

Information on Audit or Review

This report is based on accounts to which one of the following applies.

<input type="checkbox"/>	The accounts have been audited.	✓	The accounts have been subject to review.
<input type="checkbox"/>	The accounts are in the process of being audited or subject to review.	<input type="checkbox"/>	The accounts have <i>not</i> yet been audited or reviewed.

A copy of the review report is included in the interim financial accounts attached.

The review report includes an emphasis of matter relating to the material uncertainty regarding the fair value of the investment in PaperlinX SPS LLC which is included in the interim financial accounts attached.

The review report also includes an emphasis of matter regarding the going concern basis of preparation of the interim financial accounts.

INTERIM FINANCIAL REPORT

OF

PAPERLINX SPS TRUST
(ARSN 123 839 814)

FOR THE HALF-YEAR ENDED

31 DECEMBER 2015

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Contents	Page
Directors' Report	3
Condensed Statement of Financial Position	6
Condensed Statement of Comprehensive Income	7
Condensed Statement of Changes in Equity	8
Condensed Statement of Cash Flows	9
Notes to the Condensed Interim Financial Statements	10
Directors' Declaration	19
Auditor's Independence Declaration	20
Independent Auditor's Review Report	21

PaperlinX SPS Trust (ARSN 123 839 814)

Directors' Report

For the half-year ended 31 December 2015

The Directors of The Trust Company (RE Services) Limited, the Responsible Entity (the "Responsible Entity") of PaperlinX SPS Trust (the "SPS Trust") present their report together with the condensed interim financial statements of the SPS Trust for the half-year ended 31 December 2015 and the independent auditor's review report thereon.

Responsible Entity

The Trust Company (RE Services) Limited, a wholly owned subsidiary of Perpetual Limited (ASX: PPT), has acted in the capacity of responsible entity of the SPS Trust since it was established under the SPS Trust constitution dated 7 February 2007.

The registered office and principal place of business of the Responsible Entity is Level 12, 123 Pitt Street, Sydney, NSW, 2000.

The names of the Directors of the Responsible Entity holding office during the half-year ended 31 December 2015 and until the date of this report, unless otherwise stated, were:

Andrew Cannane

Christopher Green

Gillian Larkins **Resigned as Director 31 July 2015**

Michael Vainauskas

Glenn Foster **Resigned as Alternate Director for Gillian Larkins on 31 July 2015, appointed as Director on 31 July 2015**

Anna O'Sullivan **Resigned as Alternate Director for each of Andrew Cannane and Christopher Green on 7 December 2015**

Rodney Garth Ellwood **Appointed as Alternate Director for each of Andrew Cannane and Christopher Green on 7 December 2015**

Principal activities

The SPS Trust was established for the purpose of issuing a security called PaperlinX Step-up Preference Securities (PSPS). The PSPS are perpetual, preferred units in the SPS Trust and on 30 March 2007, 2,850,000 PSPS were issued at an issue price of \$100 per security raising \$285 million. The PSPS are quoted on the Australian Securities Exchange ("ASX") under "PXUPA".

The SPS Trust issued 1 ordinary unit at an issue price of \$100 per unit to Spicers Limited ("Spicers" or "Company"), (formerly PaperlinX Limited).

The SPS Trust is a registered managed investment scheme domiciled in Australia.

The SPS Trust does not employ personnel in its own right.

PaperlinX SPS Trust (ARSN 123 839 814)

Directors' Report (cont.)

For the half-year ended 31 December 2015

Review of operations

Results

The SPS Trust's net income from operations for the current period was \$11,685,000 (2014: \$7,837,500). This increase reflects the increase in the fair value of the SPS Trust's investment based on the ASX closing price of the SPS units at 31 December 2015.

The SPS Trust received no dividend income from its investment in PaperlinX SPS LLC ("LLC") during the period.

Distributions on the PSPS are at the discretion of the Responsible Entity and ultimately, the Directors of Spicers. Distributions are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. Spicers will be restricted from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust or an optional distribution is paid equal to the unpaid amount of scheduled distributions for the 12 months preceding (but not including) the payment date of the optional distribution, in accordance with the SPS Trust Constitution which includes the SPS Terms.

The interim distribution on step-up preference securities scheduled for 31 December 2015 was not paid.

The final distribution on step-up preference securities scheduled for 30 June 2015 was not paid.

The interim distribution on step-up preference securities scheduled for 31 December 2014 was not paid.

The Responsible Entity and ultimately the Directors of Spicers have decided to roll over the PSPS and pay discretionary distributions subject to the availability of funds at the step-up margin of 4.65%.

The distribution rate for the period 1 January 2016 to 30 June 2016 is 7.11% p.a. The distribution rate includes a step-up in the margin by 2.25% which applied immediately after the remarketing date of 30 June 2012. The distribution will be payable at the ultimate discretion of the Directors of Spicers. Spicers has indicated no distributions are likely to be paid until there is a significant improvement in trading conditions and Spicers' financial performance.

The distribution on the 1 ordinary unit for the half-year ended 31 December 2015 was \$nil (2014: \$nil).

The fair value of the investment in LLC preference shares has been determined using the methodology disclosed in note 9 to the condensed interim financial statements. During the period, there has been a gain in the fair value of the SPS Trust's investment in the LLC for the amount of \$11,685,000 recorded in the statement of comprehensive income.

It has been determined that it was appropriate to base the 31 December 2015 valuation of the investment in the LLC on the market capitalisation of the SPS Trust using the ASX closing price of the SPS units at balance date. Valuation based on the market capitalisation was also utilised at 30 June 2015. The market price is considered to be the most appropriate basis for valuation due to the inherent difficulty associated with determining a valuation, given the Responsible Entity has limited insight into the likely future development of Spicers, a lack of broker coverage, and a lack of information around estimates that could be used in alternative valuation techniques.

Interests of the Responsible Entity

The Responsible Entity and its associates have not held any units in the SPS Trust during the financial period. Set out below are the fees paid or payable by the SPS Trust to the Responsible Entity, or any of its associates, during the period:

	2015 \$	2014 \$
Responsible Entity and associates		
• Management fees	57,822	57,179
• Custody Fees	10,241	10,193
	<hr/> 68,063	<hr/> 67,372

PaperlinX SPS Trust (ARSN 123 839 814)
Directors' Report (cont.)
For the half-year ended 31 December 2015

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the SPS Trust that occurred during the financial period.

Going Concern basis of accounting

The SPS Trust's interim financial report has been prepared on a going concern basis with reference to the significant uncertainty referred to in Note 2(d). The considerations regarding Spicers' ability to continue as a going concern have flow on consequences for the SPS Trust's interim financial report in respect of the Directors' approach to determining fair value of the SPS Trust's assets. In determining the SPS Trust's going concern basis, the Directors of the Responsible Entity have relied on Spicers' assessment of its going concern status, as disclosed in the Spicers 31 December 2015 interim financial report (Note 2), which was released to the market by Spicers on 24th February 2016.

Events subsequent to balance date

The Directors of the Responsible Entity reviewed the results Spicers released to the market on the 24th February 2016.

As at 31 December 2015, the SPS units were trading on the ASX at \$11 per unit with a market capitalisation of \$31.35 million. As at 24 February 2016, the SPS units were trading at \$11 per unit with a market capitalisation of \$31.35 million.

Other than the matters discussed above, in the interval between the end of the financial period and the date of this report, no items, transactions or events of a material or unusual nature have arisen that have significantly affected, or may significantly affect the operation of the SPS Trust, the results of those operations, or the state of affairs of the SPS Trust, in future financial periods.

Auditor's independence declaration

The auditor's independence declaration is set out on page 20 and forms part of the Directors' Report for the half-year ended 31 December 2015.

Rounding off

The SPS Trust is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the interim financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



Andrew Cannane

Director

Sydney, 26th February 2016

PaperlinX SPS Trust (ARSN 123 839 814)
Condensed Statement of Financial Position

	<i>Note</i>	As at 31 December 2015 \$000	As at 30 June 2015 \$000
Assets			
Current assets			
Cash and cash equivalents		4	8
Other receivables		89	144
Total current assets		<u>93</u>	<u>152</u>
Non-current assets			
Investments	9	31,350	19,665
Total non-current assets		<u>31,350</u>	<u>19,665</u>
Total assets		<u>31,443</u>	<u>19,817</u>
Liabilities			
Current liabilities			
Trade and other payables		93	152
Total current liabilities		<u>93</u>	<u>152</u>
Net assets		<u>31,350</u>	<u>19,665</u>
Equity			
Step-up preference securities	4	285,000	285,000
Ordinary units on issue	5	*	*
Accumulated losses		(253,650)	(265,335)
Total Equity		<u>31,350</u>	<u>19,665</u>
*\$100			

The Condensed Statement of Financial Position is to be read in conjunction with the notes to the condensed interim financial statements set out on pages 10 to 18.

PaperlinX SPS Trust (ARSN 123 839 814)
Condensed Statement of Comprehensive Income

For the half-year ended 31 December		2015	2014
	<i>Note</i>	\$000	\$000
Revenue			
Other revenue (1)		225	136
Total revenue		<u>225</u>	<u>136</u>
Expenses			
Management fees		(58)	(57)
Custody fees		(10)	(10)
Auditors' remuneration (2)		(32)	(42)
Unit registry fees		(12)	(9)
Legal Fees		(94)	-
Other operating costs		(19)	(18)
Total expenses (3)		<u>(225)</u>	<u>(136)</u>
Movement in the fair value of investments			
Movement in fair value of investments	9	11,685	7,838
Total movement in the fair value of investments		<u>11,685</u>	<u>7,838</u>
Income attributable to unitholders		11,685	7,838
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income attributable to unitholders		<u>11,685</u>	<u>7,838</u>

- (1) Other revenue of \$225,212, relates to revenue received and accrued from Spicers Limited to cover SPS Trust expenses for the half-year ended 31 December 2015.
- (2) KPMG were appointed as auditors during the period for the audit of the SPS Trust's compliance plan only. Auditors' remuneration includes a reduction in fees paid to KPMG for the 2015 compliance plan audit.
- (3) All of the above expenses include applicable GST, which is not recoverable from the taxation authority. Only the Responsible Entity's management fees and custody fees are entitled to reduced input tax credits.

PaperlinX SPS Trust
Earnings per Unit

For the half-year ended 31 December		2015	2014
Basic and Diluted Earnings per Unit (\$)	8	4.1000	2.7500

The Condensed Statement of Comprehensive Income and the Earnings per Unit are to be read in conjunction with the notes to the condensed interim financial statements set out on pages 10 to 18.

PaperlinX SPS Trust (ARSN 123 839 814)
Condensed Statement of Changes in Equity

For the half-year ended 31 December 2015

	Step-up preference securities \$000	Ordinary units on issue * \$000	Accumulated Losses \$000	Total Equity \$000
Balance at 1 July 2015	285,000	-	(265,335)	19,665
Income for the period	-	-	11,685	11,685
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	11,685	11,685
Transactions with unitholders				
Distributions paid	-	-	-	-
Balance at 31 December 2015	285,000	-	(253,650)	31,350

* \$100 par value

For the year half-ended 31 December 2014

	Step-up preference securities \$000	Ordinary units on issue * \$000	Accumulated Losses \$000	Total Equity \$000
Balance at 1 July 2014	285,000	-	(258,638)	26,362
Income for the period	-	-	7,838	7,838
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	7,838	7,838
Transactions with unitholders				
Distributions paid	-	-	-	-
Balance at 31 December 2014	285,000	-	(250,800)	34,200

* \$100 par value

The Condensed Statement of Changes in Equity is to be read in conjunction with the notes to the condensed interim financial statements set out on pages 10 to 18.

PaperlinX SPS Trust (ARSN 123 839 814)
Condensed Statement of Cash Flows

For the half-year ended 31 December	Note	2015 \$000	2014 \$000
Cash flows from operating activities			
Other income received		280	100
Payments to suppliers		<u>(284)</u>	<u>(105)</u>
Net cash flows (used in) / from operating activities	10	<u>(4)</u>	<u>(5)</u>
Net (decrease) / increase in cash and cash equivalents		(4)	(5)
Cash and cash equivalents at the beginning of the period		<u>8</u>	<u>9</u>
Cash and cash equivalents at the end of the period		<u>4</u>	<u>4</u>

The Condensed Statement of Cash Flows is to be read in conjunction with the notes to the condensed interim financial statements set out on pages 10 to 18.

PaperlinX SPS Trust (ARSN 123 839 814)

Notes to the condensed interim financial statements

For the half-year ended 31 December 2015

1. Reporting Entity

PaperlinX SPS Trust (the "SPS Trust") is a registered for profit Managed Investment Scheme under the *Corporations Act 2001*. The interim financial report of the SPS Trust is presented as at and for the half-year ended 31 December 2015. The SPS Trust is quoted on the Australian Securities Exchange (ASX code: PXUPA).

2. Basis of Preparation

(a) Statement of compliance

This interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the SPS Trust as at and for the year ended 30 June 2015 and other announcements of the SPS Trust and Spicers Limited ("Spicers"), (formerly PaperlinX Limited).

The interim financial report was authorised for issue by the Directors of the Responsible Entity on 26th February 2016.

(b) Significant accounting policies

Except as detailed below, the accounting policies and disclosures applied by the SPS Trust in this condensed interim financial report are the same as those applied by the SPS Trust in its financial report as at and for the year ended 30 June 2015.

Changes in accounting policy and disclosures

The SPS Trust has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current reporting period.

There are no new and revised Standards and Interpretations effective for the current reporting period that are relevant to the SPS Trust. Therefore, there was no financial impact on the current reporting period or the prior comparative reporting period from new and revised Standards and Interpretations.

(c) Accounting estimates and judgements

The preparation of an interim financial report in conformity with Australian Accounting Standards requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Except as described below, in preparing this interim financial report, the significant judgements made in applying the SPS Trust's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial report as at and for the year ended 30 June 2015.

The SPS Trust's financial instruments / investments are carried at fair value on the condensed statement of financial position. Usually the fair value of the financial instruments / investments can be reliably determined within a reasonable range of estimates.

During the half-year ended 31 December 2015, the following significant estimates and judgements have been applied:

PaperlinX SPS Trust (ARSN 123 839 814)

Notes to the condensed interim financial statements

For the half-year ended 31 December 2015

2. Basis of Preparation (cont.)

(c) Accounting estimates and judgements (cont.)

Investment carrying value

The SPS Trust has invested in preference shares issued by PaperlinX SPS LLC, a controlled entity of Spicers. Investments are initially recognised at fair value plus directly attributable transaction costs. Subsequent to initial recognition investments are measured at fair value with movements in fair value recorded in the condensed statement of comprehensive income. The fair value of this investment has been determined using the market capitalisation of the SPS Trust based on the ASX closing price of the SPS units at 31 December 2015. Refer to note 2(d) and note 9 for comments in relation to the uncertainties that exist in respect of the carrying value of the investment.

Fair value information

Fair value estimates are made at a specific point of time, based on market conditions and information about the financial instrument / investment. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

For certain other financial instruments / investments, including other receivables and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments / investments.

The carrying amounts of all the SPS Trust's financial assets and liabilities at the balance sheet date approximated their fair values.

(d) Going Concern basis of accounting

The SPS Trust is a controlled entity of Spicers for accounting purposes, and has an investment in preference shares issued by PaperlinX SPS LLC. The income earned by the SPS Trust from this investment is ultimately sourced from Spicers.

In preparing the condensed interim financial report, the Directors of the Responsible Entity made an assessment on the ability of the SPS Trust to continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due and continue in operation without any intention or necessity to liquidate the entity or to cease trading. The operation of the SPS Trust is economically dependent on Spicers and its controlled entities (ASX: SRS). Payments made to third parties associated with the operations of the SPS Trust (including management fees, custody fees, ASX listing and share registry expenses) are funded through dividend income from the investment in PaperlinX SPS LLC. In the event that the SPS Trust does not receive dividend income, it has relied on income from Spicers and its controlled entities (under contractual obligations) to fund on-going expenses. A liability to pay distributions only arises once declared by the SPS Trust and this is only undertaken once sufficient cash distributions are received / receivable from the SPS Trust's investment in PaperlinX SPS LLC. As the SPS Trust is operated by the Responsible Entity, a wholly owned subsidiary of Perpetual Limited, should Spicers be unable to discharge its contractual obligations to the SPS Trust, the Responsible Entity would be able to continue to operate the SPS Trust subject to cash being made available.

Spicers' ability to continue as a going concern has flow on consequences for the SPS Trust's financial report. The Directors of the Responsible Entity have relied on Spicers' assessment of its going concern status to determine the SPS Trust's going concern status, as disclosed in the Spicers 31 December 2015 interim financial report (Note 2), which noted the following:

PaperlinX SPS Trust (ARSN 123 839 814)

Notes to the condensed interim financial statements

For the half-year ended 31 December 2015

2. Basis of Preparation (cont.)

(d) Going Concern basis of accounting (cont.)

- (i) Following asset sales and the commencement of insolvency proceedings in Spicers' businesses in various foreign jurisdictions in the current and previous reporting periods, Spicers' continuing operations now consist of trading businesses in Australia, New Zealand and Asia and a corporate support function. The ability of Spicers to meet its operational cash requirements and remain in compliance with the terms and covenants included in existing debt facilities in the foreseeable future is dependent in part on meeting forecast trading results and cash flows, and maintaining trading/settlement terms with key creditors (including suppliers and credit insurers). These forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside of the control of Spicers. The forecasts, taking into account reasonably possible changes in trading performance, show that Spicers should be able to operate within the level and terms of its current facilities for at least the next 12 months. Should trading performance not meet expectations Spicers will pursue other measures to generate cash such as accessing undrawn debt facilities, working capital reductions or selling assets.
- (ii) As at the reporting date, insolvency proceedings relating to the former Spicers' businesses in the UK and Continental Europe subsidiaries are ongoing and are expected to continue for some time. As part of the insolvency proceedings for these businesses, legal claims and other exposures may arise on Spicers including in respect of pension plan liabilities, other employee entitlements, trade and other creditors and director / officer indemnities. There is a material uncertainty as to whether a future liability will arise in respect of these matters. As a consequence, the Directors of Spicers are aware that uncertainties exist in relation to the insolvency proceedings in the UK and Continental Europe which may cast doubt upon Spicers' ability to continue as a going concern. The Directors of Spicers noted as part of their deliberations that no new material matters have arisen or have been communicated to Spicers since the last reporting date.

The Directors of the Responsible Entity acknowledge that a material uncertainty exists due to the above events which may cast significant doubt upon the SPS Trust's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the factors described above, it is considered that it is appropriate for the SPS Trust to continue to adopt the going concern basis of accounting in preparing the interim financial report. Accordingly, no adjustments have been made to the carrying value and classification of assets and the amount and classification of liabilities, that may be required if the SPS Trust does not continue as a going concern.

3. Operating Segments

The primary activity of the SPS Trust is to invest in preference shares issued by PaperlinX SPS LLC, a wholly owned subsidiary of Spicers, domiciled in the USA. The SPS Trust is domiciled in Australia.

4. Step-up preference securities

All preference securities in the SPS Trust are of the same class and carry equal rights. Under the SPS Trust Constitution, each unit represents a right to the underlying assets of the SPS Trust.

	31 Dec 2015	31 Dec 2014
	\$000	\$000
Opening balance	285,000	285,000
Closing balance	<u>285,000</u>	<u>285,000</u>

PaperlinX SPS Trust (ARSN 123 839 814)

Notes to the condensed interim financial statements

For the half-year ended 31 December 2015

4. Step-up preference securities (cont.)

The SPS Trust was established for the purpose of issuing a security called PaperlinX Step-up Preference Securities (PSPS). The PSPS are perpetual, preferred units in the SPS Trust and on 30 March 2007, 2,850,000 PSPS were issued at an issue price of \$100 per security raising \$285 million. The par value of the units is equal to the issue price. The PSPS are quoted on the ASX under "PXUPA".

The Responsible Entity has the discretion to pay distributions on the PSPS, which is economically dependent on the performance of the Spicers Group, and is paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. Distributions are ultimately paid at the discretion of the Directors of Spicers. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. Spicers will be restricted from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust or an optional distribution is paid equal to the unpaid amount of scheduled distributions for the 12 months preceding (but not including) the payment date of the optional distribution. This is in accordance with the SPS Trust Constitution which includes the SPS Terms.

Spicers has indicated no distributions are likely to be paid until there is a significant improvement in trading conditions and Spicers' financial performance.

The first periodic remarketing date was 30 June 2012 and provided the following options:

- a remarketing process may be conducted to establish a new margin and add or adjust such other terms of the PSPS, which if successful would apply until the next remarketing date;
- PSPS may be realised (redeemed for cash, exchanged for Spicers ordinary shares or resold to a third party); or
- begin paying discretionary distributions subject to the availability of funds at the step-up margin on the PSPS. The step-up margin is the sum of the margin which applies immediately before the relevant remarketing date, 2.40% and an additional 2.25% per annum taking the total margin to 4.65% per annum.

The Responsible Entity and ultimately, the Directors of Spicers decided on the third option noted above (applying the step-up margin) on the first remarketing date of 30 June 2012. The distribution rate for future discretionary distributions will be 180 day bank bill swap rate plus a margin of 4.65%. The next remarketing date is 30 June 2016. The same options as above are applicable at the next remarketing date; however the additional step-up margin applies only once.

5. Ordinary units on issue

There is 1 ordinary unit authorised and issued by the SPS Trust to Spicers which represents a right to the underlying assets of the trust. The ordinary unit has a value of \$100.

6. Distributions on step-up preference securities	31 December 2015		31 December 2014	
	\$000	Dollar per unit	\$000	Dollar per unit
Distribution for period 1 July 2015 to 31 December 2015 not paid (Distribution rate 6.9083% p.a.)	-	-	-	-
Distribution for period 1 July 2014 to 31 December 2014 not paid (Distribution rate 7.3600% p.a.)	-	-	-	-
	-	-	-	-

PaperlinX SPS Trust (ARSN 123 839 814)

Notes to the condensed interim financial statements

For the half-year ended 31 December 2015

7. Distribution on ordinary units

	31 December 2015	31 December 2014
	\$000	\$000
Distribution for period 1 July 2014 to 31 December 2015	-	-
Distribution for period 1 July 2013 to 31 December 2014	-	-

8. Earnings per Unit

	31 December 2015	31 December 2014
Net income (\$)	11,685,000	7,837,500
Weighted average number of units	2,850,001	2,850,001
Basic and Diluted Earnings per Unit (\$)	4.1000	2.7500

9. Financial Risk Management

Fair Value of financial instruments

The Directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair value.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models, and have been based on the market price of the SPS units at balance sheet date.

Fair Value measurements recognised in the condensed statement of financial position

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 fair value measurements are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those instruments valued based on inputs that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

PaperlinX SPS Trust (ARSN 123 839 814)
Notes to the condensed interim financial statements
For the half-year ended 31 December 2015

9. Financial Risk Management (cont.)

(\$000)	Level 1	Level 2	Level 3	Total
31 December 2015				
<i>Financial assets held at fair value through profit or loss</i>				
Equity investments	-	31,350	-	31,350
Total	-	31,350		31,350

(\$000)	Level 1	Level 2	Level 3	Total
30 June 2015				
<i>Financial assets held at fair value through profit or loss</i>				
Equity investments	-	19,665	-	19,665
Total	-	19,665		19,665

As noted above, the equity investment has been valued using a Level 2 method as at 31 December 2015. The Directors of the Responsible Entity consider that the valuation technique (based on the market price of SPS units on the ASX) is a Level 2 method, being based on observable market prices.

Valuation Methodology and Assumptions

In relation to the SPS Trust's investment in the LLC preference shares ("LLC investment") as at 31 December 2015:

- The Directors of the Responsible Entity determined it was appropriate to base the 31 December 2015 valuation of the investment in the LLC, on the market capitalisation of the SPS Trust using the ASX closing price of the SPS units at balance date. This methodology has been utilised since 30 June 2013 having been refined from the previous methodology used at 31 December 2012;
- The market price has been used as a proxy for the fair value of the LLC investment and is considered by the Directors of the Responsible Entity to be the best available evidence of value at balance date for accounting purposes;
- The market price has been selected to be the most appropriate valuation basis due to the inherent difficulty associated with determining a valuation with a lack of information around key assumptions required to prepare a valuation, for example the amount and timing of future cash flows, decline in broker coverage and unreliability of estimates required for the preparation of a detailed valuation technique; and
- The fair value adopted at 31 December 2015 may differ significantly from the price that may arise as a result of any future corporate action.

PaperlinX SPS Trust (ARSN 123 839 814)

Notes to the condensed interim financial statements

For the half-year ended 31 December 2015

9. Financial Risk Management (cont.)

Results

Given the range of inputs and assumptions, the range of values that could be derived using different valuation methodologies, the uncertainties surrounding Spicer's operations and the fact that the Responsible Entity does not have access to the internal cash flow forecasts of Spicers, or the ability to require Spicers to fund distributions to the SPS Trust, fair value estimates under such circumstances are inherently subjective in nature.

A valuation of the investment in the LLC based on the market capitalisation of the SPS Trust is considered to be the most appropriate valuation methodology proxy in order to value the LLC investment as at 31 December 2015. The Directors determined that the fair value of the LLC preference shares can be reasonably estimated to be \$31.35 million (\$11 per LLC preference share) as at 31 December 2015 (30 June 2015: \$19.665 million; \$6.90 per LLC preference share).

Sensitivity analysis

Although the Directors of the Responsible Entity of the SPS Trust believe that its estimate of fair value of the SPS Trust's investment in PaperlinX SPS LLC is appropriate, the use of different assumptions could lead to different measurements of fair value.

The fair value of the investment has been determined based on the market capitalisation of the SPS Trust based on the ASX closing price of the SPS units at balance date.

Based on the market price valuation methodology used for 31 December 2015, for every \$1 movement in the market price of the SPS units the fair value of the investment and impact on profit or loss would be approximately \$2.9m.

10. Reconciliation of cash flows (used in) / from operating activities

For the half-year ended 31 December	2015 \$000	2014 \$000
Income from operating activities	11,685	7,838
Add/(Less) non-cash item:		
Movement in fair value of investments	(11,685)	(7,838)
Changes in assets and liabilities during the period		
Decrease / (increase) in receivables	55	(36)
Increase / (decrease) in payables	(59)	31
Net cash flows (used in) / from operating activities	<u>(4)</u>	<u>(5)</u>

PaperlinX SPS Trust (ARSN 123 839 814)
Notes to the condensed interim financial statements
For the half-year ended 31 December 2015

11. Related parties

Parent entity and Responsible entity

The parent and ultimate parent entity of the SPS Trust is Spicers (incorporated in Australia).

The Responsible Entity for the SPS Trust is The Trust Company (RE Services) Limited (ABN 45 003 278 831) whose ultimate holding company is Perpetual Limited (ASX: PPT).

Key Management Personnel

The SPS Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the SPS Trust, and accordingly the Directors of the Responsible Entity are deemed to be key management personnel of that entity. Their names are listed in the Directors' Report.

The Responsible Entity receives management fees and custody fees from the SPS Trust which are disclosed in the Condensed Statement of Comprehensive Income and in the Directors' Report.

No compensation is paid to Directors or directly by the SPS Trust to any key management personnel of the Responsible Entity.

Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions.

Reimbursement of expenses from related parties

The SPS Trust has earned \$225,212 of other revenue from Spicers, due to its right to reimbursement for out of pocket third party expenses (2014: \$136,318).

Related party investments held by the SPS Trust

The SPS Trust has no investment in The Trust Company (RE Services) Limited or its associates (2014: \$nil).

Units in the SPS Trust held by related parties

At 31 December 2015 neither the Responsible Entity nor any of its related entities held units in the SPS Trust (2014: nil).

At 31 December 2015 the parent entity of the SPS Trust, Spicers held 223,602 PPS units acquired under the takeover offer which closed on 28 February 2014 (2014: 223,602).

Units in the SPS Trust held by other related parties

As at 31 December 2015, there was no key management personnel or Directors of Spicers who held units in the SPS Trust (2014: nil).

As at 31 December 2015, there was no key management personnel or Directors of the Responsible Entity who held units in the SPS Trust (2014: nil).

Key Management Personnel loan disclosures

The SPS Trust has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally related entities at any time during the period (2014: nil).

Other transactions within the SPS Trust

Apart from those details disclosed in this note, no Director has entered into a material contract with the SPS Trust during the period and there were no material contracts involving Directors' interests existing at half-year end.

PaperlinX SPS Trust (ARSN 123 839 814)

Notes to the condensed interim financial statements

For the half-year ended 31 December 2015

11. Related parties (cont.)

Investments

SPS Trust received no dividend income from its investment in PaperlinX SPS LLC during the period (2014: \$nil).

There was no distribution announced or paid for the period by the SPS Trust.

12. Contingent Assets and Liabilities

At the date of this report, the Directors of the Responsible Entity are not aware of any contingent liabilities or contingent assets that relate to the SPS Trust. The Directors of the Responsible Entity were not aware of any contingent liabilities or contingent assets that related to the prior financial year ended 30 June 2015.

13. Subsequent Events

The Directors of the Responsible Entity reviewed the results Spicers released to the market on the 24th February 2016.

As at 31 December 2015, the SPS units were trading on the ASX at \$11 per LLC preference share with a market capitalisation of \$31.35 million. As at 24 February 2015, the SPS units were trading at \$11 with a market capitalisation of \$31.35 million.

Other than the matters discussed above, in the interval between the end of the financial period and the date of this report, no items, transactions or events of a material or unusual nature have arisen that have significantly affected, or may significantly affect the operation of the SPS Trust, the results of those operations, or the state of affairs of the SPS Trust, in future financial years.

Directors' Declaration

1. In the opinion of the Directors of The Trust Company (RE Services) Limited, the Responsible Entity of PaperlinX SPS Trust ("the SPS Trust"):
 - (a) the condensed interim financial statements and notes, set out on pages 6 to 18, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the SPS Trust's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*;
 - (b) with reference to note 2(d), there are reasonable grounds to believe that the SPS Trust will be able to pay its debts as and when they become due and payable; and
 - (c) the condensed interim financial statements and notes, set out on pages 6 to 18, are in accordance with the provisions of the Constitution of the SPS Trust.

Signed in accordance with a resolution of the Directors of the Responsible Entity:



Andrew Cannane

Director

Sydney, 26th February 2016

Auditor's Independence Declaration to the Directors of the Trust Company (RE Services) Limited

As lead auditor for the review of PaperlinX SPS Trust for the half-year ended 31 December 2015, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



Ernst & Young



Glenn Maris
Partner
26 February 2016

To the Unit Holders of PaperlinX SPS Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of PaperlinX SPS Trust, which comprises the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of PaperlinX SPS Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Trust Company (RE Services) Limited a written Auditor's Independence Declaration, a copy of which is included in the half-year financial report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of PaperlinX SPS Trust is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Trust's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

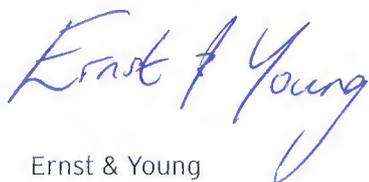
Material Uncertainties Regarding Continuation as a Going Concern and the Fair Value of the Investment in PaperlinX SPS LLC

Without qualifying our conclusion, we draw attention to the following matters:

The matters as set forth in note 2(d) which indicate the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern and therefore the Trust may be unable to realise its assets and discharge its liabilities in the normal course of business.

Note 9 in the financial report highlights that the Directors believe there is inherent uncertainty in determining a valuation of the PaperlinX SPS Trust's Investment in PaperlinX SPS LLC due to a lack of information and the dependence on a number of significant assumptions. This inherent uncertainty materially impacts the assessment of the fair value of the Trust's Investment in PaperlinX SPS LLC.

As a result of this matter, there is significant uncertainty regarding the valuation of the Trust's investment in PaperlinX SPS LLC at 31 December 2015 and the ability of the Trust to realise the value of the investment in the ordinary course of business and at the amount stated in the financial report.



Ernst & Young



Glenn Maris
Partner
Sydney
26 February 2016