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 ASX RELEASE**

20 December 2016

SPICERS ENTERS INTO IMPLEMENTATION AGREEMENT TO SIMPLIFY CAPITAL STRUCTURE

Spicers Limited (“Spicers”, or the “Company”) refers to its announcement dated 11 October 2016 in relation to its conditional and non-binding proposal to The Trust Company (RE Services) Limited (the “RE”), the Responsible Entity of the PaperlinX SPS Trust (“SPS”), to simplify Spicers’ capital structure. The Spicers Board today announces that Spicers and the RE have entered into a binding Implementation Agreement (“Agreement”).

The RE will propose a scheme of arrangement to eligible SPS unitholders for all PaperlinX Step-Up Preference Securities not held by Spicers (“SPS Units”) to be transferred to Spicers in exchange for 545 Spicers ordinary shares per SPS Unit (the “Trust Scheme”). Spicers will seek shareholder approval via an ordinary resolution (“Shareholder Resolution”) to issue new Spicers ordinary shares to SPS unitholders under the terms of the Trust Scheme. These two key steps under the Agreement are collectively referred to as the “Proposed Transaction”.

Key Points

- The Proposed Transaction is to be implemented via the Trust Scheme and will be conditional on eligible SPS unitholders voting in favour of the Trust Scheme and eligible Spicers shareholders voting in favour of the Shareholder Resolution.
- Eligible SPS unitholders will receive 545 Spicers ordinary shares for each SPS Unit held. The Proposed Transaction is predicated on SPS unitholders (as a whole) receiving 70.0% of the enlarged equity base of the Company and will result in non-Spicers SPS unitholders holding 68.3% of this enlarged equity base. Spicers will issue new Spicers ordinary shares in exchange for these SPS Units.
- At the close of trade on 10 October 2016 (immediately preceding the original announcement of the proposal), the Proposed Transaction represents:
 - a 51.4% premium to the last SPS unit closing price of \$9.00;
 - a 43.1% premium to the SPS unit 30-day Volume Weighted Average Price (“VWAP”)⁽¹⁾ of \$10.05; and
 - a 55.5% premium to the SPS unit 60-day VWAP⁽¹⁾ of \$9.76.
- The Spicers Board intends to unanimously recommend that shareholders vote in favour of the Shareholder Resolution, and it is noted that the RE Directors intend to unanimously recommend that SPS unitholders vote in favour of the Trust Scheme.⁽²⁾
- The Spicers Board has agreed to implement a Board renewal process. A search process for up to three suitably qualified new Directors will commence immediately. An Extraordinary General Meeting (“EGM”) of Spicers will be held following successful completion of the Proposed Transaction to vote on the election of a substantially new Board, at which time Mr Robert Kaye and Mr Michael Barker will retire as Directors.

(1) VWAPs are calculated up to and including the closing unit price on 10 October 2016, being the last trading day prior to the original announcement of the Proposed Transaction.

(2) Recommendations are subject to separate Independent Expert reports determining that the Proposed Transaction is in the best interests of ordinary shareholders and SPS unitholders respectively and no superior proposal emerging. The implementation of the Proposed Transaction is also subject to a number of conditions precedent considered customary in such transactions.

- The Trust Scheme Booklet and Shareholder Meeting Materials are expected to be issued during March 2017. The Trust Scheme and Spicers' shareholder meetings are expected to be held in April 2017, with the proposed Trust Scheme then expected to be implemented in May 2017.

Rationale and Benefits of the Proposed Transaction

Simplifying the capital structure is a key pillar of the Spicers Board's plans to unlock value for both sets of security holders and to put Spicers on a more sound and sustainable footing for the future. The Spicers Board believes that now is the right time for such a transaction, following the Company's withdrawal from European operations in 2015 and a subsequent return to overall profitability in the 2016 financial year.

The Spicers Board believes that a simplification of the capital structure is in the best interests of the Company, and both sets of security holders. If implemented, the Proposed Transaction will simplify the complex legacy capital structure of the Company and clear away significant related distractions. It will assist with the operational turnaround of the Company and generate clear benefits for both Spicers ordinary shareholders and SPS unitholders respectively.

Specifically, implementation of the Proposed Transaction will provide the following benefits:

- The creation of a unified, simplified and transparent capital structure. This should assist in improving the correlation between the Company's equity market and asset based valuations. It would also likely broaden investor and analyst interest in the Company, thus improving liquidity in share trading for security holders.
- A unified capital structure will allow the Company to consider paying dividends in the future. The current capital structure constrains the Company's ability to pay dividends to shareholders.
- It will enable the Company to undertake a full range of commercial and financial activities beyond its current capabilities and which most listed entities take for granted, including access to capital raisings and consideration of larger-scale acquisitions.
- It will remove the uncertainties and issues associated with the existing capital structure and will assist Spicers in its operational turnaround activities by:
 - Enabling the Spicers Board and management to focus exclusively on the Company's performance and delivering its growth strategies on behalf of shareholders;
 - Improving management and employee morale by removing distractions associated with the existing capital structure;
 - Improving confidence and removing perceptions of counterparty risk among key stakeholders including customers, suppliers, and financiers; and
 - Reducing complexity and overheads as activities and costs attributable to maintaining the SPS Trust structure are removed.

In commenting on the Proposed Transaction Spicers Chairman Mr Robert Kaye SC said: "The Board recognises the sustained period of uncertainty experienced by Spicers stakeholders. Legacy conflicts between respective sets of security holders restrict Spicers' ability to raise capital, pay dividends and for the market to determine the true value of the business. This in turn significantly limits Spicers' commercial and financial options."

"After considering a wide range of strategic options to optimise value for both sets of security holders, the Board is pleased to be able to announce that Spicers has entered into an implementation agreement with the RE of the SPS Trust."

“Importantly, the proposed transaction structure in this agreement allows the two sets of security holders to have a say in the outcome by requiring respective votes on the Trust Scheme and shareholder resolution. The capital structure will only be unified and simplified if both sets of security holders vote in favour of the Proposed Transaction.”

“If successful, the Proposed Transaction would result in current SPS unitholders owning more than two-thirds of the combined equity of the Company. We believe this is an optimal ratio, which provides the best opportunity to accommodate both sets of security holders, and offers value to both ordinary shareholders and SPS unitholders.”

“Achieving simplification of the capital structure, and with it resolving a key legacy issue, merits a consequential renewal of the Board. Should the Proposed Transaction be successful, Michael Barker and I intend to step down from the Board, as once implemented the vast majority of the Company’s legacy issues would now be in the past. It would thus make sense to allow the newly unified body of shareholders to determine who should lead Spicer's forward on its next phase of strategic development and growth.”

“Spicers has come through an exceptional period of disruption in core paper markets and its previous European operations. We are starting to see a clear way ahead at last, but the legacy issue of a complex capital structure still stands in the Company’s way. There will be no winners unless these issues are rationally confronted and resolved,” said Mr Kaye.

Implications of Non-acceptance of the Proposed Transaction

If the Proposed Transaction is not implemented, the Company, its shareholders and SPS unitholders could experience substantial adverse implications. In particular:

- After exhaustive investigation, the Spicer's Board believes there are no other feasible alternatives for resolution of the Company’s complex capital structure;
- Market valuations of both the Company’s shares and the SPS units may continue to be adversely affected by the status quo of a complex capital structure and associated issues and uncertainties. Open market trading in the respective securities is likely to remain constrained, reducing options for current security holders to be able to trade their securities;
- It would be highly unlikely that coupons or dividends to security holders would recommence in the foreseeable future;
- The ability of the Company to access equity and debt funding to assist with its operational turnaround would be severely limited;
- The Company would continue to be burdened with excessive administration costs and complexity in activities associated with the SPS Trust; and
- Ongoing legal disputes with major SPS unitholders are likely to continue to destabilise the Company and its prospects.

Spicers’ Board Renewal

Under the Agreement, the Spicer's Board has agreed to undertake a comprehensive board renewal process. This will enable the newly unified body of shareholders to elect the Directors that will take Spicer's forward into a new and invigorated phase of activity and growth.

Spicers has initiated a formal search process to appoint up to three suitably qualified and experienced independent non-executive directors (including a potential chairperson) to the Spicer's Board. Spicer's will retain a recruitment consultant specialising in director and chairperson appointments for ASX-listed

entities to undertake this search. In addition to the candidates identified through this search process, other stakeholders in the Company will be invited to nominate suitably qualified and experienced director candidates.

If the Proposed Transaction is successful, Spicers will, as soon as reasonably practical following the Implementation Date (or in any event, within four months from the Implementation Date), call and hold an EGM to seek shareholder approval for the election of Directors from those identified during the search and nomination period.

Mr Robert Kaye and Mr Michael Barker will step down as directors of Spicers upon the election of new Directors at the EGM.

Conditions of the Implementation Agreement and Proposed Transaction

The Company and the RE have entered into the Agreement which contains conditions including:

- The Company obtaining a favourable ruling from the ATO confirming that implementation of the Trust Scheme should not impact the Australian tax losses of the Spicers Group and that there should not be any assessable gain as a result of Spicers acquiring the SPS units;
- Customary regulatory and court approvals;
- Company shareholder and SPS unitholder approval of the Proposed Transaction;
- A number of Spicers and RE "Prescribed Occurrences", such as equity / unit based transactions, acquisitions or disposals greater than \$250,000, or loans / advances / capital contributions / investments with third parties (refer to section 1.1 "Definitions" of the Agreement for full details of these "Prescribed Occurrences"); and
- No changes in the Company or RE Boards' unanimous recommendations of the Proposed Transaction.

In addition, the Spicers "Prescribed Occurrences" will continue to apply to the Company until the date on which it holds the EGM for the election of new Directors.

A copy of the Implementation Agreement is provided in a separate announcement, "Scheme Implementation Agreement", made at the same time.

Other Key Details of the Implementation Agreement and Proposed Transaction

- While broadly in line with the indicative and non-binding Spicers proposal to the RE noted in the 11 October 2016 ASX announcements of Spicers and the RE, the final Implementation Agreement removes a dimension of legal complexity from the proposed transaction structure. Specifically, eligible Spicers ordinary shareholders will now vote on the Proposed Transaction via an ordinary resolution (requiring 50% or greater majorities of shares voted) instead of a scheme of arrangement.
- Eligible SPS unitholders will vote to approve the Trust Scheme at an EGM. Trust Scheme approval requires, amongst other things, a special resolution to approve amendments to the SPS Constitution to give effect to the Trust Scheme.

The Trust Scheme implementation is conditional on shareholders approving the Shareholder Resolution.

- If successful, the Proposed Transaction would result in 1,431,386,910 new ordinary Spicers shares being issued to eligible SPS unitholders.

- Due to regulatory restrictions in relation to the issue of securities, a small number of overseas-based SPS unitholders will not be able to receive ordinary shares in exchange for their SPS units. These particular SPS unitholders will participate in a share sale facility that will be established by the Company.

An indicative timetable for the Proposed Transaction is set out below.

Timetable Event	Indicative Date
Spicers releases half-year results and financial report	15 February 2017
The RE releases the SPS Trust half-year financial report	20 February 2017
First Court date (judicial advice in relation the Trust Scheme)	17 March 2017
Despatch of Shareholder and Trust Scheme Meeting Materials	20 March 2017
Shareholder Meeting and Trust Scheme Meeting	21 April 2017
Second Court date	28 April 2017
Effective Date (the day of the Second Court date)	28 April 2017
Record Date (being the date for determining entitlements to the Trust Scheme consideration)	2 May 2017
Implementation Date	5 May 2017

Note: This is an indicative timetable only and is subject to change, including following any regulatory consultation and as may be required by the Court. Further information on any development relating to the Proposed Transaction will be lodged with the ASX.

Advisors

Spicers is being advised by SLM Corporate as financial advisor and Arnold Bloch Leibler as legal advisor in relation to the Proposed Transaction.

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About Spicers Limited (SRS)

Spicers (formerly PaperlinX Limited) is a merchant group with market leading positions in Australia, New Zealand and Asia. Spicers offers a full suite of products and services to the printing, signage, visual display and graphics industries – incorporating commercial print, digital media, sign & display, hardware, labels and industrial packaging offerings.

About PaperlinX SPS Trust (PXUPA)

PaperlinX Step-up Preference Securities are perpetual, preferred units in the PaperlinX SPS Trust which was established in 2007 to raise funds for the PaperlinX group. The SPS units are listed on the Australian Securities Exchange. An investment in PaperlinX SPS Trust is not a direct investment in Spicers Limited (formerly PaperlinX Limited).