tax assets, along with increased investments in associates and joint ventures.

The decrease in other liabilities, payables and provisions of \$62.5 million mainly relates to \$53.8 million in lower trade and other payables along with \$33.1 million in lower provisions (including \$32.8 million of fixed rent and restructuring provisions derecognised on the adoption of AASB 16), partly offset by \$18.3 million in higher tax liabilities.

The Group has several revolving debt facilities, two term facilities, a subordinated term debt facility and a working capital facility with total commitments of \$1,057.6 million, of which \$340.7 million is undrawn at 30 June 2020. The facilities are spread across multiple maturities, with the working capital facility revolving with an annual review. The debt facilities include a \$380.7 million loan facility maturing in January 2022, a \$184.6 million loan facility maturing in January 2023, a \$299.1 million loan facility maturing in March 2023, a \$120.0 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 \$23.0 million at 30 June 2020. Average tenor is 2.6 years.

## REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

Financing metrics	Statutory 2020	Exc AASB 16 2020	2019	Exc AASB 16 Change
Gearing <sup>4</sup>	3.5x	2.6x	3.0x	0.4
Interest Cover <sup>5</sup>	4.8x	6.4x	5.9x	0.5

At 30 June 2020 gearing was 3.5x, an increase from 3.0x in the pcp, impacted by the recognition of interest-bearing lease liabilities as part of net debt following the adoption of AASB 16. Excluding the impact of AASB 16, gearing is 2.6x, a substantial improvement of 0.4x on the prior year as a result of the strong cash flow performance and disciplined balance sheet management. Interest cover at 4.8x has been impacted by increased finance costs under AASB 16. Interest cover excluding the AASB16 impact is 6.4x, also a significant improvement on the pcp. Both metrics are well within targeted levels.

### CASHFLOW

Key Items - \$'000	2020	2019	Change %
Net cash flows provided by operating activities	192,131	108,683	74.3%
Payments for property, plant and equipment	(76,475)	(69,455)	(10.1%)
Payments for investments in associates and joint ventures	(3,558)	-	n/a
Purchase of businesses and subsidiaries, net of cash acquired	-	(78,725)	(100.0)
Repayment of lease liability principal (net of incentive received)	(44,480)	-	n/a
Payment of dividend	-	(38,236)	(100.0%)

Statutory operating cash flow including proceeds from securitisation was \$192.1 million for the year, \$83.4 million up on the pcp. The outflow from securitisation of trade debtors was \$6.8 million for the year compared to an inflow of \$13.6 million in the pcp. Excluding securitisation cash flows, statutory operating cash flow was \$103.9 million higher than the pcp. Operating cash flows have benefitted from the adoption of AASB 16, with principal lease liability repayments (\$44.5 million) now classified as a financing activity. Excluding this impact, statutory operating cash flow was \$59.4 million up on the pcp. Net receipts and payments were \$46.4 million higher (net of the impact of AASB 16 lease liability repayments), tax cash flow was \$34.1 million improved (following the receipt of a prior year related tax refund in the period), and net finance cost and interest cash flows were \$21.1 million higher (with improved underlying finance cost cashflows more than offset by \$26.4 million of interest payments for lease liabilities in FY2020 under AASB 16).

Payments for property, plant and equipment were \$76.5 million for the year compared to \$69.5 million in the pcp, an increase of \$7.0 million. The Group continued to invest in growth projects, including expenditure on the contract win for TIC reuse services in the USA, investment in crate assets and facilities related to the provision of crate pooling services to ALDI, a major upgrade to a steel plant in New Zealand, automation in the Australian packaging business, a variety of capacity initiatives in the Asian platform and several recycling related projects. All these initiatives are strongly aligned with the new business strategy to "Lead the Circular Economy".

Payments for investments in associates and joint ventures of \$3.6 million relate to the purchase of a 50.8% share in Australian Recycled Plastics Pty Ltd (ARP), a kerbside collected plastics recycling business located in New South Wales. Payments for purchase of businesses and subsidiaries, net of cash acquired, in the pcp of \$78.7 million represented \$46.3 million for the TIC acquisition (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.



# REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

## REVIEW OF OPERATIONS

The Group's operating segments are:

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

Inter-segment revenue eliminations of \$44.5 million (pcp: \$43.0 million) are not included in the segment financial information below.

### Packaging & Sustainability

The Packaging and Sustainability segment encompasses the Group's packaging and sustainability businesses. The business 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 63% of the Group's revenue in FY2020.

\$'000	Statutory 2020 <sup>1</sup>	Exc AASB 16 2020 <sup>2</sup>	2019	Exc AASB 16 Change %
<b>Revenue</b>	<b>1,143,852</b>	<b>1,143,852</b>	1,208,468	(5.3%)
<b>EBITDA<sup>3</sup></b>	<b>181,272</b>	<b>137,751</b>	154,577	(10.9%)
<b>EBITDA Margin %</b>	<b>15.8%</b>	<b>12.0%</b>	12.8%	(0.8%)
<b>EBIT<sup>4</sup></b>	<b>90,806</b>	<b>79,913</b>	97,409	(18.0%)
<b>EBIT Margin %</b>	<b>7.9%</b>	<b>7.0%</b>	8.1%	(1.1%)

Revenue for the Packaging and Sustainability segment of \$1,143.9 million was \$64.6 million (5.3%) lower than the pcp. Revenue was positively impacted by volume growth in New Zealand (in the dairy sector) along with benefits from favourable foreign exchange translation as the New Zealand, Chinese and Philippines currencies appreciated against the Australian dollar compared to the pcp. In the Asian closures business, performance was also pleasingly resilient despite the challenges of pandemic related lockdowns and instability in the region. These benefits were more than offset however by continued underlying volume challenges in the Australian business and the impact of COVID-19, mostly on the industrial sector. Following a solid first half, sales in the Sustainability businesses were lower in the second half, with a recovery in agriculture related volumes more than offset by lower sales of recycled resin and infrastructure projects. Sales for the overall segment were also impacted by lower pricing, reflecting the partial pass through of lower raw material input costs, particularly in the Australian and Asian businesses, and by lower recycled resin prices.

EBITDA for the year of \$181.3 million was \$26.7 million higher than the pcp including a positive impact of \$43.5 million from the adoption of AASB 16. Excluding this impact, EBITDA was \$16.8 million (10.9%) lower. Earnings benefitted from modest underlying growth in the New Zealand and Asian businesses, despite COVID19 related lockdowns in those regions, and from the net cost benefits of lower resin and other material input prices, allowing the partial recovery of prior period pricing across the segment. The segment also benefitted from disciplined cost management, overhead reductions, footprint consolidation in Asia and favourable foreign exchange translation. These benefits were however more than offset by the volume challenges noted above, the impact of unfavourable macro-economic conditions and some increased costs to serve during the COVID-19 impacted period.

Excluding AASB 16, EBITDA margins were 0.8% lower at 12.0%.

EBIT for the segment of \$90.8 million was \$6.6 million lower than the pcp. Excluding AASB 16, EBIT was \$17.5 million lower. Reduced depreciation in the Australian business following asset impairments was offset by increased depreciation from capital investment in the Asian closure businesses.

Excluding AASB 16, EBIT margins were 1.1% lower at 7.0%



## REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

### Materials Handling & 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 and includes TIC, a closed loop plastic garment hanger and accessories reuse business (acquired 31 October 2018) operating across several countries in Asia as well as in Australia. Materials Handling and Pooling contributed 17% of the Group's revenue in FY2020.

\$'000	Statutory 2020 <sup>1</sup>	Exc AASB 16 2020 <sup>2</sup>	2019	Exc AASB 16 Change %
<b>Revenue</b>	<b>315,599</b>	<b>315,599</b>	296,386	6.5%
<b>EBITDA<sup>3</sup></b>	<b>73,012</b>	<b>55,974</b>	51,054	9.6%
<i>EBITDA Margin %</i>	<i>23.1%</i>	<i>17.7%</i>	17.2%	0.5%
<b>EBIT<sup>4</sup></b>	<b>44,200</b>	<b>40,528</b>	35,710	13.5%
<i>EBIT Margin %</i>	<i>14.0%</i>	<i>12.8%</i>	12.0%	0.8%

Revenue for the Materials Handling and Pooling segment of \$315.6 million for the year was \$19.2 million (6.5%) higher than the pcp. The increase was driven by a full year contribution from the TIC garment accessory reuse business (acquisition completed 31 October 2018, incremental impact \$34.2 million). Excluding the acquisition impact, segment revenue was \$15.0 million lower than the pcp. Pooling revenues grew organically with the expansion of crate pooling services into the ALDI fresh produce supply chain. Operations began on schedule in the first half of the year and have performed slightly ahead of expectation. Pooling services also benefitted from higher volumes in Australia as a result of increased COVID-19 related supermarket demand in the second half. Organic growth in pooling was more than offset by lower industrial volumes (as fewer bin and infrastructure projects were available, impacted by COVID-19, and the roll out of the NBN slowed as it nears completion) and lower volumes in the TIC reuse business. This business was adversely affected in the second half by weak clothing retail sales in Australia and the impact of COVID-19 related lockdowns across Australia and Asia. These impacts more than offset organic growth related to the start-up of reuse services to support a new contract in the USA in the second half

EBITDA for the segment of \$73.0 million was \$22.0 million higher than the pcp including a positive impact of \$17.0 million from the adoption of AASB 16. Excluding this impact, EBITDA was \$5.0 million up on the pcp. The four-month incremental impact from the TIC acquisition in the period was \$6.5 million, with underlying segment earnings therefore \$1.5 million lower. The favourable impact of net cost benefits from lower resin input prices, efficiency and cost reductions and higher pooling volumes were more than offset by start-up costs relating to the new ALDI pooling contract in the first half along with unfavourable product mix and lower volumes in the industrial and TIC reuse businesses.

Excluding AASB 16, EBITDA margins were 0.5% higher at 17.7% due to the relative impact of increased volumes in the higher margin pooling business and benefits from lower input prices which more than offset weaker margins in the TIC reuse business.

EBIT for the half year of \$44.2 million was \$8.5 million up on the pcp. Excluding AASB 16, EBIT was \$4.8 million (13.5%) higher. The incremental period of TIC contributed \$6.2 million, with the underlying business depreciation in line with the pcp, and consequently EBIT \$1.4 million lower.

Excluding AASB 16, EBIT margins were 0.8% higher at 12.8%.

# REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

## Contract Manufacturing Services

The Contract Manufacturing Services segment is a leading supplier of contract manufacturing 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 22% of the Group's revenue in FY2020. The Group has announced its intention to divest the business and the sale process will recommence.

\$'000	Statutory 2020 <sup>1</sup>	Exc AASB 16 2020 <sup>2</sup>	2019	Exc AASB 16 Change %
<b>Revenue</b>	<b>394,188</b>	<b>394,188</b>	372,263	5.9%
<b>EBITDA<sup>3</sup></b>	<b>47,523</b>	<b>39,981</b>	25,063	59.5%
<b>EBITDA Margin %</b>	<b>12.1%</b>	<b>10.1%</b>	6.7%	3.4%
<b>EBIT<sup>4</sup></b>	<b>31,258</b>	<b>30,143</b>	15,285	97.2%
<b>EBIT Margin %</b>	<b>7.9%</b>	<b>7.6%</b>	4.1%	3.5%

Revenue for the Contract Manufacturing Services segment of \$394.2 million for the year was \$21.9 million (5.9%) up on the pcp. The business delivered solid organic growth in the hygiene category, meeting strong demand for hand sanitisers and other cleaning products, as a result of the COVID-19 pandemic. The business also benefitted from the diversification of its customer portfolio. Demand in the health and wellness category was weak due to customer destocking, with volumes well down on the pcp despite some COVID-19 related demand late in the period.

EBITDA for the year of \$47.5 million was \$22.5 million higher than the pcp inclusive of a positive impact of \$7.5 million from the adoption of AASB 16. Excluding this impact, EBITDA was \$15.0 million (59.5%) up on the pcp. The increase was driven primarily by the higher net volumes and disciplined pricing, partly offset by some inefficiency and higher costs to serve as a result of the swift ramp up in production required to supply the elevated demand for hygiene products in the second half.

Excluding AASB 16, EBITDA margins were 3.4% higher at 10.1% due to increased volumes of higher margin products, with raw material costs largely in line with the prior year.

EBIT for the segment of \$31.3 million was \$16.0 million higher than the pcp. Excluding AASB 16, EBIT was \$14.9 million up, with underlying depreciation and amortisation in line with the pcp.

Excluding AASB 16, EBIT margins for the segment were 3.5% higher at 7.6%.

## OUTLOOK

We expect our diversified portfolio to be resilient, with trading in the first quarter of FY2021 in most sectors to be generally in line with recent trends.

The duration and economic impact of COVID-19 is uncertain. An update on trading will be provided at the AGM on 18 November 2020.

## OTHER EVENTS OF SIGNIFICANCE

### Divestment of Contract Manufacturing segment

The Group is pursuing its options to sell the businesses in the Contract Manufacturing segment. The process will recommence following a suspension during the year due to COVID-19.

### Joint Venture with Cleanaway and Asahi Holdings

Pact, Cleanaway and Asahi Holdings (Australia) have formalised a joint arrangement to develop recycling capability in Australia, expected to be operational by 2022.

### Acquisition of Flight Plastics Ltd

The Group has entered into an agreement to acquire New Zealand's only PET recycler, Flight Plastics NZ, a leading recycler and provider of plastic trays and containers for grocery products in New Zealand, for a purchase consideration of NZD \$26 million. The transaction remains conditional on approval by regulatory authorities.

# REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

## OVERVIEW OF BUSINESS STRATEGY

### Strategic Review

During the year Pact undertook a detailed business strategy review under the leadership of the Managing Director and Group CEO. The review has clarified what is critical to Pact's continued success and will enable the Group to maximise long-term shareholder value. The Board of Directors has endorsed this new strategy, which is focussed around "Leading the Circular Economy" in plastic packaging.

### Our Vision

Pact will lead the circular economy through reuse, recycling and packaging solutions

### Our Target

Top quartile shareholder returns and 30% recycled content across the portfolio by 2025

### Priorities

The Group will seek to deliver long term value focussing on three core areas, with six key priorities:

- Strengthen the core
  - Align the portfolio with strategy and strengthen the balance sheet
  - Turnaround and defend our core packaging business in Australia and New Zealand
- Expand reuse and recycling capability
  - Lead plastics recycling in Australia and New Zealand
  - Scale up reuse solutions
  - Differentiate industrial and infrastructure businesses
- Leverage regional scale
  - Grow our Asian packaging platform

### Strengthen the core

To align our portfolio with strategy, strengthen the balance and turnaround and defend our core packaging business in Australia and New Zealand, the Group:

- has commenced a sales process in respect of its Contract Manufacturing businesses;
- has reaffirmed a target leverage ratio of less than 3x (excluding the impact of AASB 16);
- will assess all new growth capital against a minimum target hurdle of 15% ROIC and quality of returns;
- has set a target for ROIC to exceed 15% by 2025;
- will improve the competitiveness of its packaging platform in Australia and New Zealand through focussed capital and operational initiatives; and
- will leverage its technical and innovation capability and access to recycled raw materials to differentiate in the market.

### Expand reuse and recycling capability

To leverage our unique position in the plastics value chain, to expand our recycling capability and reuse platforms and to meet the growing demand for sustainable supply chain solutions, the Group:

- will collaborate with industry and Government to build local recycling capability;
- will expand its returnable crate pooling operations through increased conversion of single-use packaging; and
- will expand its garment hanger reuse operations to support offshore growth.

### Leverage regional scale

To grow our Asian packaging platform, the Group will optimise its value chain through the consolidation of our regional closures platform. The Group:

- has consolidated its regional closures network, which includes assets in Australia, New Zealand and Asia;
- has invested in capacity expansion in Asia;
- will leverage the platform to deliver the lowest cost of manufacture; and
- is supporting growth in our special closures capability within Australia and New Zealand.

### Progress in FY2020

During FY2020 the new business strategy has been established with the following strategic initiatives progressed

- Phase one of the restructure of the ANZ packaging business is complete, with a customer centric structure implemented and new senior leadership appointed
- Capital prioritisation framework embedded and FY21 priorities agreed
- Recycling capability to be expanded through strategic investments
  - Agreement to acquire Flight Plastics Ltd in New Zealand, which provides post-consumer recycling capability in New Zealand, subject to approval by regulatory authorities
  - Formalised joint venture arrangements with Cleanaway and Asahi to expand post-consumer recycling capability in Australia, with the project moving into the construction phase
- Active collaboration with Government to accelerate investment in local recycling capability
- Successful start-up of reuse services to support a new contract in the USA
- Consolidation of the closures business into Asia has commenced
- Sale process in respect of Contract Manufacturing business to recommence

# REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

## 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 Report.

### 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.

### Cyber risks

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.

### 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 (e.g. food, dairy, beverages, personal care and other household consumables) and industrial (e.g. 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 various 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, is required. 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 cashflows 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.

## REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

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.

- (1) 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.
- (2) 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.
- (3) 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.
- (4) Gearing is a non-IFRS financial measure 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
- (5) Interest cover is a non-IFRS financial measure which is calculated as rolling 12 months EBITDA divided by rolling 12 months net finance costs and losses on de-recognition of financial assets.
- (6) Net debt is a non-IFRS financial measure and is calculated as interest bearing liabilities less cash and cash equivalents





Pact Group Holdings Ltd  
ABN: 55 145 989 644

# Full Year Consolidated Financial Report

For the year ended 30 June 2020

2020

## 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 2020. This Consolidated Financial Report was issued in accordance with a resolution of the Directors on 19 August 2020.

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 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 1.3 Taxation
- 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
- Note 6.2 Incremental borrowing rate

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



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## 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 2020.

### 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 Master 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 (from 1 July 2019 to 14 August 2019)  
Chair of the Nomination and Remuneration Committee (from 15 August 2019 to 30 June 2020)

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 3 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.

## DIRECTORS' REPORT

### **Jonathan Ling** **Independent Non-Executive Director**

Member of the Board since 28 April 2014  
Chair of the Nomination and Remuneration Committee (from 1 July 2019 to 14 August 2019)  
Chair of the Audit, Business Risk and Compliance Committee (from 15 August 2019 to 30 June 2020)

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 Master of Business Administration from the Royal Melbourne Institute of Technology.

#### *Other current directorships*

Independent Non-Executive Director and Chairman of Pro Pac Packaging Ltd, and Non-executive Director and Chairman of Planet Innovation 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 – 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.

### **Michael Wachtel** **Independent Non-Executive Director**

Member of the Board since 21 April 2020  
Member of the Audit, Business Risk and Compliance Committee from 21 April 2020

Michael brings a strong professional background and extensive global experience in governance, risk management, finance and complex international transactions to the role. Through his Future Fund Board role he has a deep involvement in global markets and monetary policy trends. Michael has previously held a number of leadership roles in professional services organisations, including as Chair (Asia Pacific and Oceania) of EY.

Michael has a Bachelor of Laws and Commerce from the University of Cape Town and a Master of Laws from the London School of Economics. Michael completed the Harvard Business School Executive Program in 2011 and is a Fellow of the Australian Institute of Company Directors

#### *Other current directorships:*

Michael is currently a Board member of Future Fund, Seek Limited and St Vincent's Medical Research Institute.

## 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 10 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	152,252,175
Lyndsey Cattermole	529,879
Jonathan Ling	48,786
Ray Horsburgh	80,971
Carmen Chua	150,000
Michael Wachtel	-
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 & Compliance Committee		Nomination & Remuneration Committee	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
Raphael Geminder	9	9	NM	NM	4	4
Lyndsey Cattermole	9	9	5	5	4	4
Jonathan Ling	9	9	3	3	4	4
Ray Horsburgh	9	8	5	4	NM	NM
Carmen Chua	9	8	NM	NM	NM	NM
Michael Wachtel <sup>(1)</sup>	1	1	-	-	NM	NM
Sanjay Dayal	9	9	NM	NM	NM	NM
<b>Former Director's</b>						
Peter Margin <sup>(2)</sup>	1	0	2	2	1	1

NM - Not a member of the relevant committee

<sup>(1)</sup> Michael Wachtel was appointed as a Non-executive Director on 21 April 2020

<sup>(2)</sup> Peter Margin resigned as a Non-executive Director and as the chair of the Audit, Business Risk and Compliance Committee on 14 August 2019

### 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.

## DIRECTORS' REPORT

### OPERATING AND FINANCIAL REVIEW

A review of the operations of the Group during the year and of the results of those operations is contained in the ASX announcement on 19 August 2020.

### DIVIDENDS

The directors have determined to pay a final dividend of 3 cents after the end of the financial year (2019: nil).

The table below shows dividends paid (or payable) during the year ended 30 June 2020 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
<b>Current year to 30 June 2020</b>				
Final Dividend (per ordinary share)	3.00 cents	1.95 cents	1.05 cents	7 October 2020
Interim Dividend (per ordinary share)	-	-	-	-
<b>Prior year to 30 June 2019</b>				
Final Dividend (per ordinary share)	-	-	-	-
Interim Dividend (per ordinary share)	-	-	-	-

### OTHER EVENTS OF SIGNIFICANCE

Please refer to the Review of Operations and Financial Performance in the ASX announcement on 19 August 2020.

### SIGNIFICANT EVENTS AFTER BALANCE DATE

#### Divestment of Contract Manufacturing segment

The Group is pursuing its options to sell the businesses in the Contract Manufacturing segment. The process will recommence following a suspension during the year due to COVID-19.

#### Joint Venture with Cleanaway and Asahi Holdings

Pact, Cleanaway and Asahi Holdings (Australia) have formalised a joint arrangement to develop recycling capability in Australia, expected to be operational by 2022.

#### Acquisition of Flight Plastics Ltd

The Group has entered into an agreement to acquire New Zealand's only PET recycler, Flight Plastics NZ, a leading recycler and provider of plastic trays and containers for grocery products in New Zealand, for a purchase consideration of NZD \$26million. The transaction remains conditional on approval by regulatory authorities.

In the opinion of the Directors, other than the matters aforementioned, there have been no other material matters or circumstances which have arisen between 30 June 2020 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.

### 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.

## DIRECTORS' REPORT

### 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 policy 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.

### 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 their 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:

\$	2020	2019
Tax services	252,000	158,000

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 2020 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 2020
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 2020
<b>Non-Executive Directors (NEDs)</b>		
Raphael Geminder	Non-Executive Chairman	Full Year
Lyndsey Cattermole	Non-Executive Director	Full Year
Jonathan Ling	Non-Executive Director	Full Year
Ray Horsburgh	Non-Executive Director	Full Year
Carmen Chua	Non-Executive Director	Full Year
Michael Wachtel	Non-Executive Director	Appointed 21 April 2020
<b>Other KMP</b>		
Sanjay Dayal	Managing Director and Group CEO	Full Year
Richard Betts	Chief Financial Officer	Full Year
<b>Former KMP</b>		
Peter Margin	Former Non-Executive Director	Resigned 14 August 2019

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

### 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](http://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.



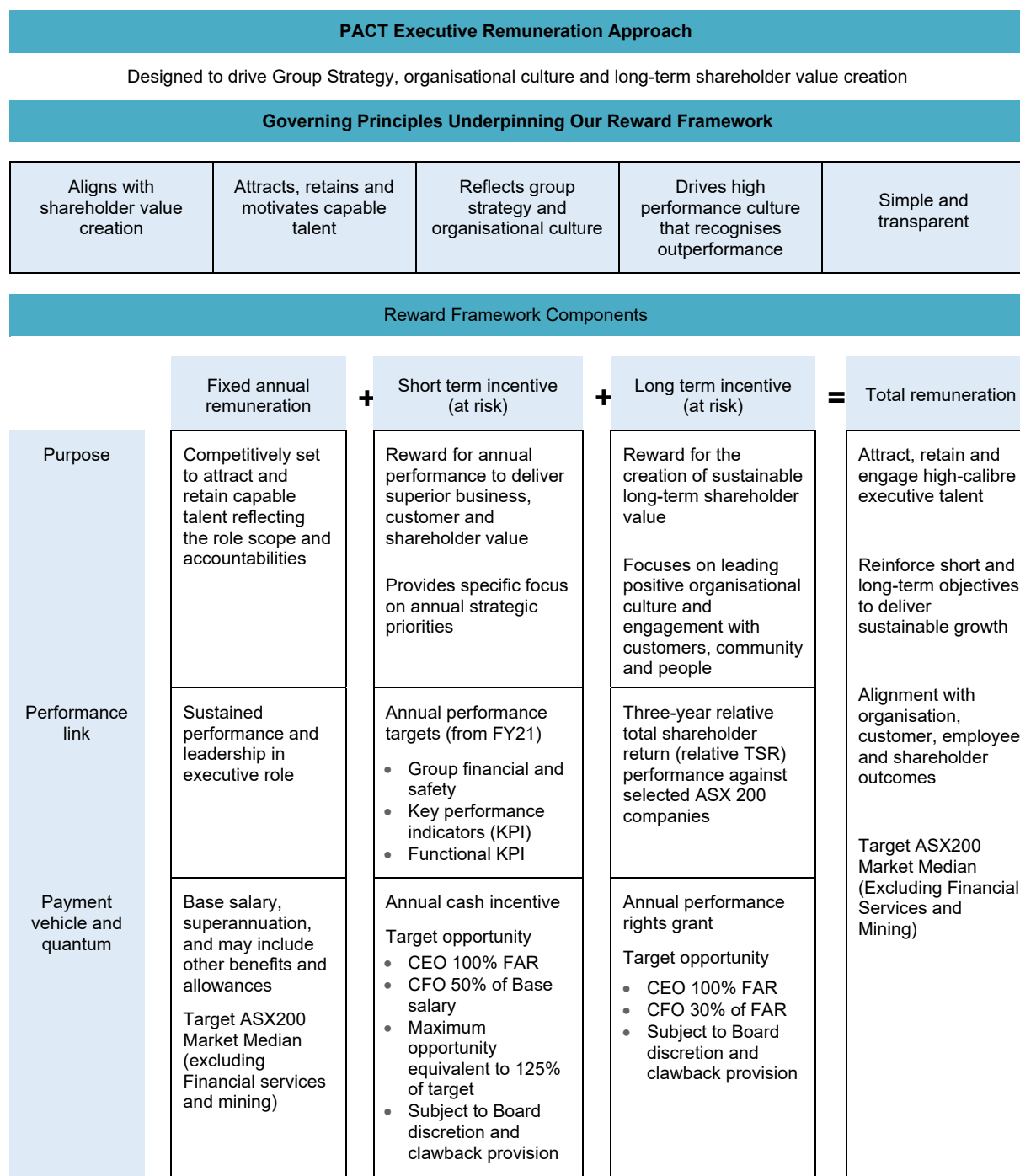
# DIRECTORS' REPORT– REMUNERATION REPORT

## 3. Executive remuneration arrangements

### Remuneration principles and strategy

Pact's executive remuneration strategy is designed to drive Group Strategy, organisational culture and long-term shareholder value creation. It is underpinned by Pact's governing reward principles that articulate the intent and purpose of our executive reward framework.

The below diagram illustrates the remuneration framework for the CEO and CFO for the current year.



# DIRECTORS' REPORT– REMUNERATION REPORT

## Executive remuneration arrangements (continued)

### 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 2020 year was as follows<sup>(1)</sup>:

Executive KMP remuneration component at target	Sanjay Dayal %	Richard Betts %
Fixed Remuneration	46%	62%
Short term incentives	45%	30%
Long Term incentives (LTIP)	9%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>

<sup>(1)</sup> 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).

### Detail of incentive plans

FY20 Short term incentive plan		
Term	Summary of FY20 arrangement	
<b>Purpose</b>	STI is an annual cash payment plan linked to short-term organisational and employee performance outcomes. It is designed to provide specific focus on annual strategic priorities to deliver superior business, customer and shareholder value.	
<b>Participation</b>	Executive KMP	
<b>Opportunity</b>	<b>Executives</b>	<b>Target</b>
	CEO	100% of FAR
	CFO	50% of Base Salary
<b>Gateways</b>	<b>Maximum</b>	
	CEO	125% of FAR
	CFO	62.5% of Base Salary
<b>Performance Measures &amp; Weighting</b>	<b>Group Financial Gateway:</b> 95% of Group Target EBITDA	In the event Group Financial Gateway is not achieved, no STI award will be payable.
	<b>Individual Gateway:</b> Adherence to Group Code of Conduct, Compliance and PACT values	Employees who do not meet the Individual Gateway condition, the participant will forfeit any STI award payable.
<b>Performance Measures &amp; Weighting</b>	STI is linked to a combination of Group EBITDA (excluding the impact of AASB 16, refer to the table on page 12), and Functional KPI measures. Each measure will result in a payout outcome in accordance with the payout model.	
	<b>Executives</b>	<b>Group EBITDA</b>
	CEO	100%
	CFO	50%
<b>Performance Measures &amp; Weighting</b>	<b>Functional KPI ^</b>	
	CEO	-
	CFO	50%
	^ CFO Functional KPI include performance against cash conversion and capital management targets.	
<b>Payout calculation</b>	The Board considers these measures to be appropriate as they are strongly aligned with the interests of shareholders. Group EBITDA is a key indicator of the underlying growth of the business, enabling the payment of dividends to shareholders. The achievement of these STI's in full is subject to the delivery of agreed safety objectives.	
	The table on page 12 provides additional information on these performance measures, including an overview of performance versus target in the current year.	
<b>Payout calculation</b>	<b>Performance vs Percentage Payout</b>	
	Each performance measure will be assessed against a set target to determine the percentage payout outcome (see below payout schedule). For instance, achieving the target will result in 100% payout of Target STI opportunity.	
	<b>Percentage payout against Target schedule</b>	
	<ul style="list-style-type: none"> <li>Below Threshold = Nil</li> <li>Threshold = 50% of Target</li> <li>Target = 100% of Target</li> <li>Stretch = 125% of Target</li> </ul> Straight-line sliding scale calculation applicable.	

# DIRECTORS' REPORT– REMUNERATION REPORT

## Executive remuneration arrangements (continued)

### FY21 Short-Term Incentive Plan Changes

The Board have approved the following changes to the Short-Term Incentive Plan:

- Change of core financial performance measure from EBITDA to EBIT to further strengthen the alignment of executive reward with organisational performance. The change is also influenced by the company's increased focus on capital returns.
- Addition of Group Safety Measure aligned to Pact's 'Towards Zero Harm' commitment
- Addition of Strategic Initiative Measure aligned to Group Strategy applicable to participants

### FY20 Long-term incentive plan

<b>Term</b>											
<b>Purpose</b>	LTI is an annual performance rights grant linked to achievement of long-term sustainable shareholder value creation. It is designed to drive the delivery of long-term Group Strategy aligned with value creation to our customers, community, people, and shareholders.										
<b>Participation</b>	Executive KMP										
<b>Opportunity</b>	<table border="1"> <thead> <tr> <th>Executives</th><th>Target as % of FAR</th></tr> </thead> <tbody> <tr> <td>CEO</td><td>100%</td></tr> <tr> <td>CFO</td><td>30%</td></tr> </tbody> </table> <p>The minimum potential outcome is zero.</p>	Executives	Target as % of FAR	CEO	100%	CFO	30%				
Executives	Target as % of FAR										
CEO	100%										
CFO	30%										
<b>Instrument</b>	Performance rights (note: no dividend or dividend equivalent payments are provided on rights)										
<b>Performance Period</b>	The performance period commences on the first day of that fiscal year and is measured over 3 years.										
<b>Allocation approach</b>	<p>Maximum face value allocation approach based on five-day Volume Weighted Average Price (VWAP) following the public announcement of the full Financial Year results (i.e. typically AGM date).</p> $\text{FAR \$} \times \text{LTI \% opportunity} \div \text{Share price \$} = \text{Number of rights granted}$										
<b>Gateways</b>	<p><b>Individual Gateway:</b> Adherence to Group Code of Conduct, Compliance and PACT values</p> <p>Employees who do not meet the Individual Gateway condition, the participant will forfeit any LTI award payable.</p>										
<b>Performance hurdle</b>	<p>Vesting of rights is subject to relative Total Shareholder Return (rel. TSR) ^ hurdle over a three-year performance period.</p> <p><b>Peer Group:</b> S&amp;P/ASX 200 comparator group, excluding companies in the Financials, Metals and Mining sectors.</p> <table border="1"> <thead> <tr> <th>TSR relative to peer group</th><th>Vesting %</th></tr> </thead> <tbody> <tr> <td>At or above 75<sup>th</sup> percentile</td><td>100%</td></tr> <tr> <td>Between 50<sup>th</sup> and 75<sup>th</sup> percentile</td><td>Pro-rata vesting between 50% and 100%</td></tr> <tr> <td>At 50<sup>th</sup> percentile</td><td>50%</td></tr> <tr> <td>Below 50<sup>th</sup> percentile</td><td>Nil</td></tr> </tbody> </table> <p>^TSR measures a company's share price movement, dividends paid and any return on capital over a specific period. Relative TSR compares the ranking of PACT Group TSR over the performance period with the TSR of other companies in a peer group.</p>	TSR relative to peer group	Vesting %	At or above 75 <sup>th</sup> percentile	100%	Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile	Pro-rata vesting between 50% and 100%	At 50 <sup>th</sup> percentile	50%	Below 50 <sup>th</sup> percentile	Nil
TSR relative to peer group	Vesting %										
At or above 75 <sup>th</sup> percentile	100%										
Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile	Pro-rata vesting between 50% and 100%										
At 50 <sup>th</sup> percentile	50%										
Below 50 <sup>th</sup> percentile	Nil										
<b>Cessation of Employment</b>	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.										
<b>Rights attaching to performance rights</b>	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.										
<b>Clawback</b>	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.										
<b>Change of Control Provisions</b>	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

### Board discretion

- The Board has absolute discretion to determine that some or all of the LTI award lapse based on circumstances where (but not limited to):
- The vesting of rights do not justify or support the performance of the business unit or function relevant to the executive or the overall performance of the Group
  - The vesting of rights will impact on the financial soundness of the Group

### 4. Executive remuneration outcomes for FY2020

#### Business performance in FY2020

The Group's FY2020 financial performance reflects a solid operating performance given the challenging operating environment, particularly during the COVID 19 pandemic which impacted the second half of the year.

The table below summarises key indicators of the performance of the Company and relevant shareholder returns over the past 5 financial years.

Performance measure	2016	2017	2018	2019	2020
Statutory net profit / (loss) after tax (\$000)	85,051	90,341	74,488	(289,587)	88,847
Net profit after tax (NPAT) <sup>1</sup> (\$000)	94,310	100,003	94,661	77,307	73,245
NPAT growth % <sup>1</sup>	10.7%	6.0%	(5.3%)	(18.3%)	(5.3%)
EBITDA <sup>1</sup> (\$000)	220,157	233,116	237,251	230,694	301,807
EBITDA (pre-AASB 16) <sup>2</sup> (\$000)	220,157	233,116	237,251	230,694	233,707
EBITDA growth %	5.5%	5.9%	1.8%	(2.8%)	1.3% <sup>(2)</sup>
Dividends per ordinary share (cps)	21.0	23.0	23.0	-	3.0
Closing share price (30 June)	6.03	5.99	5.27	2.79	2.19
3 month average share price (1 April to 30 June)	5.46	6.44	5.57	2.51	2.01
Earnings per share <sup>1</sup> (cps)	32	33	30	23	21
Earnings per share <sup>1</sup> growth %	10.3%	3.1%	(9.1%)	(23.3%)	(8.7%)
Cumulative TSR % <sup>3</sup>	36.7%	64.8%	49.9%	(18.9%)	(30.6%)

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

<sup>(2)</sup> EBITDA before significant items and excluding the impacts of AASB16 is \$233.7 million, representing a 1.3% increase on the prior year.

<sup>(3)</sup> Cumulative TSR has been calculated using the same start date for each period (1 July 2015). The 3 month average share price has been used in all periods (the 3 month average share price for the starting period was \$4.28).

#### STI Outcomes - Executive KMP

The table below outlines the components of the STI, and how performance has been measured in fiscal year 2020

Performance measure	CEO weighting	CFO weighting	Overview of performance v target
EBITDA <sup>(1)</sup>	100%	50%	EBITDA increase of 1.3% compared to last year, against a back drop of COVID19 the delivered EBITDA exceeded target. Achievement was reduced to reflect a deduction for a failure to deliver agreed safety objectives following the fatality in New Zealand.
Cash conversion and capital management	-	50%	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. Capital management is assessed as delivery of various working capital targets. During the year target performance was partially achieved.

<sup>(1)</sup> The measure is EBITDA excluding the impacts of AASB 16 as reported in the table above.

# DIRECTORS' REPORT– REMUNERATION REPORT

## LTIP Outcomes – CEO and CFO

The tables below outline 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 rights at Grant date	Value of rights included in compensation for the year	Performance period
2020 LTIP	13 November 2019	538,189	\$721,173	\$240,391	1 July 2019 to 30 June 2022
2019 LTIP	27 March 2019	69,784 <sup>(1)</sup>	\$17,446	\$7,721	1 July 2018 to 30 June 2021

<sup>(1)</sup> The performance rights granted to Mr Dayal for the 2019 LTIP 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 rights at Grant date	Value of rights included in compensation for the year	Performance period
2020 LTIP	13 November 2019	87,952	\$117,856	\$39,285	1 July 2019 to 30 June 2022
2019 LTIP	14 November 2018	43,301	\$32,909	\$10,970	1 July 2018 to 30 June 2021
2018 LTIP	15 November 2017	33,182	\$87,932	\$29,311	1 July 2017 to 30 June 2020

The performance measure for the LTIP is achievement of relative TSR targets. The vesting conditions have been outlined on page 11.

The table below outlines current year movements in relation to performance rights granted to the CEO and CFO.

KMP	Balance at 1 July 2019	Number granted	Number lapsed	Balance at 30 June 2020	Vested at 30 June 2020	Unvested at 30 June 2020
Sanjay Dayal	69,784	538,189	-	607,973	-	607,973
Richard Betts	76,483	87,952	(33,182)	131,253	-	131,253

# DIRECTORS' REPORT– REMUNERATION REPORT

Executive KMP remuneration for the year ended 30 June 2020

Executive	Year	Short term benefits				Post-employment benefits	Long term benefits	Share Based Payments (equity settled)		Total	Performance Related %
		Salary & fees	STI & bonuses	Non-monetary benefits <sup>(1)</sup>	Other benefits <sup>(2)</sup>			LTIP <sup>(4)</sup>	Initial grant		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Mr Sanjay Dayal (CEO)	2020	1,200,000	1,111,198	-	22,441	25,000	-	248,112	-	2,606,751	52%
	2019	269,886	-	-	22,677	25,000	-	2,025	-	319,588	1%
Mr Richard Betts (CFO)	2020	584,101	205,487	-	(6,963)	25,000	65,836	79,566	-	953,027	30%
	2019	556,728	59,000	50,558	2,802	25,000	-	40,281	-	734,369	14%
<b>Former Executive KMP</b>											
Mr Malcom Bunday (Former CEO)	2020	-	-	-	-	-	-	-	-	-	-
	2019	958,848	-	31,059	48,793	18,750	-	(656,030) <sup>(5)</sup>	138,889	540,309	(121%) <sup>(5)</sup>
<b>Total Executive KMP remuneration</b>											
	2020	1,784,101	1,316,685	-	15,478	50,000	65,836	327,678	-	3,559,778	46%
	2019	1,785,462	59,000	81,617	74,272	68,750	-	(613,724)	138,889	1,594,266	(35%)

<sup>(1)</sup> Non-monetary benefits includes FBT payments made by the Company on behalf of Mr Betts and Mr Bunday in the prior year.

<sup>(2)</sup> Other benefits is the movement in the annual leave provision for Mr Dayal and Mr Betts, and Mr Bunday in the prior year.

<sup>(3)</sup> Long term benefits is the movement in the long service leave provision in relation to long service leave entitlements after 5 years of continuous service.

<sup>(4)</sup> 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.

<sup>(5)</sup> Following Mr Bunday's cessation of employment in the prior year, 421,801 unvested LTIP rights were forfeited. Negative percentage is due to the reversal of share based payment expense in the prior year.

## DIRECTORS' REPORT– REMUNERATION REPORT

### Executive KMP remuneration for the year ended 30 June 2020 (continued)

The table on the previous page 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 2020. 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 <sup>(1)</sup>	STI and bonuses <sup>(2)</sup>	Other benefits <sup>(3)</sup>	Performance rights vested in 2020	Total
	\$	\$	\$	\$	\$
Mr Sanjay Dayal	1,225,000	1,111,198	22,441	n/a <sup>(4)</sup>	2,358,639
Mr Richard Betts	609,101	205,487	(6,963)	- <sup>(5)</sup>	807,625

<sup>(1)</sup> Fixed remuneration includes salary and fees, and superannuation contributions, calculated on the same basis as the remuneration table on page 14.

<sup>(2)</sup> STI and bonuses attributable to the year ended 30 June 2020 are calculated on the same basis as the remuneration table on page 14.

<sup>(3)</sup> Other benefits relates to the movement in the annual leave provision for Mr Dayal and Mr Betts shown on an accruals basis.

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

<sup>(5)</sup> The 2018 LTIP tranche has not vested as the TSR hurdle measured at 30 June 2020 has not been reached, therefore no benefits were received during the current financial year.

### 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:

#### Group 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 125% 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 11 and 12.
- 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 \$609,101 per annum.
- The CFO has a maximum STI of 62.5% 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 11 and 12.
- 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.



## DIRECTORS' REPORT– REMUNERATION REPORT

### 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.

#### 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	2020	2019
<b>Board fees</b>		
Non-executive Directors (excluding the Chairman)	\$112,750	\$112,750
<b>Audit, Business Risk and Compliance Committee</b>		
Chair	\$30,750	\$30,750
Member	\$7,688	\$7,688
<b>Nomination and Remuneration Committee</b>		
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 2020 is detailed in the following table.

## DIRECTORS' REPORT– REMUNERATION REPORT

Non-executive KMP remuneration for the year ended 30 June 2020

Non-executive	Year	Short term benefits	Post-employment benefits	
		Fees	Superannuation	TOTAL
		\$	\$	\$
Ms Lyndsey Cattermole	<b>2020</b>	<b>117,009</b>	<b>11,116</b>	<b>128,125</b>
	2019	117,009	11,116	128,125
Mr Raphael Geminder	<b>2020</b>	-	-	-
	2019	-	-	-
Mr Jonathan Ling	<b>2020</b>	<b>143,500</b>	-	<b>143,500</b>
	2019	143,500	-	143,500
Mr Peter Margin	<b>2020</b>	<b>18,225</b>	-	<b>18,225</b>
	2019	151,187	-	151,187
Mr Ray Horsburgh	<b>2020</b>	<b>109,989</b>	<b>10,449</b>	<b>120,438</b>
	2019	109,989	10,449	120,438
Ms Carmen Chua	<b>2020</b>	<b>112,750</b>	-	<b>112,750</b>
	2019	93,958	-	93,958
Mr Michael Wachtel	<b>2020</b>	<b>21,048</b>	<b>2,000</b>	<b>23,048</b>
	2019	-	-	-
<b>Total Non-executive KMP remuneration</b>	<b>2020</b>	<b>522,521</b>	<b>23,565</b>	<b>546,086</b>
	2019	615,643	21,565	637,208

## DIRECTORS' REPORT– REMUNERATION REPORT

### 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 2020:

KMP	Balance 1 July 2019	Movements	Balance 30 June 2020
Raphael Geminder	133,951,614	18,300,561	152,252,175
Lyndsey Cattermole	391,329	138,550	529,879
Jonathan Ling	31,179	17,607	48,786
Ray Horsburgh	44,971	36,000	80,971
Carmen Chua	30,000	120,000	150,000
Michael Wachtel	-	-	-
Sanjay Dayal	40,000	-	40,000
Richard Betts	9,284	-	9,284
<b>Former KMP</b>			
Peter Margin	35,257	-	35,257 <sup>(1)</sup>

<sup>(1)</sup> The final shareholding of Mr Peter Margin is at the 14 August 2019, the date he resigned as a Non-executive Director.

### 8. Related party transactions with KMP

The following table provides the total amount of transactions with related parties for the year ended 30 June 2020:

\$'000's		Sales	Purchases	Other expenses	Net amounts receivable
<b>Related parties – director's interests<sup>(1)</sup></b>	<b>2020</b>	<b>13,362</b>	<b>7,354</b>	<b>6,317</b>	<b>558</b>
	2019	13,789	11,043	6,667	609

<sup>(1)</sup> 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), ceased its business operations in November 2019. P'Auer had a supply agreement to provide label products to Pact. Pact had a Transitional Services and Support agreement with P'Auer to provide support services. These agreements were at arm's length. In addition, P'Auer provided Pact with periodic warehousing services.

#### Pro-Pac Packaging Limited (Pro-Pac)

Pro-Pac, an entity for which Mr Raphael Geminder owns 49.7% (2019: 49.7%), is an exclusive supplier of certain raw materials such as flexible film packaging, flexible plastic bags and tapes to Pact. Pact has a supply agreement with Pro-pac that expires 31 December 2021. The total value of sales under this arrangement is approximately \$4.2 million (2019: \$4.2 million). The supply arrangement is at arm's length. Mr Jonathan Ling is also an Independent Non-Executive Director and Chairman of Pro Pac.

#### Terms and conditions of transactions with related parties

The Group leased 11 properties (9 in Australia and 2 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 2020 was \$6.2 million (June 2019: \$6.4 million). The rent payable under these leases was determined based on independent valuations and market conditions at the time the leases were entered into.

#### 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.

## DIRECTOR'S REPORT

### 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 20.

### 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:



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Raphael Geminder  
**Chairman**

19 August 2020



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Sanjay Dayal  
**Managing Director and Group Chief  
Executive Officer**



Building a better  
working world

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## 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 2020, 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  
19 August 2020

## FINANCIAL REPORT

### Consolidated Statement of Comprehensive Income For the year ended 30 June 2020

\$'000	Notes	2020 <sup>(1)</sup>	2019
<b>Revenue</b>	<b>1.1, 1.2</b>	<b>1,809,158</b>	1,834,076
Raw materials and consumables used		(786,175)	(843,167)
Employee benefits expense	<b>5.2</b>	(441,666)	(430,035)
Occupancy, repair and maintenance, administration and selling expenses		(292,919)	(341,539)
Interest and other income		14,828	11,068
Other gains / (losses)	<b>6.3</b>	14,463	(55,889)
Depreciation and amortisation expense	<b>3.2</b>	(135,544)	(82,290)
Impairment and write-off expense	<b>3.2</b>	(11,793)	(368,765)
Finance costs and loss on de-recognition of financial assets	<b>4.1</b>	(63,437)	(39,675)
Share of profit in associates	<b>2.3</b>	3,131	2,336
<b>Profit / (loss) before income tax expense</b>		<b>110,046</b>	(313,880)
Income tax (expense) / benefit	<b>1.3</b>	(21,199)	24,293
<b>Net Profit / (loss) for the year</b>		<b>88,847</b>	(289,587)
<b>Net Profit / (loss) attributable to equity holders of the parent entity</b>		<b>88,847</b>	(289,587)
<b>Other comprehensive income</b>			
<b>Items that will be not be reclassified subsequently to profit or loss</b>			
Loss on remeasurement of defined benefit liability		(144)	(10)
<b>Items that will be reclassified subsequently to profit or loss</b>			
Loss on cash flow hedges taken to equity		(3,285)	(6,453)
Foreign currency translation (losses) / gains		(2,753)	10,932
Income tax on items in other comprehensive income		1,088	1,762
<b>Other comprehensive (loss) / income for the year, net of tax</b>		<b>(5,094)</b>	6,231
<b>Total comprehensive income / (loss) for the year</b>		<b>83,753</b>	(283,356)
<b>Attributable to:</b>			
Equity holders of the parent entity		83,753	(283,356)
<b>Total comprehensive income / (loss) income for the Group</b>		<b>83,753</b>	(283,356)
<b>cents</b>			
Basic earnings per share	<b>1.1</b>	<b>25.8</b>	(85.3)
Diluted earnings per share	<b>1.1</b>	<b>25.7</b>	(85.3)

<sup>(1)</sup> Reflects the adoption of AASB 16 *Leases* from 1 July 2019. 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

For the year ended 30 June 2020

\$'000	Notes	2020 <sup>(1)</sup>	2019
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4.1	76,004	49,950
Trade and other receivables	3.1	149,679	145,282
Inventories	3.1	223,698	211,846
Contract assets		12,349	8,895
Current tax assets	1.3	-	3,360
Other current financial assets		784	349
Prepayments		13,985	14,617
<b>TOTAL CURRENT ASSETS</b>		<b>476,499</b>	<b>434,299</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables		7	718
Prepayments		2,925	4,392
Property, plant and equipment	3.2	996,002	638,542
Investments in associates and joint ventures	2.3	30,876	24,353
Intangible assets and goodwill	3.2	456,068	477,054
Other non-current financial assets		111	-
Deferred tax assets	1.3	33,147	17,832
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,519,136</b>	<b>1,162,891</b>
<b>TOTAL ASSETS</b>		<b>1,995,635</b>	<b>1,597,190</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	3.1	378,124	365,615
Current tax liability	1.3	21,175	-
Employee benefits provisions	5.2	38,638	36,292
Other provisions	3.4	-	13,914
Lease liabilities	4.1,6.2	69,203	-
Other current financial liabilities		4,313	2,369
<b>TOTAL CURRENT LIABILITIES</b>		<b>511,453</b>	<b>418,190</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables		-	66,313
Employee benefits provisions	5.2	8,127	7,270
Other provisions	3.4	9,967	32,358
Interest-bearing loans - bank borrowings	4.1	689,530	733,490
Lease liabilities	4.1,6.2	385,656	-
Other non-current financial liabilities		8,457	4,296
Deferred tax liabilities	1.3	9,796	12,678
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,111,533</b>	<b>856,405</b>
<b>TOTAL LIABILITIES</b>		<b>1,622,986</b>	<b>1,274,595</b>
<b>NET ASSETS</b>		<b>372,649</b>	<b>322,595</b>
<b>EQUITY</b>			
Contributed equity	4.2	1,750,476	1,750,476
Reserves	4.2	(901,251)	(896,911)
Retained earnings		(476,576)	(530,970)
<b>TOTAL EQUITY</b>		<b>372,649</b>	<b>322,595</b>

<sup>(1)</sup> Reflects the adoption of AASB 16 *Leases* from 1 July 2019. Comparatives have not been restated.



# FINANCIAL REPORT

## Consolidated Statement of Changes in Equity For the year ended 30 June 2020

\$'000	Attributable to equity holders of the Parent entity						Total equity
	Contributed equity	Common control reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payments reserve	Retained Earnings	
Year ended 30 June 2020							
As at 1 July 2019	1,750,476	(928,385)	(4,580)	33,897	2,157	(530,970)	322,595
Adjustment on adoption of AASB 16	-	-	-	-	-	(34,309)	(34,309)
As at 1 July 2019 (adjusted) <sup>(1)</sup>	1,750,476	(928,385)	(4,580)	33,897	2,157	(565,279)	288,286
Profit for the year	-	-	-	-	-	88,847	88,847
Other comprehensive loss	-	-	(2,197)	(2,753)	-	(144)	(5,094)
Total comprehensive (loss) / income	-	-	(2,197)	(2,753)	-	88,703	83,753
Share based payments expense	-	-	-	-	610	-	610
Transactions with owners in their capacity as owners	-	-	-	-	610	-	610
Balance as at 30 June 2020	1,750,476	(928,385)	(6,777)	31,144	2,767	(476,576)	372,649
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
As at 1 July 2018 (adjusted)	1,690,476	(928,385)	111	22,965	2,325	(203,137)	584,355
Loss for the year	-	-	-	-	-	(289,587)	(289,587)
Other comprehensive income / (loss)	-	-	(4,691)	10,932	-	(10)	6,231
Total comprehensive (loss) / 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

<sup>(1)</sup> Reflects the adoption of AASB 16 Leases from 1 July 2019. Comparatives have not been restated.

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 2020

\$'000	Notes	2020 <sup>(1)</sup>	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		980,845	1,160,215
Receipts from securitisation program		1,057,888	944,281
Payments to suppliers and employees		(1,775,178)	(1,931,802)
Income tax paid		(4,315)	(38,438)
Interest received		1,534	168
(Payments to) / proceeds from securitisation of trade debtors		(6,840)	13,611
Borrowing, trade debtor securitisation and other finance costs paid <sup>(2)</sup>		(61,803)	(39,352)
<b>Net cash flows provided by operating activities</b>	<b>4.1</b>	<b>192,131</b>	<b>108,683</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for property, plant and equipment		(76,475)	(69,455)
Payments for investments in associates and joint ventures	2.3	(3,558)	-
Purchase of businesses and subsidiaries, net of cash acquired	2.1	-	(78,725)
Proceeds from sale of property, plant and equipment		669	88
Sundry items		599	867
<b>Net cash flows used in investing activities</b>		<b>(78,765)</b>	<b>(147,225)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		315,139	433,786
Repayment of borrowings		(357,599)	(376,630)
Repayment of lease liability principal (net of incentive received)		(44,480)	-
Payment of dividend		-	(38,236)
<b>Net cash flows (used in) / provided by financing activities</b>		<b>(86,940)</b>	<b>18,920</b>
Net increase / (decrease) in cash and cash equivalents		26,426	(19,622)
Cash and cash equivalents at the beginning of the year		49,950	67,980
Effect of exchange rate changes on cash and cash equivalents		(372)	1,592
<b>Cash and cash equivalents at the end of the year</b>		<b>76,004</b>	<b>49,950</b>

<sup>(1)</sup> Reflects the adoption of AASB 16 *Leases* from 1 July 2019. Comparatives have not been restated.

<sup>(2)</sup> In the current period net cash flows from operating activities includes an outflow of \$26.4 million in relation to interest expense on lease liabilities recognised in accordance with AASB 16.

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 2020.

### 1.1 GROUP RESULTS

\$'000	Packaging and Sustainability	Materials Handling and Pooling	Contract Manufacturing Services	Eliminations	Total
<b>Year ended 30 June 2020</b>					
Revenue	1,143,852	315,599	394,188	(44,481)	1,809,158
EBITDA <sup>(1)(2)</sup>	181,272	73,012	47,523	-	301,807
EBIT <sup>(1)(3)</sup>	90,806	44,200	31,257	-	166,263

\$'000	Packaging and Sustainability	Materials Handling and Pooling	Contract Manufacturing Services	Eliminations	Total
<b>Year ended 30 June 2019</b>					
Revenue	1,208,468	296,386	372,263	(43,041)	1,834,076
EBITDA <sup>(2)</sup>	154,577	51,054	25,063	-	230,694
EBIT <sup>(3)</sup>	97,409	35,710	15,285	-	148,404

<sup>(1)</sup> Reflects the adoption of AASB 16 Leases from 1 July 2019. Comparatives have not been restated.

<sup>(2)</sup> EBITDA - Earnings before finance costs and loss on de-recognition of financial assets, net of interest income, tax, depreciation and amortisation and significant items.

<sup>(3)</sup> 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 Managing Director and CEO monitors 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.

Reportable segments	Products/services	Countries of Operation
<ul style="list-style-type: none"> <li>Packaging and Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Manufacture and supply of rigid plastic and metal packaging and associated services</li> <li>Recycling and sustainability services</li> </ul>	<ul style="list-style-type: none"> <li>Australia</li> <li>New Zealand</li> <li>China</li> <li>Indonesia</li> <li>Philippines</li> <li>Singapore</li> <li>Thailand</li> <li>Hong Kong</li> <li>South Korea</li> <li>Nepal</li> <li>India</li> </ul>
<ul style="list-style-type: none"> <li>Materials Handling and Pooling</li> </ul>	<ul style="list-style-type: none"> <li>Manufacture and supply of materials handling products and the provision of associated services</li> <li>Pooling services</li> </ul>	<ul style="list-style-type: none"> <li>Australia</li> <li>New Zealand</li> <li>China</li> <li>Hong Kong</li> <li>United States of America</li> <li>India</li> <li>Bangladesh</li> <li>United Kingdom</li> <li>Sri Lanka</li> </ul>
<ul style="list-style-type: none"> <li>Contract Manufacturing Services</li> </ul>	<ul style="list-style-type: none"> <li>Contract manufacturing and packing services</li> </ul>	<ul style="list-style-type: none"> <li>Australia</li> </ul>

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 1.1 GROUP RESULTS (CONTINUED)

### Net profit / (loss) 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	2020 <sup>(1)</sup>	2019
<b>EBITDA</b>		<b>301,807</b>	230,694
<b>Depreciation and Amortisation</b>		<b>(135,544)</b>	(82,290)
<b>EBIT</b>		<b>166,263</b>	148,404
<b>Significant items</b>			
Transaction costs <sup>(2)</sup>		<b>(4,034)</b>	(3,666)
Inventory write downs and related disposal costs		-	(13,031)
Net gain on lease modification <sup>(3)</sup>		<b>4,544</b>	-
Reversal of contingent consideration obligation <sup>(4)</sup>		<b>30,000</b>	-
Finalisation of acquisition consideration <sup>(5)</sup>		<b>(7,172)</b>	-
Impairment and write-off expenses	3.2		
• Property, plant and equipment		-	(136,330)
• Intangible assets and goodwill		<b>(11,793)</b>	(232,435)
<b>Business Restructuring Programs</b>			
• restructuring costs <sup>(6)</sup>		<b>(4,790)</b>	(37,842)
• asset write downs		<b>(218)</b>	-
		<b>(5,008)</b>	(37,842)
<b>Total significant items</b>		<b>6,537</b>	(423,304)
<b>EBIT after significant items</b>		<b>172,800</b>	(274,900)
Net finance costs <sup>(7)</sup>		<b>(62,754)</b>	(38,980)
<b>Net profit / (loss) before tax</b>		<b>110,046</b>	(313,880)
Income tax (expense) / benefit		<b>(21,199)</b>	24,293
<b>Net profit / (loss) after tax</b>		<b>88,847</b>	(289,587)

<sup>(1)</sup> Reflects the adoption of AASB 16 *Leases* from 1 July 2019. Comparatives have not been restated.

<sup>(2)</sup> Transaction costs includes professional fees, stamp duty and all other costs associated with business acquisitions and divestments.

<sup>(3)</sup> In relation to the lease contract previously subject to the onerous lease provision recognised as at 30 June 2019, a net gain on lease modification was recognised as a difference between the gain on lease modification for \$9.9 million and derecognition of ROU assets for \$5.4 million in accordance with AASB 16: *Leases*.

<sup>(4)</sup> Reversal of contingent consideration obligation recognised on acquisition of TIC. The specific financial hurdles required for payment were not achieved. In accordance with AASB 3: *Business Combinations*, changes to the fair value of amounts payable for acquisitions is recorded in the consolidated statement of comprehensive income.

<sup>(5)</sup> Adjustments recognised following completion of accounting for acquisitions made in the year ended 30 June 2019.

<sup>(6)</sup> Business restructuring relates to the optimisation of business facilities across the Group.

<sup>(7)</sup> Net finance costs includes interest income of \$683,000 (2019: \$695,000).

### Basic and diluted earnings per share

	2020	2019
<b>Earnings per share (EPS) (cents) - Basic</b>	<b>25.8</b>	(85.3)
<b>Earnings per share (EPS) (cents) - Diluted</b>	<b>25.7</b>	(85.3)
Calculated using:		
• Net profit attributable to ordinary equity holders (\$'000)	<b>88,847</b>	(289,587)
• Weighted average of ordinary shares (shares) - Basic	<b>343,993,595</b>	339,600,703
• Weighted average of ordinary shares (shares) - Diluted	<b>345,329,618</b>	340,687,214

Earnings per share is calculated by dividing the net profit/(loss) 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 1.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

### Disaggregation of revenue from contracts with customers

\$'000	Packaging and Sustainability <sup>(1)</sup>	Materials Handling and Pooling	Contract Manufacturing Services <sup>(2)</sup>	Eliminations	Total
<b>Year ended 30 June 2020</b>					
Australia	617,973	162,882	394,131	-	1,174,986
New Zealand	292,954	138	-	-	293,092
Asia	191,851	57,026	-	-	248,877
Revenue from contracts with customers	1,102,778	220,046	394,131	-	1,716,955
Revenue from asset hire services <sup>(3)</sup>	-	92,203	-	-	92,203
Inter-segment revenue	41,074	3,350	57	(44,481)	-
Revenue	1,143,852	315,599	394,188	(44,481)	1,809,158

<sup>(1)</sup> 0.2% of total revenue for Packaging and Sustainability is recognised over time.

<sup>(2)</sup> 2.5% of total revenue for Contract Manufacturing Services is recognised over time.

<sup>(3)</sup> Revenue from asset hire services is accounted for under AASB 16: *Leases*.

\$'000	Packaging and Sustainability <sup>(1)</sup>	Materials Handling and Pooling	Contract Manufacturing Services <sup>(2)</sup>	Eliminations	Total
<b>Year ended 30 June 2019</b>					
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 <sup>(3)</sup>	-	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

<sup>(1)</sup> 0.4% of total revenue for Packaging and Sustainability is recognised over time.

<sup>(2)</sup> 5.7% of total revenue for Contract Manufacturing Services is recognised over time.

<sup>(3)</sup> Revenue from asset hire services is accounted for under AASB 117: *Leases*.

### How Pact accounts for revenue

The core principle of AASB 15 *Revenue from Contracts with Customers* 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.

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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 1.3 TAXATION

### Reconciliation of tax expense

\$'000	2020	2019 <sup>(1)</sup>
<b>Accounting profit / (loss) before tax</b>	<b>110,046</b>	(313,880)
Income tax calculated at 30% (2019: 30%)	<b>33,014</b>	(94,164)
Adjustments in respect of income tax of previous years	<b>(2,009)</b>	(344)
Impairment of goodwill	-	69,340
Lease surrender	<b>(1,363)</b>	-
Tax on unremitted foreign income	<b>2,258</b>	1,879
Overseas tax rate differential	<b>(2,977)</b>	(2,115)
Finalisation of acquisition consideration	<b>(7,172)</b>	-
Sundry items	<b>(552)</b>	1,111
<b>Income tax expense / (benefit) reported in the Consolidated Statement of Comprehensive Income</b>	<b>21,199</b>	(24,293)
<b>Comprising of:</b>		
• Current year income tax expense	<b>28,933</b>	17,065
• Deferred income tax benefit	<b>(5,725)</b>	(41,014)
• Adjustments in respect of previous years income tax	<b>(2,009)</b>	(344)

<sup>(1)</sup> The comparatives have not been restated for AASB 16.

Included in the above is a tax benefit on significant items and other significant tax items of \$9.1 million for the year ended 30 June 2020 (2019: \$56.4 million).

### Recognised current and deferred tax assets and liabilities

\$'000	2020 Current Income tax Asset / (Liability)	2020 Deferred Income tax	2019 Current Income tax Asset / (Liability)	2019 Deferred Income tax
<b>Opening balance</b>	<b>3,360</b>	<b>5,154</b>	(19,075)	(35,860)
Charged to income	<b>(28,934)</b>	<b>5,725</b>	(15,899)	39,848
Adjustments in respect of income tax of previous years	<b>(10,285)</b>	<b>12,294</b>	(154)	102
Charged to other comprehensive income	<b>1,088</b>	-	-	1,762
Adjustment from adoption of AASB 16	<b>9,234</b>	-	-	-
Net payments	<b>4,315</b>	-	38,438	-
Acquisitions / (disposals)	-	-	188	(390)
Foreign exchange translation movement	<b>46</b>	<b>178</b>	(138)	(308)
<b>Closing balance</b>	<b>(21,176)</b>	<b>23,351</b>	3,360	5,154
<b>Comprises of:</b>				
• Deferred tax assets				
Employee entitlements provision		<b>16,824</b>		12,522
Provisions		<b>3,838</b>		13,688
Unutilised tax losses		<b>1,037</b>		4,864
Lease incentives and rent free		-		4,616
Lease liability		<b>132,872</b>		-
Other		<b>8,303</b>		6,410
		<b>162,874</b>		42,100
Offset with deferred tax liability		<b>(129,727)</b>		(24,268)
Net deferred tax asset		<b>33,147</b>		17,832
• Deferred tax liabilities				
Property, plant and equipment		<b>(135,890)</b>		(23,730)
Intangibles		<b>(3,983)</b>		(8,659)
Other		<b>350</b>		(4,557)
		<b>(139,523)</b>		(36,946)
Offset with deferred tax asset		<b>129,727</b>		24,268
Net deferred tax liability		<b>(9,796)</b>		(12,678)



#### 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. AASB Interpretation 23 *Uncertainty over Income Tax Treatment* addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of the recognition and measurement criteria in AASB 112 *Income Taxes*. 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. Refer note 6.2 for further details.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 1.3 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, including those arising from a single transaction, 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 are 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.

## 1.4 DIVIDENDS

\$'000	2020	2019
Dividends paid during the financial year	-	38,236
Proposed dividend <sup>(1)</sup>	10,320	-

<sup>(1)</sup> The directors have determined to pay a final dividend of 3.0 cents per ordinary share after the end of the financial year (2019: Nil).

### Franking credit balance<sup>(2)</sup>

Franking account balance as at the end of the financial year at 30% (2019: 30%)	4,690	21,519
Franking credits / (debits) that will arise from the payment / (refund) of income tax payable as at the end of the financial year	10,000	(16,829)
<b>Total franking credit available for the subsequent financial year</b>	<b>14,690</b>	<b>4,690</b>

<sup>(2)</sup> Franking credits have not been utilised as no dividends were paid during the financial year (2019: \$10.7 million).



## 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 2020 acquisitions:

There have been no acquisitions for the year ended 30 June 2020.

#### Completion of prior year acquisition accounting

On 31 October 2019 the Group finalised the acquisition accounting of TIC Retail Accessories ('TIC'). A decrease of \$0.5 million to goodwill has been recognised in the period in relation to the TIC acquisition, which occurred in the prior year.

### 2.2 CONTROLLED ENTITIES

#### Australian incorporated entities that are party to the Deed of Cross Guarantee at 30 June 2020<sup>(1)</sup>

<ul style="list-style-type: none"> <li>• Pact Group Industries (ANZ) Pty Ltd</li> <li>• Australian Pharmaceutical Manufacturers Pty Ltd</li> <li>• Pact Group Holdings (Australia) Pty Ltd</li> <li>• Pact Group Finance (Australia) Pty Ltd</li> <li>• Power Plastics Pty Ltd</li> <li>• Pascoes Pty Ltd</li> <li>• Bidware Pty Ltd</li> <li>• Middleton Asset Financing &amp; Leasing Pty Ltd</li> <li>• Alto Packaging Australia Pty Ltd</li> <li>• Summit Manufacturing Pty Ltd</li> <li>• Astron Plastics Pty Ltd</li> <li>• Sunrise Plastics Pty Ltd</li> <li>• INPACT Innovation Pty Ltd</li> <li>• Cinqplast Plastop Australia Pty Ltd</li> <li>• Steri-Plas Pty Ltd</li> <li>• Sulo MGB Australia Pty Ltd</li> <li>• VIP Steel Packaging Pty Ltd</li> <li>• VIP Drum Reconditioners Pty Ltd</li> <li>• Vmax Returnable Packaging Systems Pty Ltd</li> <li>• Viscount Plastics Pty Ltd</li> <li>• Viscount Plastics (Australia) Pty Ltd</li> <li>• Viscount Rotational Mouldings Pty Ltd</li> <li>• Viscount Logistics Services Pty Ltd</li> <li>• Viscount Pooling Company Pty Ltd</li> <li>• Viscount Pooling Systems Pty Ltd*</li> <li>• TIC RA AU Pty Ltd</li> </ul>	<ul style="list-style-type: none"> <li>• Jalco Group Pty Ltd</li> <li>• Jalco Automotive Pty Ltd</li> <li>• Jalco Powders Pty Ltd</li> <li>• Jalco Plastics Pty Ltd</li> <li>• Jalco Australia Pty Ltd</li> <li>• Jalco Care Products Pty Ltd</li> <li>• Packaging Employees Pty Ltd</li> <li>• Jalco Cosmetics Pty Ltd</li> <li>• Jalco Promotional Packaging Pty Ltd</li> <li>• VIP Plastic Packaging Pty Ltd</li> <li>• Skyson Pty Ltd</li> <li>• Brickwood (VIC) Pty Ltd</li> <li>• Brickwood (Dandenong) Pty Ltd</li> <li>• Brickwood (NSW) Pty Ltd</li> <li>• Brickwood (QLD) Pty Ltd</li> <li>• Alto Manufacturing Pty Ltd</li> <li>• Baroda Manufacturing Pty Ltd</li> <li>• Salient Asia Pacific Pty Ltd</li> <li>• Plaspak Closures Pty Ltd</li> <li>• Plaspak Pty Ltd</li> <li>• MTWO Pty Ltd</li> <li>• Snopak Manufacturing Pty Ltd</li> <li>• Pact Group Industries (Asia) Pty Ltd</li> <li>• Viscount Plastics (China) Pty Ltd</li> <li>• Ruffgar Holdings Pty Ltd</li> <li>• Davmar Investments Pty Ltd</li> </ul>
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\* There is currently an option granted to a 3<sup>rd</sup> party to purchase 50% shares in this entity. This option has not been exercised.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 2.2 CONTROLLED ENTITIES (CONTINUED)

Entities that are not party to the Deed of Cross Guarantee, incorporated in the following jurisdictions<sup>(1)</sup>

### AUSTRALIA

- Plaspak Contaplas Pty Ltd<sup>(2)</sup>
- Plaspak Management Pty Ltd<sup>(2)</sup>
- Plaspak (PET) Pty Ltd<sup>(2)</sup>
- Plaspak Minto Pty Ltd<sup>(3)</sup>
- 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<sup>(4)</sup>
- TIC RA NZ Ltd<sup>(5)</sup>

### CHINA

- Guangzhou Viscount Plastics Co Ltd<sup>(6)</sup>
- Langfang Viscount Plastics Co Ltd<sup>(6)</sup>
- Changzhou Viscount Plastics Co Ltd<sup>(6)</sup>
- Pact Group Closure Systems (Guangzhou) Co. Ltd<sup>(7)</sup>
- Pact Group Closure Systems (Tianjin) Co. Ltd<sup>(7)</sup>
- Pact Group Packaging Systems (Guangzhou) Co., Ltd<sup>(9)</sup>
- Dongguan Top Rise Trading Co. Ltd<sup>(10)</sup>
- Regent Plastic Products Ltd<sup>(8)</sup>
- Ningbo Xunxing Trade Co. Ltd<sup>(11)</sup>

### BANGLADESH

- TIC Trading (Bangladesh) Ltd<sup>(11)</sup>
- TIC Manufacturing (Bangladesh) Ltd<sup>(11)</sup>
- TIC Industries (Bangladesh) Pty Ltd<sup>(11)</sup>

### HONG KONG

- Pact Group Holdings (Hong Kong) Limited<sup>(12)</sup>
- Roots Investment Holding Private Limited<sup>(7)</sup>
- TIC Group (HK) Ltd<sup>(13)</sup>
- TIC Group (Asia) Ltd<sup>(13)</sup>
- Talent Group Development Ltd<sup>(13)</sup>
- Fast Star International Holdings Ltd<sup>(13)</sup>
- TIC Group Ltd<sup>(13)</sup>

### INDIA

- Pact Closure Systems (India) Private Limited<sup>(12)</sup>
- AMRS Business Services Private Limited<sup>(13)</sup>

### INDONESIA

- PT Plastop Asia Indonesia<sup>(14)</sup>
- PT Plastop Asia Indonesia Manufacturing<sup>(14)</sup>

### KOREA

- Pact Group Closure Systems Korea Ltd<sup>(7)</sup>

### NEPAL

- Pact Group Closure Systems Nepal Private Limited<sup>(12)</sup>

### PHILIPPINES

- Plastop Asia Inc<sup>(15)</sup>
- Pact Closure Systems (Philippines), Inc<sup>(12)</sup>

### SINGAPORE

- Asia Peak Pte Ltd<sup>(12)</sup>

### UNITED STATES OF AMERICA

- Pact Group (USA) Inc<sup>(16)</sup>
- PGH Services LLC<sup>(13)</sup>

### UNITED KINGDOM

- TIC Group (Europe) Ltd<sup>(16)</sup>

<sup>(1)</sup> All entities are wholly owned

<sup>(2)</sup> Owned by Skyson Pty Ltd

<sup>(3)</sup> Owned by Snopak Manufacturing Pty Ltd

<sup>(4)</sup> Owned by Sulo MGB Australia Pty Ltd

<sup>(5)</sup> Owned by Pact Group Holdings (NZ) Ltd

<sup>(6)</sup> Owned by Viscount Plastics (China) Pty Ltd

<sup>(7)</sup> Owned by Pact Group Holdings (Hong Kong) Limited

<sup>(8)</sup> Owned by Talent Group Development Ltd

<sup>(9)</sup> Owned by Roots Investment Holding Private Limited

<sup>(10)</sup> Owned by TIC Group (Asia) Ltd

<sup>(11)</sup> Owned by Fast Star International Ltd

<sup>(12)</sup> Owned by Pact Group Industries (Asia) Pty Ltd

<sup>(13)</sup> Owned by Davmar Investments Pty Ltd

<sup>(14)</sup> Owned by Asia Peak Pte Ltd

<sup>(15)</sup> Owned by Ruffgar Holdings Pty Ltd

<sup>(16)</sup> Owned by Pact Group Industries (ANZ) Pty Ltd



#### Key Estimate and Judgement – 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 (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

#### 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 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				2020	2019
Changzhou Viscount Oriental Mould Co Ltd (Oriental Mould) <sup>(1)</sup>	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%	220	205
Spraypac Products (NZ) Ltd (Spraypac) <sup>(1)</sup>	New Zealand	Is an associate company distributing plastic bottles and related spray products.	50%	976	732
Weener Plastop Asia Inc (Weener) <sup>(1)</sup>	Philippines	A joint venture with Weener Plastik GMBH which manufactures plastic jars and bottles for the Personal Care, Food & Beverage and Home Care markets.	50%	2,133	1,256
Gempack Weener (Gempack) <sup>(1)</sup>	Thailand	A joint venture with Weener Plastik GMBH which manufactures plastic jars and bottles for the Personal Care, Food & Beverage and Home Care markets.	50%	20,632	19,323
Weener Plastop Indonesia Inc <sup>(1)</sup>	Indonesia	A joint venture with Weener Plastik GMBH which manufactures closures and roll-on balls for the Personal Care and Home Care markets.	50%	3,012	2,837
Australian Recycled Plastics Pty Ltd <sup>(2)</sup>	Australia	A joint venture which processes kerbside collected recyclable plastic materials to produce PET flake and HDPE flake simultaneously.	50.8%	3,903	-

<sup>(1)</sup> Ownership interest at 30 June 2020 and 30 June 2019.

<sup>(2)</sup> On 14 November 2019 the Group purchased 50.8% of the net assets of ARP, a plastics recycling business located in NewSouth Wales. Management have assessed that the interest held in ARP satisfies the criteria of a joint venture as per AASB 11 Joint Arrangements, and therefore have equity accounted for this investment in accordance with AASB 128 Investment in associates and joint ventures.

In accordance with AASB 12: Disclosure of Interests in Other Entities, given the material carrying value of the Group's investment in Gempack, the table below shows the summarised financial information and the carrying amount of the Group's investment:

\$'000		2020
<b>Summarised statement of financial position</b>		
Cash and cash equivalents		11,072
Other current assets		13,973
Non current assets		25,281
Other current liabilities		(9,061)
<b>Net assets</b>		<b>41,265</b>
<b>Carrying amount of the Group's investment</b>		<b>20,632</b>
<b>Summarised statement of comprehensive income</b>		
Interest expense		1,100
Depreciation and amortisation		2,358
Income tax expense		455

### Summary of associates and joint venture financial information at 30 June<sup>(1)</sup>

\$'000		2020	2019
<b>Summarised statement of financial position</b>			
Current assets		42,930	24,984
Non-current assets		36,261	34,978
Current liabilities		(16,401)	(11,918)
Non-current liabilities		(1,337)	-
<b>Net assets</b>		<b>61,453</b>	<b>48,044</b>
<b>Carrying amount of the Group's investment</b>		<b>30,876</b>	<b>24,353</b>
<b>Summarised statement of comprehensive income</b>			
Revenue		51,890	39,470
Expense		(45,664)	(34,812)
<b>Net profit after tax</b>		<b>6,226</b>	<b>4,658</b>
<b>Group's share of profit for the year</b>		<b>3,131</b>	<b>2,336</b>

<sup>(1)</sup> Includes the Group's investment in Gempack.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 2.3 ASSOCIATES AND JOINT VENTURES (CONTINUED)

### Summary of associates and joint venture financial information at 30 June (continued)

Dividends received from associates and joint ventures during the year was \$0.7 million (2019: \$0.9 million).

The joint ventures and associates had no contingent liabilities or material capital commitments at 30 June 2020 (2019: 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 over 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 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 1.3 *Taxation* and employee benefits provisions are disclosed in Note 5.2 *Employee Benefits Expenses and Provisions*.

### 3.1 WORKING CAPITAL

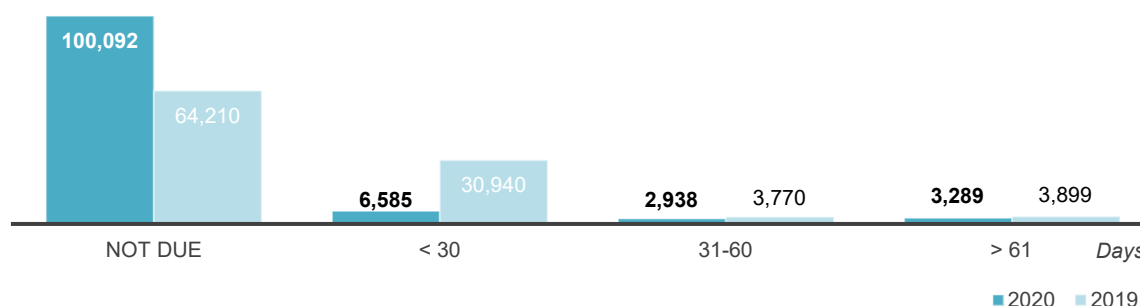
#### Trade and other receivables

Trade and other receivables at 30 June comprise of:

\$'000	2020	2019
Trade receivables <sup>(1)</sup>	113,354	103,812
Allowance for expected credit losses	(450)	(993)
Other receivables <sup>(2)</sup>	36,775	42,463
<b>Total current trade and other receivables</b>	<b>149,679</b>	<b>145,282</b>

<sup>(1)</sup> Below is a breakdown of the ageing of trade receivables:

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



<sup>(2)</sup> At 30 June 2020 \$26.7 million (2019: \$26.3 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 2020, the Group had expected credit losses of \$0.4 million (2019: \$1.0 million). 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;
- Debtors securitisation program which allows Pact to sell receivables, at a discount to a third party on a non-recourse basis. The securitisation program has a committed facility limit of \$120.0 million (2019: \$130.0 million); and
- Receivables finance program which allows Pact to sell selected receivables at a discount to a third party on a non-recourse basis. This program has an uncommitted facility limit of \$35.0 million (2019 : \$35.0 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 2020.

In assessing expected credit losses, the Group has considered the current and potential impact of Covid-19 and related economic conditions. Management considers the credit risks associated with the pandemic to be sufficiently mitigated due to the diversity and credit standing of the Group's customers. Accordingly, the Group has not experienced a significant increase in expected credit losses.

# 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 lease receivables, 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 debtor's 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	2020	2019
Raw materials and stores	109,989	98,216
Work in progress	22,943	21,448
Finished goods	90,766	92,182
<b>Total inventories</b>	<b>223,698</b>	<b>211,846</b>

#### 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.

#### Trade and other payables

Current trade and other payables at 30 June comprise of:

\$'000	2020	2019
Trade payables	261,405	304,602
Other payables	116,719	61,013
<b>Total current trade and other payables</b>	<b>378,124</b>	<b>365,615</b>

#### 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 – 90 days of recognition.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 3.2 NON-CURRENT ASSETS

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

\$'000	2020	2019
Australia	851,812	669,175
New Zealand	362,007	310,225
Asia	238,251	136,196
<b>TOTAL</b>	<b>1,452,070</b>	<b>1,115,596</b>

### Property, plant and equipment<sup>(1)</sup>

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

\$'000	Property <sup>(2)</sup>	Plant and equipment	Assets for hire <sup>(4)</sup>	Right of use asset	Capital work in progress	Total
Estimated useful life	Freehold: 40 – 50 years Leasehold improvements: 10 – 15 years	3 – 20 years	10 years	3 – 20 years	n/a	
<b>Year ended 30 June 2020</b>						
At 1 July 2019 net of accumulated depreciation	53,375	471,609	24,578	-	88,980	638,542
Adoption of AASB 16	-	-	-	377,077	-	377,077
Additions and transfers	8,515	84,974	12,605	47,183	(29,263)	124,014
Acquisition of subsidiaries and businesses	-	524	-	-	-	524
Receipt of lease incentive	-	-	-	(2,909)	-	(2,909)
Disposals	-	(1,552)	-	-	-	(1,552)
Derecognition of ROU assets	-	-	-	(5,379)	-	(5,379)
Foreign exchange translation movement	(433)	(2,798)	-	592	(116)	(2,755)
Depreciation charge for the year	(4,385)	(71,122)	(3,631)	(52,422)	-	(131,560)
<b>At 30 June 2020 net of accumulated depreciation</b>	<b>57,072</b>	<b>481,635</b>	<b>33,552</b>	<b>364,142</b>	<b>59,601</b>	<b>996,002</b>
Represented by:						
• At cost	85,821	1,202,980	42,031	416,564	59,601	1,806,997
• Accumulated depreciation	(28,749)	(721,345)	(8,479)	(52,422)	-	(810,995)
<b>Year ended 30 June 2019</b>						
At 1 July 2018 net of accumulated depreciation	43,852	580,991	30,910	-	99,660	755,413
Additions and transfers	11,936	63,796	(808)	-	(11,706)	63,218
Acquisition of subsidiaries and businesses	1,119	24,194	-	-	-	25,313
Disposals	-	(357)	-	-	-	(357)
Asset write downs <sup>(3)</sup>	-	(136,330)	-	-	-	(136,330)
Foreign exchange translation movement	1,245	7,272	-	-	1,026	9,543
Depreciation charge for the year	(4,777)	(67,957)	(5,524)	-	-	(78,258)
<b>At 30 June 2019 net of accumulated depreciation</b>	<b>53,375</b>	<b>471,609</b>	<b>24,578</b>	<b>-</b>	<b>88,980</b>	<b>638,542</b>
Represented by:						
• At cost	79,625	1,197,819	29,426	-	88,980	1,395,850
• Accumulated depreciation and impairment	(26,250)	(726,210)	(4,848)	-	-	(757,308)

<sup>(1)</sup> Reflects the adoption of AASB 16 *Leases* from 1 July 2019. Comparatives have not been restated.

<sup>(2)</sup> Property consists of the following: leasehold improvements of \$34.7 million (2019: \$28.8 million) and accumulated depreciation of \$13.8 million (2019: \$11.6 million), and freehold property of \$51.1 million (2019: \$50.8 million) and accumulated depreciation of \$14.9 million (2019: \$14.6 million).

<sup>(3)</sup> The impairment loss of \$136.3 million represented the write-down of certain property, plant and equipment 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.

<sup>(4)</sup> In accordance with AASB 16: *Leases*, assets for hire has been disclosed separately to comply with the requirements of AASB 116: *Property, Plant and Equipment*.



#### Key Estimates and Judgements – Estimation of useful lives of assets

The estimation of the useful lives of assets, excluding the ROU assets, has been based on historical experience. 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.

The estimation of the useful lives of ROU assets has been based on the non-cancellable period of the lease plus renewal options when the exercise of the option is considered to be reasonably certain.



#### 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 determined to assess if any impairment is required.



# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 3.2 NON-CURRENT ASSETS (CONTINUED)

### Property, plant and equipment (continued)

#### 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.

#### Goodwill and other intangibles

Intangible assets are comprised of the following:

\$'000	Notes	Customer contracts <sup>(1)</sup>	Other intangibles <sup>(1)</sup>	Goodwill	Total
<b>Year ended 30 June 2020</b>					
At 1 July 2019 net of accumulated amortisation and impairment		20,260	9,586	447,208	477,054
Additions		-	4	-	4
Transfer to Property, Plant & Equipment		-	(520)	-	(520)
Intangible asset arising on acquisition	2.1	-	-	(595)	(595)
Write-off expense <sup>(2)</sup>		(11,793)	-	-	(11,793)
Foreign exchange translation movements		-	(23)	(4,075)	(4,098)
Amortisation		(2,810)	(1,174)	-	(3,984)
<b>At 30 June 2020 net of accumulated amortisation and impairment</b>		<b>5,657</b>	<b>7,873</b>	<b>442,538</b>	<b>456,068</b>
Represented by:					
At cost		28,106	14,410	673,670	716,186
Accumulated amortisation and impairment		(22,449)	(6,537)	(231,132)	(260,118)

<sup>(1)</sup> Customer contracts are recognised at cost and amortised on a straight-line basis over a period of 10 years (useful life). Other intangibles includes a balance of \$1.8 million which has an indefinite life and is not amortised, all other intangibles are recognised at cost and amortised over their useful lives.

<sup>(2)</sup> During the year, a customer contract acquired in a previous business combination was written down due to reduced future economic benefits expected.

\$'000	Customer contracts	Other intangibles	Goodwill	Total
<b>Year ended 30 June 2019</b>				
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 <sup>(1)</sup>	-	-	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)
<b>At 30 June 2019 net of accumulated amortisation and impairment</b>	<b>20,260</b>	<b>9,586</b>	<b>447,208</b>	<b>477,054</b>
Represented by:				
At cost	28,106	14,949	678,340	721,395
Accumulated amortisation and impairment	(7,846)	(5,363)	(231,132)	(244,341)

<sup>(1)</sup> In the prior year, 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).

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 3.2 NON-CURRENT ASSETS (CONTINUED)

### Goodwill and other intangibles (continued)

\$'000	2020	2019
<b>Goodwill and intangible assets with indefinite lives are allocated to the following group of CGU's and segments<sup>(1)</sup>:</b>		
Packaging and Sustainability	<b>254,623</b>	258,628
Contract Manufacturing Services	<b>21,030</b>	21,031
Materials Handling and Pooling	<b>168,647</b>	169,311
	<b>444,300</b>	448,970

<sup>(1)</sup> This is the lowest level where goodwill is monitored.

### 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 expected volume growth and price growth. Rates are based on published industry research and economic forecasts relating to GDP growth rates, adjusted for management's view on customer performance.
- **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 CGUs within the operating segment.

	Packaging and Sustainability	Materials Handling and Pooling	Contract Manufacturing Services
<b>2020</b>			
Discount rate (pre-tax) <sup>(1)</sup>	<b>9.4% - 17.0%</b>	<b>11.8% - 14.3%</b>	<b>13.6%</b>
Terminal growth rate <sup>(1)</sup>	<b>1.0% - 5.9%</b>	<b>1.0% - 1.2%</b>	<b>1.0%</b>
<b>2019</b>			
Discount rate (pre-tax) <sup>(1)</sup>	<b>9.8% - 20.5%</b>	<b>11.8% - 14.3%</b>	<b>14.3%</b>
Terminal growth rate <sup>(1)</sup>	<b>1.0% - 7.2%</b>	<b>1.0% - 1.2%</b>	<b>1.0%</b>

<sup>(1)</sup> The % range of the discount rate and terminal growth rate is representative of the different countries within each CGU.

The below table shows the carrying amount and headroom analysis across the segments:

	Packaging and Sustainability	Materials Handling and Pooling	Contract Manufacturing Services
Carrying amount (\$'000)	<b>820,382</b>	<b>326,448</b>	<b>124,279</b>
Headroom (times)	<b>1.14</b>	<b>1.21</b>	<b>1.49</b>
Breakeven analysis <sup>(1)</sup>			
Terminal growth rate; and	↓ <b>0.5%</b>	↓ <b>1.0%</b>	↓ <b>1.0%</b>
Discount rate	↑ <b>1.0%</b>	↑ <b>3.0%</b>	↑ <b>1.0%</b>

<sup>(1)</sup> This is the level at which 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 3.2 NON-CURRENT ASSETS (CONTINUED)

### Goodwill and other intangibles (continued)



#### Key Estimate and Judgement – 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 5 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. In the current period, Management's estimates and judgement also specifically considered the potential risks arising from the Covid-19 pandemic. Management considers the risks associated with the pandemic to be sufficiently mitigated due to the diversity of the Group's customers and products such that any prolonged impact from a pandemic will not result in a material change to any of the assumptions adopted for impairment testing purposes.

## 3.3 CAPITAL EXPENDITURE COMMITMENTS AND CONTINGENCIES

### Capital expenditure commitments

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

\$'000	2020	2019
Payable within one year	24,139	7,395
Payable after one year but not more than five years	6,419	449
<b>Total</b>	<b>30,558</b>	<b>7,844</b>

### 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.

## 3.4 OTHER PROVISIONS

Total other provisions at 30 June comprise of:

\$'000	2020	2019
<b>CURRENT</b>		
Business restructuring	-	13,914
<b>Total current provisions</b>	-	13,914
<b>NON-CURRENT</b>		
Fixed rent <sup>(1)</sup>	-	22,765
Make good on leased premises <sup>(1)</sup>	9,967	9,593
<b>Total non-current provisions</b>	<b>9,967</b>	<b>32,358</b>

<sup>(1)</sup> On adoption of AASB 16: *Leases*, the Group applied the modified retrospective approach to transition, under which the cumulative effect of initial application was recognised in retained earnings at 1 July 2019. Refer Note 6.2 for further details.

### Movement in provisions

\$'000	Business restructuring <sup>(1)</sup>	Fixed rent provision	Make good on leased premises	Total
<b>Year ended 30 June 2020</b>				
<b>At 1 July 2019</b>	<b>13,914</b>	<b>22,765</b>	<b>9,593</b>	<b>46,272</b>
Adoption of AASB 16	(10,357)	(22,765)	-	(33,122)
Provided for during the year	4,790	-	1,277	6,067
Utilised	(8,354)	-	(859)	(9,213)
Foreign exchange translation movement	7	-	(44)	(37)
<b>At 30 June 2020</b>	<b>-</b>	<b>-</b>	<b>9,967</b>	<b>9,967</b>

<sup>(1)</sup> Business restructuring - The business restructuring programs relate to the optimisation of business facilities across the Group.



#### 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 3.4 OTHER PROVISIONS (CONTINUED)

### 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.

## 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 interest-bearing loans and borrowings as at 30 June 2020:

#### CURRENT

\$'000	Notes	2020 <sup>(1)</sup>	2019
Lease liabilities	6.2	69,203	-
<b>Total current interest-bearing loans and borrowings</b>		<b>69,203</b>	<b>-</b>

#### NON-CURRENT

\$'000	Notes	2020 <sup>(1)</sup>	2019
Syndicated Facility Agreements <sup>(2)</sup>		643,700	689,232
Subordinated Debt Facility <sup>(2) (3)</sup>		50,991	50,287
Capitalised borrowing costs		(5,161)	(6,029)
<b>Total bank borrowings (including capitalised borrowing costs)</b>		<b>689,530</b>	<b>733,490</b>
Lease liabilities	6.2	385,656	-
<b>Total non-current interest-bearing loans and borrowings</b>		<b>1,075,186</b>	<b>733,490</b>

\$'000	Notes	2020 <sup>(1)</sup>	2019
Total interest-bearing loans - bank borrowings		689,530	733,490
Cash and cash equivalents		(76,004)	(49,950)
<b>Net debt before lease liabilities</b>		<b>613,526</b>	<b>683,540</b>
Lease liabilities		454,859	-
<b>Net debt</b>		<b>1,068,385</b>	<b>683,540</b>

<sup>(1)</sup> Reflects the adoption of AASB 16 Leases from 1 July 2019. Comparatives have not been restated.

<sup>(2)</sup> The group has several revolving debt facilities, two term facilities, a subordinated term debt facility and a working capital facility with total commitments of \$1,057.6 million, of which \$340.7 million is undrawn at 30 June 2020. The facilities are spread across multiple maturities, with the working capital facility revolving with an annual review. The debt facilities include a \$380.7 million loan facility maturing in January 2022, a \$184.6 million loan facility maturing in January 2023, a \$299.1 million loan facility maturing in March 2023, a \$120.0 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 \$23.0 million at 30 June 2020.

<sup>(3)</sup> This facility is denominated in USD and was translated to AUD using the AUD/USD spot rate as at 30 June 2020. The foreign currency exchange differences is fully hedged with a cross currency swap. The fair value of this swap of \$0.7 million is disclosed as a hedge asset.

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 2020 was assessed to be insignificant.

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

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

	2020 \$'000		2019 \$'000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Syndicated Facility Agreements	643,700	643,700	689,232	689,232
Subordinated Debt Facility	50,991	50,991	50,287	50,287
Lease liabilities	454,859	454,859	-	-
<b>Total borrowings</b>	<b>1,149,550</b>	<b>1,149,550</b>	<b>739,519</b>	<b>739,519</b>

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 4.1 NET DEBT (CONTINUED)

### (b) Defaults and breaches

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

### Debt profile (Continued)

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

\$'000	2020	2019
Interest expense on bank loans and borrowings	28,852	32,250
Borrowing costs amortisation	3,416	1,499
Amortisation of securitisation program costs	654	266
Sundry items	819	1,149
<b>Total interest expense on borrowings</b>	<b>33,741</b>	<b>35,164</b>
Interest expense on unwinding of provisions	536	432
Interest expense on lease liabilities	26,364	-
<b>Total finance costs</b>	<b>60,641</b>	<b>35,596</b>
Loss on de-recognition of financial assets	2,796	4,079
<b>Total finance costs &amp; loss on de-recognition of financial assets</b>	<b>63,437</b>	<b>39,675</b>

### 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 2020 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.

### Reconciliation of net profit / (loss) after tax to net cash flows from operations

\$'000	2020	2019
<b>Net profit / (loss) for the year</b>	<b>88,847</b>	<b>(289,587)</b>
<b>Non cash flows in operating profit / (loss):</b>		
Depreciation and amortisation <sup>(2)</sup>	135,544	82,290
Loss on sale of property, plant and equipment	883	269
Share of net profit in associates	(3,131)	(2,336)
Share based payments expense	610	(168)
Impairment and write-off expense	11,793	368,765
Other	208	2,794
<b>Changes in assets and liabilities:</b>		
(Increase) / decrease in trade and other receivables	(3,104)	39,961
(Increase) / decrease in inventory	(10,322)	11,977
Decrease / (increase) in current tax assets	3,360	(3,360)
(Increase) / decrease in deferred tax assets	19,353	(11,076)
(Decrease) / increase in trade and other payables	(40,666)	(54,468)
Increase / (decrease) in employee entitlement provisions	2,998	(1,921)
(Decrease) / increase in other provisions	(6,089)	12,809
Increase / (decrease) in current tax liabilities	18,939	(20,037)
Increase / (decrease) in deferred tax liabilities	(27,092)	(27,229)
<b>Net cash flow provided by operating activities</b>	<b>192,131</b>	<b>108,683</b>

<sup>(2)</sup> In the current period depreciation expense in non cash flows in operating profit / (loss) includes an amount of \$52.4 million in relation to Right of use assets.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 4.1 NET DEBT (CONTINUED)

### Reconciliation of net profit / (loss) after tax to net cash flows from operations (continued)

#### Non-cash activities

\$'000	Note	2020	2019
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.

## 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.

	2020		2019	
	Number of shares	\$'000	Number of shares	\$'000
<b>Movements in contributed equity</b>				
Ordinary shares:				
Beginning of the year	343,993,595	1,750,476	332,483,890	1,690,476
Issued during the period	-	-	11,509,705	60,000
<b>End of the year</b>	<b>343,993,595</b>	<b>1,750,476</b>	<b>343,993,595</b>	<b>1,750,476</b>

There were no shares issued during the period.

#### 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	2020	2019
Foreign currency translation reserve <sup>(1)</sup>	31,144	33,897
Cash flow hedge reserve <sup>(2)</sup>	(6,777)	(4,580)
Common control transaction reserve <sup>(3)</sup>	(928,385)	(928,385)
Share based payments reserve <sup>(4)</sup>	2,767	2,157
<b>Total reserves</b>	<b>(901,251)</b>	<b>(896,911)</b>

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

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

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



# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 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 2020
Pact has variable interest rate debt, and therefore if interest rates increase, the amount of interest Pact is required to pay would also increase.	<ul style="list-style-type: none"><li>• Utilises interest rate swaps to lock in the amount of interest that Pact will be required to pay.</li><li>• Considers alternative financing and mix of fixed and variable debt, as appropriate.</li></ul>	<p>At 30 June 2020, the Group hedge cover is 36% (2019: 51%) of its long term variable debt excluding working capital facilities.</p> <p>Sensitivity analysis performed by the Group showed that a +1 percentage point movement in AUD interest rates would reduce net profit after tax by \$2.5 million and increase equity by \$1.2 million (2019: \$0.9 million reduction in net profit after tax and increase equity by \$0.3 million).</p> <p>Sensitivity analysis performed by the Group showed that a +1 percentage point movement in NZD interest rates would reduce net profit after tax by \$1.1 million and reduce equity by \$0.2 million (2019: \$0.9 million reduction in net profit after tax and increase equity by \$0.3 million). (2019: \$1.4 million reduction in net profit after tax and equity).</p> <p>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 \$0.5 million (2019: \$0.4 million).</p>

<sup>(1)</sup> 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.

The Group currently operates in twelve countries outside of Australia, with the following functional currencies<sup>(1)</sup>:

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

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

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 4.3 MANAGING OUR FINANCIAL RISKS (CONTINUED)

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 2020
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.	<p>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 1%.</p> <p>At 30 June 2020, the Group has the majority of its foreign currency committed purchase orders hedged.</p> <p>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.</p> <p>This analysis showed that a 10% movement in its major trading currencies would not materially impact net profit after tax and would have the following impact on equity for the largest hedging position AUDUSD (\$2.0) million to \$2.0 million.</p>
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.	<p>Sensitivity analysis performed by management showed that a 10% +/- movement in its major translational currencies as at 30 June 2020 would have the following impact on equity:</p> <p>AUDNZD (\$9.0) million to \$11.0 million  AUDCNY (\$12.0) million to \$15.0 million  AUDUSD (\$1.5) million to \$2.0 million  AUDPHP (\$2.5) million to \$3.0 million</p> <p>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:</p> <p>AUDNZD (\$2.5) million to \$3.0 million  AUDUSD (\$1.0) million to \$1.0 million</p>

### 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 2020
The risk that Pact cannot meet its obligations to repay its financial liabilities as and when they fall due.	<ul style="list-style-type: none"> <li>Having access to an adequate amount of committed credit facilities.</li> <li>Maintains a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and debtor securitisation.</li> </ul>	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)

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
<b>Year ended 30 June 2020</b>					
<b>Financial assets<sup>(1)</sup></b>					
Cash and cash equivalents	76,004	-	-	-	76,004
Trade and other receivables	149,679	-	7	-	149,686
Foreign exchange forward contracts <sup>(2)</sup>	74,818	2,760	348	-	77,926
<b>Total inflows</b>	<b>300,501</b>	<b>2,760</b>	<b>355</b>	<b>-</b>	<b>303,616</b>
<b>Financial liabilities<sup>(1)</sup></b>					
Trade and other payables	(378,124)	-	-	-	(378,124)
Foreign exchange forward contracts <sup>(2)</sup>	(78,986)	(2,809)	(351)	-	(82,146)
Resin forward contracts	(12)	-	-	-	(12)
Interest rate swaps	(1,348)	(1,477)	(5,632)	-	(8,457)
Interest bearing loans and bank borrowings <sup>(3)(4)</sup>	(8,508)	(8,369)	(726,261)	-	(743,138)
<b>Total outflows</b>	<b>(466,978)</b>	<b>(12,655)</b>	<b>(732,244)</b>	<b>-</b>	<b>(1,211,877)</b>
<b>Net outflow</b>	<b>(166,477)</b>	<b>(9,895)</b>	<b>(731,889)</b>	<b>-</b>	<b>(908,261)</b>
<b>Year ended 30 June 2019</b>					
<b>Financial assets<sup>(1)</sup></b>					
Cash and cash equivalents	49,950	-	-	-	49,950
Trade and other receivables	145,282	-	718	-	146,000
Foreign exchange forward contracts <sup>(2)</sup>	63,183	72	-	-	63,255
<b>Total inflows</b>	<b>258,415</b>	<b>72</b>	<b>718</b>	<b>-</b>	<b>259,205</b>
<b>Financial liabilities<sup>(1)</sup></b>					
Trade and other payables	(417,285)	-	(14,643)	-	(431,928)
Foreign exchange forward contracts <sup>(2)</sup>	(63,334)	(72)	-	-	(63,406)
Interest rate swaps	(1,814)	(1,238)	(3,183)	-	(6,235)
Interest bearing loans and bank borrowings <sup>(3)(4)</sup>	(14,891)	(14,648)	(643,184)	(181,559)	(854,282)
<b>Total outflows</b>	<b>(497,324)</b>	<b>(15,958)</b>	<b>(661,010)</b>	<b>(181,559)</b>	<b>(1,355,851)</b>
<b>Net outflow</b>	<b>(238,909)</b>	<b>(15,886)</b>	<b>(660,292)</b>	<b>(181,559)</b>	<b>(1,096,646)</b>

(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. These commitments include cashflows associated with the cross currency swap.

(4) Refer Note 6.2 for details on lease maturity analysis.

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

\$'000	1 July 2019	Cash flows	Non-cash changes <sup>(1)</sup>	Foreign exchange movement	30 June 2020
Lease liabilities	(466,149)	70,845	(60,101)	546	(454,859)
Non-current interest-bearing loans and bank borrowings	(739,519)	42,460	-	2,369	(694,690)
<b>Total liabilities from financing activities</b>	<b>(1,205,668)</b>	<b>113,305</b>	<b>(60,101)</b>	<b>2,915</b>	<b>(1,149,549)</b>

(1) Refer details at Note 6.2 (AASB 16: Leases).

### 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. The Group also manages commodity price risk using resin forward contracts in circumstances where contractual rise and fall adjustments are not in place to minimise the variability of cash flows arising from price movements.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 4.3 MANAGING OUR FINANCIAL RISKS (CONTINUED)

### Utilising hedging contracts to manage risk

As discussed above, the Group utilises interest rate swaps, foreign exchange forward contracts and resin forward contracts to hedge its risks associated with fluctuations in interest rates, foreign currency and resin prices. 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.

#### 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's;
- the hedged item's or transaction's; and
- the nature of the risks 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 are 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 4.3 MANAGING OUR FINANCIAL RISKS (CONTINUED)

### Effect on financial position and performance – hedging instruments

The impact of each 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 <sup>(5)</sup>	Cash flow hedge reserve
<b>Year ended 30 June 2020</b>					
Foreign exchange forward contracts	Committed purchases	79,746	74 <sup>(1)</sup> (4,301) <sup>(3)</sup>	(4,020)	(679)
Resin forward contracts	Committed purchases	234	(12) <sup>(3)</sup>	(12)	-
Cross currency swaps	FX component of debt	50,991	814 <sup>(2)</sup>	814	77
Interest Rate Swaps	Floating component of debt	246,716	(8,457) <sup>(4)</sup>	(2,387)	(5,944)
<b>Year ended 30 June 2019</b>					
Foreign exchange forward contracts	Committed purchases	65,910	349 <sup>(1)</sup> (556) <sup>(3)</sup>	(2,655)	(93)
Interest Rate Swaps	Floating component of debt	350,000	(1,774) <sup>(3)</sup> (4,296) <sup>(4)</sup>	(5,453)	(4,248)

(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 non-current financial assets in the consolidated statement of financial position. The carrying amount recognised is the fair value of the cross currency swap, which is used to hedge the USD loan. The impact from movements in foreign currency rates was \$0.7million. This amount fully offsets the translation of the USD loan.

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

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

(5) The change in fair value represents the difference between the current and previous period carrying amount of hedge assets and hedge liabilities. The Group notes no ineffectiveness for the hedges undertaken.

The effect of cash flow hedge noted in Other gains / (losses) 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
<b>Year ended 30 June 2020</b>		
Committed purchases	(679)	(3,265)
Floating component of debt	(5,944)	-
Cross currency swap	77	-
Resin forward contracts	-	(12)
<b>Year ended 30 June 2019</b>		
Committed purchases	(93)	(73)
Floating component of debt	(4,248)	-

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

\$'000	2020	2019
Opening balance of cash flow hedge reserve	(4,580)	111
Effective portion of changes in fair value arising from:		
- Foreign exchange forward contracts	(679)	(93)
- Interest rate swaps	(5,944)	(4,248)
- Cross currency swap	77	-
Reversal of prior year cash flow hedge reserve	4,580	(111)
Tax effect	(231)	(239)
<b>Closing balance of cash flow hedge reserve</b>	<b>(6,777)</b>	<b>(4,580)</b>

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 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 five entities:

- Pact Closure Systems (India) Private Ltd
- Pact Closure Systems (Philippines) ,Inc
- Pact Group Closure Systems Korea Ltd
- Plastop Asia Inc
- PT Plastop Indonesia Manufacturing

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	Pact Closure Systems (India) Private Ltd <sup>(1)</sup>	Pact Closure Systems (Philippines) Inc	Pact Group Closure Systems Korea Ltd	Plastop Asia Inc	PT Plastop Indonesia Manufacturing	Total
Discount Rate	7.90%	5.12%	2.6%	4.29%	8.75%	
Salary Rate	12.0%	6.0%	4.5%	4.0%	5.0%	
At 1 July 2019	97	250	747	178	-	1,272
Current service cost	32	33	273	41	54	433
Net interest cost	7	16	32	11	11	77
<b>Actuarial (gains)/ losses:</b>						
Changes in Financial assumptions	(2)	43	101	20	(15)	147
Changes in Experience assumptions	11	(11)	23	(5)	6	24
Changes in Demographic assumptions	-	-	(28)	-	-	(28)
Benefits paid	(2)	-	(182)	-	-	(184)
Employer contributions	34	-	-	-	-	34
Transfer from provisions	-	-	-	-	182	182
Foreign exchange translation movements	(71)	27	17	15	(1)	(13)
<b>Present value of defined benefit obligation at 30 June 2020</b>	<b>106</b>	<b>358</b>	<b>983</b>	<b>260</b>	<b>237</b>	<b>1,944</b>

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



# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 5.1 DEFINED BENEFIT PLANS (CONTINUED)

\$'000

Present value of the defined benefit obligation	Pact Closure Systems (India) Private Ltd <sup>(1)</sup>	Pact Closure Systems (Philippines) Inc	Pact Group Closure Systems Korea Ltd	Plastop Asia Inc	Total
Discount Rate	7.70%	6.24%	3.10%	5.93%	
Salary Rate	12.0%	6.0%	4.0%	5.0%	
<b>At 1 July 2018</b>	96	164	703	73	1,036
Current service cost	26	17	199	23	265
Net interest cost	6	10	19	6	41
<b>Actuarial (gains)/ losses:</b>					
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
<b>Present value of defined benefit obligation at 30 June 2019</b>	97	250	747	178	1,272

### Measurement Assumptions

#### Pact Closure Systems (India) Private Ltd

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.

#### Pact Closure Systems (Philippines) ,Inc

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.

#### Pact Group Closure Systems Korea Ltd

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 Inc

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.

#### PT Plastop Indonesia Manufacturing

The discount rate assumption is based on market yields at the end of the reporting period based on high quality corporate bonds. The spot price used is released by Indonesia Bond Pricing Agency.

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

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 5.1 DEFINED BENEFIT PLANS (CONTINUED)

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

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**  
**At 30 June 2020**

	Pact Closure Systems (India) Private Ltd <sup>(1)</sup>	Pact Closure Systems (Philippines) Inc	Pact Group Closure Systems Korea Ltd <sup>(3)</sup>	Plastop Asia Inc <sup>(2)</sup>	Plastop Indonesia Manufacturing <sup>(2)</sup>	Total
Defined Benefit Obligation	174	358	1,590	260	237	2,619
Fair Value of plan assets	(68)	-	(607)	-	-	(675)
<b>Present value of net defined benefit obligation at end of the year</b>	<b>106</b>	<b>358</b>	<b>983</b>	<b>260</b>	<b>237</b>	<b>1,944</b>

- (1) The plan assets for Pact Closure Systems (India) Private Ltd relating to the gratuity liability comprises of investments in 100% insurance policies
- (2) The plan assets for Pact Closure Systems (Philippines), Inc and Plastop Asia Inc and PT Plastop Indonesia Manufacturing are held in the companies own bank accounts
- (3) The plan assets for Pact Group Closure Systems Korea Ltd comprises of investments in 100% fixed interest securities.

**\$'000**  
**At 30 June 2019**

	Pact Closure Systems (India) Private Ltd <sup>(1)</sup>	Pact Closure Systems (Philippines) ,Inc <sup>(2)</sup>	Pact Group Closure Systems Korea Ltd <sup>(3)</sup>	Plastop Asia Inc <sup>(2)</sup>	Plastop Indonesia Manufacturing <sup>(2)</sup>	Total
Defined Benefit Obligation	130	250	1,358	178	-	1,916
Fair Value of plan assets	(33)	-	(611)	-	-	(644)
<b>Present value of net defined benefit obligation at end of the year</b>	<b>97</b>	<b>250</b>	<b>747</b>	<b>178</b>	<b>-</b>	<b>1,272</b>

### Sensitivity analysis

The present value of the DBO is based on the assumptions detailed on page 51. Changes at the reporting date to one of the assumptions, holding other assumptions constant, would have affected the DBO by the amounts shown below:

<b>\$'000</b>		<b>2020</b>	<b>2019</b>
Discount rate	Increase by 1 percentage point	(260)	(194)
	Reduction by 1 percentage point	305	228
Salary increase rate	Increase by 1 percentage point	294	220
	Reduction by 1 percentage point	(256)	(191)



### Key Estimate and Judgement – 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.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 5.2 EMPLOYEE BENEFITS EXPENSES AND PROVISIONS

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

\$'000	2020	2019
Wages and salaries	396,029	387,922
Defined contribution superannuation expense	19,614	20,604
Other employee benefits expense	25,413	21,677
Share based payments expense	610	(168)
<b>Total employee benefits expense</b>	<b>441,666</b>	<b>430,035</b>

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

Annual leave	21,465	19,976
Long service leave	17,173	16,316
<b>Total current provisions</b>	<b>38,638</b>	<b>36,292</b>

The Group's non-current employee benefits provisions of \$8.1 million relate to long service leave entitlements of \$6.2 million (2019: \$6.0 million), and a defined benefit net liability of \$1.9 million (2019: \$1.3 million).

### 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 twelve 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 2020 LTIP scheme 538,189 performance rights were granted to the CEO (approved by resolution at the Annual General Meeting on 13 November 2019), and 676,398 performance rights were granted to senior executives. These Performance rights have performance hurdles and vesting conditions consistent with those outlined in the 2020 Remuneration Report. The rights were independently valued to establish the fair value in accordance with AASB 2: *Share Based Payments*. The fair value of each right at the valuation date of 13 November 2019 is \$1.34.

The share based payments expense recognised in the current period was \$610,000 (2019: \$168,000 net income). The prior period included a reversal of \$655,000 in share based payments expense due to the lapsing of performance rights following the resignation of the former CEO.

The key assumptions in the independent valuation in relation to the 2020 LTIP were as follows:

Share price at valuation date	<b>\$2.57</b>
Annualised volatility	<b>35.0%</b>
Annual dividend yield	<b>3.4%</b>
Risk free rate	<b>0.8%</b>
Expected life of performance right	<b>36 months</b>
Model used	<b>Monte Carlo Simulation Model</b>

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 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	2020	2019
Short-term employee benefits	3,639	2,616
Post-employment benefits	73	90
Long-term employee benefits	66	-
Share based payments expense	328	(475)
<b>Total compensation</b>	<b>4,106</b>	<b>2,231</b>

The following table provides the total amount of transactions with related parties for the year ended 30 June 2020:

\$'000		Sales	Purchases	Other expenses	Net amounts receivable
<b>Related parties – Director's interests<sup>(1)</sup></b>	<b>2020</b>	<b>13,362</b>	<b>7,354</b>	<b>6,317</b>	<b>558</b>
	2019	13,789	11,043	6,667	609

- <sup>(1)</sup> 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), ceased its business operations in November 2019. P'Auer had a supply agreement to provide label products to Pact. Pact had a Transitional Services and Support agreement with P'Auer to provide support services. These agreements were at arm's length. In addition, P'Auer provided Pact with periodic warehousing services.

### Pro-Pac Packaging Limited (Pro-Pac)

Pro-Pac, an entity for which Mr Raphael Geminder owns 49.7% (2019: 49.7%), is an exclusive supplier of certain raw materials such as flexible film packaging, flexible plastic bags and tapes to Pact. Pact has a supply agreement with Pro-pac that expires 31 December 2021. The total value of sales under this arrangement is approximately \$4.2 million (2019: \$4.2 million). The supply arrangement is at arm's length. Mr Jonathan Ling is also an Independent Non-Executive Director and Chairman of Pro Pac.

### Property leases with related parties

The Group leased 11 properties (9 in Australia and 2 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 2020 was \$6.2 million (June 2019: \$6.4 million). The rent payable under these leases was determined based on independent valuations and market conditions at the time the leases were entered.

### 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 expenses of \$415,000 (2019: \$427,000).
- 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.

#### 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.

### 6.2 NEW STANDARDS, INTERPRETATION AND AMENDMENTS

AASB Interpretation 23 *Uncertainty over Income Tax Treatment* addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of the recognition and measurement criteria in AASB 112 *Income Taxes*. The Interpretation specifically addresses the following:

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

The Group has assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions. The Group determined, based on its tax compliance and governance procedures, that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining Whether an Arrangement Contains a Lease*, Interpretation 115 *Operating Leases-Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Except for changes below, the Group has consistently applied the accounting policies in the Group's consolidated financial statements as at and for the year ending 30 June 2020.

#### AASB 16 Leases

The Group applied AASB 16 *Leases* with a date of initial application of 1 July 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right of use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group applied AASB 16 using the modified retrospective approach to transition, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented has not been restated – i.e. it is presented, as previously reported, under AASB 117 *Leases* and related interpretations. Where relevant information is available, on a lease-by-lease basis, the Group applied AASB 16 to measure the right of use assets as if the Standard had been applied since the commencement date of that lease using the incremental borrowing rates at 1 July 2019.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 6.2 NEW STANDARDS, INTERPRETATION AND AMENDMENTS (CONTINUED)

### AASB 16 Leases (continued)

For other leases, the right of use asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments as at 1 July 2019. The details of the changes in accounting policies are disclosed below.

#### Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under Interpretation 4 *Determining whether an Arrangement contains a Lease*. Under AASB 16, the Group assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied to contracts entered into or changed on or after 1 July 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for leases of property in which it is a lessee, the Group has applied the practical expedient to not separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

#### As a lessee

The Group leases many assets, including property, forklifts, motor vehicles, photocopiers and IT equipment. More than 95% of the total lease portfolio is represented by property leases.

As a lessee, the Group previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset. Upon adoption of AASB 16, the Group recognises right of use assets and lease liabilities for most leases – i.e. these leases are on balance sheet.

The Group applied the recognition exemptions for short-term leases and low value assets as detailed in the significant accounting policies below. The Group also early adopted the exemption to not assess the rent concessions occurring as a direct consequence of Covid-19 pandemic as a lease modification.

The Group presents right of use assets that do not meet the definition of an investment property in 'property, plant and equipment, the same line item as it presents underlying assets of the same nature that it owns.

#### As a lessor

Where the Group is a lessor, the accounting treatment on the adoption of AASB 16 is consistent with the accounting treatment under AASB 117: *Leases*.

#### Significant accounting policies

##### Right of use assets

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, make good estimate and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

##### Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in the consolidated statement of comprehensive income if the carrying amount of the right of use asset has been reduced to zero.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term and the amount of lease liabilities and right of use assets recognised. The Group evaluates all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

##### Short term leases and leases of low value assets

For lessees only, AASB 16 provides a practical expedient to disregard the recognition of ROU assets and lease liabilities for short-term leases with less than 12 months remaining lease term and leases of low-value assets. The Group has elected to apply the practical expedients on selected leases. The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term in the consolidated statement of comprehensive income.



# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 6.2 NEW STANDARDS, INTERPRETATION AND AMENDMENTS (CONTINUED)

### Short term leases and leases of low value assets (continued)

The assessment of low-value is based on assets that are not integral to the Group's business. The Group will apply the low-value exemption and alleviate the recognition requirements in AASB 16 for the aforementioned lease categories.

The practical expedient for short term leases has been applied by class of underlying asset.

#### Transition

At transition date, lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019. Right of use assets were measured at either:

- their carrying amount as if AASB 16 had been applied since the lease commencement date, but discounted using the incremental borrowing rate as at 1 July 2019; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The latter method was applied for all leases where sufficient documentation was not available to permit the measurement using the former method.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- grandfathered the assessment of which transactions are leases;
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- adjusted the right of use assets by the amount of onerous contract provisions applying AASB 137 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application, as an alternative to an impairment review;
- applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months remaining lease term at 1 July 2019 and those lease contracts for which the underlying asset is of low-value;
- excluded initial direct costs from measuring the right of use asset at the date of initial application;
- applied the exemption not to separate the lease and non-lease components of the contract, and instead account for each lease and associated non-lease components as a single lease component;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

#### Impacts on financial statements

The impacts on the Statement of Financial Position of the Group on transition to AASB 16 at 1 July 2019 were as follows:

\$'000	1 July 2019
Right of use assets	377,077
Deferred tax assets <sup>(1)</sup>	8,587
<b>Total assets</b>	<b>385,664</b>
Lease liabilities	(466,149)
Unearned incentives	15,450
Fixed rent provisions	22,765
Onerous lease provision	10,357
Other	(2,396)
<b>Total liabilities</b>	<b>(419,973)</b>
<b>Retained earnings</b>	<b>34,309</b>

<sup>(1)</sup> The tax effect accounting on the adoption of AASB 16 for right of use assets and lease liabilities is consistent with the accounting policy.

The carrying amounts of the Group's right of use assets and lease liabilities and the movements during the period are as below:

\$'000	Property	Plant and equipment	Total Right of use assets	Total Lease liabilities
Adoption of AASB 16	370,636	6,441	377,077	466,149
Additions	39,523	7,660	47,183	46,404
Receipt of lease incentive	(2,909)	-	(2,909)	-
Depreciation expense	(48,743)	(3,679)	(52,422)	-
Derecognition of ROU assets	(5,379)	-	(5,379)	-
Lease modification	-	-	-	(9,923)
Settlement obligation for remaining onerous leases	-	-	-	(2,744)
Interest expense	-	-	-	26,364
Payments	-	-	-	(70,845)
Foreign exchange translation movement	397	195	592	(546)
<b>Balance as at 30 June 2020</b>	<b>353,525</b>	<b>10,617</b>	<b>364,142</b>	<b>454,859</b>



# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 6.2 NEW STANDARDS, INTERPRETATION AND AMENDMENTS (CONTINUED)

### Impacts on financial statements (continued)

In addition to the expenses detailed above, the consolidated statement of comprehensive income also includes the following lease related expenses:

\$'000	2020
Expenses relating to short-term leases	2,907
Expenses relating to low-value leases	176
Variable lease payments	633
Property outgoings <sup>(1)</sup>	12,014

<sup>(1)</sup> Includes council rates, taxes, insurance and other lease related payments. Outgoings are 19.7% of the Group's property lease payments in the financial year.

The lease liabilities included in the consolidated statement of financial position are:

\$'000	2020
<b>Current</b>	<b>69,203</b>
<b>Non-current</b>	<b>385,656</b>

The maturity analysis of contractual undiscounted cash flows for lease liabilities are:

	2020
Less than one year	70,826
One to five years	228,965
More than five years	347,813
<b>Total undiscounted liabilities</b>	<b>647,604</b>

The amounts recognised in the statement of cash flows are:

\$'000	2020
Repayment of lease liability principal (net of incentive received) <sup>(1)</sup>	44,480
Interest payments <sup>(1)</sup>	26,364
Expenses relating to short-term leases	2,907
Expenses relating to low-value leases	176
Variable lease payments	633
Property outgoings	7,201
Onerous lease payments	2,744

<sup>(1)</sup> Of the total lease payments, 13.9% relates to property leases that exclude renewal options in the assessment of the lease term. This includes warehouses, offices and shopfronts where the exercise of the option is not reasonably certain.

The reconciliation of operating lease commitments at 30 June 2019 and the lease liabilities recognised at 1 July 2019 is detailed below. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using relevant incremental borrowing rates at 1 July 2019. In performing this assessment, the Group used a weighted-average incremental borrowing rate of 5.8%.

\$'000	1 July 2019
Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	400,285
Add: Extension options reasonably certain to be exercised	302,201
Less: Recognition exemption for:	
• Short-term leases expensed	(14,394)
• Low-value leases expensed	(2,150)
<b>Total operating lease commitments before discounting</b>	<b>685,942</b>
Less: Discounted using the incremental borrowing rate at 1 July 2019	(219,793)
<b>Lease liabilities recognised at 1 July 2019</b>	<b>466,149</b>
Of which are:	
• Current lease liabilities	54,877
• Non-current lease liabilities	411,272

**Key Estimate and Judgement – Incremental borrowing rate**  
Where the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available.

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 6.2 NEW STANDARDS, INTERPRETATION AND AMENDMENTS (CONTINUED)

### Impacts on financial statements (continued)



#### Key Estimate and Judgement – Determining the lease term of contracts with renewal and termination options

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

## 6.3 OTHER GAINS / (LOSSES)

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

\$'000	2020	2019
<b>Significant items (excluding impairment expenses)</b>		
Transaction costs	(4,034)	(3,666)
Inventory write downs and related disposal costs	-	(13,031)
Net gain on lease modification	4,544	-
Reversal of contingent consideration obligation	30,000	-
Finalisation of acquisition consideration	(7,172)	-
 Business Restructuring Programs		
• restructuring costs	(4,790)	(37,842)
• asset write downs	(218)	-
Business restructuring programs total	(5,008)	(37,842)
Total significant items (excluding impairment expenses) before tax	18,330	(54,539)
 <b>Other (losses) / gains</b>		
Unrealised losses on revaluation of foreign exchange forward contracts	(3,083)	(306)
Loss on sale of property, plant and equipment	(883)	(269)
Realised net foreign exchange gains / (losses)	99	(775)
Total other losses	(3,867)	(1,350)
<b>Total gains / (losses) before tax</b>	<b>14,463</b>	<b>(55,889)</b>

## 6.4 PACT GROUP HOLDINGS LTD – PARENT ENTITY FINANCIAL STATEMENTS SUMMARY

\$'000	2020	2019
Current assets	8,895	389,861
Total assets	1,680,353	1,675,353
<b>Net assets</b>	<b>1,680,353</b>	<b>1,675,353</b>
Issued capital	1,570,477	1,570,477
Reserves	2,767	2,157
Retained earnings	64	64
Profit reserve	107,045	102,655
<b>Total equity</b>	<b>1,680,353</b>	<b>1,675,353</b>
Profit of the Parent entity	1	413
<b>Total comprehensive income of the Parent entity</b>	<b>1</b>	<b>413</b>

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	2020 <sup>(1)</sup>	2019
<b>Closed group consolidated income statement</b>		
<b>Profit / (Loss) before income tax</b>	<b>32,412</b>	(363,219)
Income tax (expense) / benefit	(3,503)	36,665
<b>Net profit / (loss) for the year</b>	<b>28,909</b>	(326,554)
<b>Retained earnings at beginning of the year</b>	<b>(280,571)</b>	61,653
Net profit / (loss) for the year	28,909	(326,554)
Dividends provided for or paid	49,156	(15,670)
Adjustment on adoption of AASB 16	(27,696)	-
<b>Accumulated losses at end of the year</b>	<b>(230,202)</b>	(280,571)
<b>Closed group consolidated balance sheet</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	31,895	-
Trade and other receivables	57,967	77,422
Inventories	136,703	129,442
Contract Assets	11,737	8,337
Loans to related parties	130,078	84,492
Current tax assets	-	17,488
Other financial assets	738	349
Prepayments	8,502	16,912
<b>TOTAL CURRENT ASSETS</b>	<b>377,620</b>	334,442
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	-	695
Prepayments	2,640	-
Property, plant and equipment	632,853	366,386
Investments in subsidiaries	509,486	507,924
Investments in associates	26,887	20,809
Intangible assets and goodwill	231,513	235,456
Deferred tax assets	32,491	15,309
Other financial assets	111	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,435,981</b>	1,146,579
<b>TOTAL ASSETS</b>	<b>1,813,601</b>	1,481,021
<b>CURRENT LIABILITIES</b>		
Cash and cash equivalents	-	2,937
Trade and other payables	240,830	231,596
Loans from related parties	142,574	80,937
Current tax liabilities	10,535	-
Provisions	34,037	32,141
Interest-bearing loans and borrowings	48,887	-
Other current financial liabilities	3,608	6,666
<b>TOTAL CURRENT LIABILITIES</b>	<b>480,471</b>	354,277
<b>NON-CURRENT LIABILITIES</b>		
Trade and other payables	-	66,312
Provisions	13,537	45,469
Interest bearing loans and bank borrowings	773,274	530,209
Other non-current financial liabilities	7,275	65
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>794,086</b>	642,055
<b>TOTAL LIABILITIES</b>	<b>1,274,557</b>	996,332
<b>NET ASSETS</b>	<b>539,044</b>	484,689
<b>EQUITY</b>		
Contributed equity	1,750,476	1,750,476
Reserves	(981,230)	(985,216)
Accumulated losses	(230,202)	(280,571)
<b>TOTAL EQUITY</b>	<b>539,044</b>	484,689

<sup>(1)</sup> Reflects the adoption of AASB 16 *Leases* from 1 July 2019. Comparatives have not been restated.

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 'Managing our liquidity risk' at Note 4.3).

## FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

### 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:

\$	2020	2019
<b>Fees to Ernst &amp; Young (Australia)</b>		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	1,467,675	1,443,221
Fees for assurance services that are required by legislation to be provided by the auditor	15,000	-
Fees for other assurance and agreed upon procedure services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	54,806	169,222
Fees for other services:		
Tax compliance	86,245	113,000
Tax advisory	109,000	45,000
<b>Total fees to Ernst &amp; Young (Australia)</b>	<b>1,732,726</b>	<b>1,770,443</b>
<b>Fees to other overseas member firms of Ernst &amp; Young (Australia)</b>		
Fees for auditing the financial report of any controlled entities	539,213	505,000
Fees for other assurance and agreed upon procedure services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	7,876	-
Fees for other services:		
Tax compliance	30,731	-
Tax advisory	26,196	-
Due diligence	8,808	83,722
<b>Total Fees to other overseas member firms of Ernst &amp; Young (Australia)</b>	<b>612,824</b>	<b>588,722</b>
<b>Total auditor's remuneration</b>	<b>2,345,550</b>	<b>2,359,165</b>

### 6.7 SEGMENT ASSETS AND SEGMENT LIABILITIES

#### Segment assets

\$'000	2020	2019
Packaging and Sustainability	1,256,413	996,020
Materials Handling and Pooling	457,840	383,608
Contract Manufacturing Services	248,189	197,324
<b>Total Segment Assets</b>	<b>1,962,442</b>	<b>1,576,952</b>
<b>Reconciliation to total assets<sup>(1)</sup>:</b>		
Current tax assets	-	3,360
Deferred tax assets	33,147	17,832
Inter-segment eliminations	46	(954)
<b>TOTAL ASSETS</b>	<b>1,995,635</b>	<b>1,597,190</b>

#### Segment liabilities

\$'000	2020	2019
Packaging and Sustainability	629,491	388,788
Materials Handling and Pooling	150,668	67,338
Contract Manufacturing Services	122,280	73,255
<b>Total Segment Liabilities</b>	<b>902,439</b>	<b>529,381</b>
<b>Reconciliation to total liabilities<sup>(1)</sup>:</b>		
Interest-bearing liabilities	689,530	733,490
Income tax payable	21,175	-
Deferred tax liabilities	9,796	12,678
Inter-segment eliminations	46	(954)
<b>TOTAL LIABILITIES</b>	<b>1,622,986</b>	<b>1,274,595</b>

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

# FINANCIAL REPORT – NOTES TO THE FINANCIAL STATEMENTS

## 6.8 GEOGRAPHIC REVENUE

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

\$'000	2020	2019
Australia	1,270,816	1,291,238
New Zealand	287,329	289,258
Asia	251,013	253,580
<b>TOTAL</b>	<b>1,809,158</b>	<b>1,834,076</b>

## 6.9 COVID-19 FINANCIAL ASSISTANCE AND OTHER SUPPORT INITIATIVES

During the year, the Group received financial assistance from government and other key stakeholders in various jurisdictions to support business operations adversely impacted by the Covid-19 pandemic. This assistance included wages subsidies, property rent relief, waiver of payroll tax obligations and other miscellaneous subsidies with a total benefit to the Group of \$2.8 million, of which \$0.7 million was in Australia. This benefit has been recognised in other income within the Consolidated Statement of Comprehensive Income for the period. In addition, the Group received early settlement of an income tax refund of \$6.2 million, as a timing benefit through Covid-19 assistance.

## 6.10 SUBSEQUENT EVENTS

### Divestment of Contract Manufacturing segment

The Group is pursuing its options to sell the businesses in the Contract Manufacturing segment. The process will recommence following a suspension during the year due to Covid-19.

### Joint Venture with Cleanaway and Asahi Holdings

Pact, Cleanaway and Asahi Holdings (Australia) have formalised a joint arrangement to develop recycling capability in Australia, expected to be operational by 2022.

### Acquisition of Flight Plastics Ltd

The Group has entered into an agreement to acquire New Zealand's only PET recycler, Flight Plastics NZ, a leading recycler and provider of plastic trays and containers for grocery products in New Zealand, for a purchase consideration of NZD \$26million. The transaction remains conditional on approval by regulatory authorities.

In the opinion of the Directors, other than the matters aforementioned, there have been no other material matters or circumstances which have arisen between 30 June 2020 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 2020 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 2020.

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 19 August 2020



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## 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 2020, 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 2020 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* (including Independence Standards) (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 goodwill and intangible assets

### Why significant

At 30 June 2020, the Group's consolidated statement of financial position includes goodwill and intangible assets of \$456.1 million, representing 21% of total assets. For the year ended 30 June 2020 the Group recognised a write off of \$11.8 million.

The Group performs an annual impairment test of its goodwill and intangible assets.

The carrying value of goodwill and intangible assets was a key audit matter due to the significance of these balances and the complexity of the impairment assessment process due to the judgements in estimating future market conditions.

Judgements that are inherently subjective and which were key areas of focus of the audit include:

- ▶ Future cash flow assumptions;
- ▶ Discount rate and terminal growth rate assumptions; and
- ▶ Sensitivities applied to the impairment test.

The Group's disclosures regarding goodwill and intangible assets are included in Note 3.2.

### How our audit addressed the key audit matter

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 historic evidence supporting underlying assumptions.

In considering future cash flow assumptions, we:

- ▶ Performed a comparison to the Group's historic trading performance
- ▶ Assessed the Group's assumptions of the on-going impact of COVID-19 on cash flows
- ▶ Assessed the continuity of customer contracts underlying revenue assumptions and where relevant, obtained signed contracts for new customers.

In addition, we:

- ▶ Assessed the identification 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
- ▶ Assessed the 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
- ▶ 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 assessed the adequacy of disclosures in relation to goodwill and intangible assets.

Where required, we involved our valuation specialists in performing these procedures.



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## Accounting for leases

### Why significant

The 30 June 2020 financial year was the first year of adoption of the Australian Accounting Standard AASB 16 Leases ("AASB 16").

Upon transition a lease liability of \$466.1 million and right of use asset of \$377.1 million were recognised on the Group's balance sheet.

We consider this to be a key audit matter given:

- ▶ The financial significance to the Group of its leasing arrangements
- ▶ The complexity in the transition requirements of the standard
- ▶ The complexity in the modelling of the accounting for the leases, including the determination of the incremental borrowing rate and the judgement involved in the treatment of renewal options.

Note 6.2 describes the accounting for the transition and the accounting policy for leases on an ongoing basis.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Considered whether the new accounting policies as set out in Note 6.2, complied with the requirements of AASB 16 including the adoption of any practical expedients selected as part of the transition process
- ▶ Assessed the integrity of the AASB 16 lease calculation model used, including the accuracy of the underlying calculation formulas
- ▶ For a sample of leases, we agreed the inputs in the AASB 16 lease calculation model in relation to those leases, such as, key dates, fixed and variable rent payments, renewal options and incentives, to the relevant terms of the underlying signed lease agreements
- ▶ We considered the consistency of the assumptions used in the group's accounting for lease renewal options with our knowledge of the business
- ▶ Assessed the completeness of leases, taking into consideration the modified retrospective transition approach and practical expedients adopted by the Group, by:
  - ▶ Review of the reconciliation of the operating lease commitments disclosure in the prior year financial report to the transition disclosures; and
  - ▶ Inspecting relevant expense accounts for routine payments during the year to identify the existence of leases not included in the Group's listing of leases
- ▶ We involved our valuation specialists to assist with the assessment of the incremental borrowing rates used to discount future lease payments to present value
- ▶ Assessed the adequacy of the financial report disclosures contained in Note 6.2.



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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 2020 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:



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- 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, actions taken to eliminate threats or safeguards applied.

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 18 of the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Pact Group Holdings Ltd for the year ended 30 June 2020, 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

Glenn Carmody  
Partner

Melbourne  
19 August 2020

Wilfred Liew  
Partner