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Annual report 2019

An integrated print, distribution
and marketing services company.

Paper sourcing

The 2019 Annual Report was designed and printed by Ovato.

Paper sourcing

Ovato's Paper Procurement Policy requires that all paper used by the company is sourced in a sustainable and responsible manner consistent with recognised international standards. This policy enables our customers to have a high level of confidence in the sustainability of their printed communications. When producing this annual report, Ovato applied the following additional criteria:

- Support paper suppliers who are striving to achieve the highest sustainability targets;
- Insist on FSC® Certified paper.

The paper used in this report is produced from responsible sources, is manufactured under an ISO14001 compliant environmental management system and uses elemental chlorine free, FSC® certified pulp.



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Ovato Limited

ABN 39 050 148 644

Registered Office:
Level 4, 60 Union Street
Pyrmont NSW 2009
Tel: 02 9412 6111
ovato.com.au

Annual General Meeting

The Annual General Meeting will be held at 11.00am, 21 November 2019 at:

Deloitte Touche Tohmatsu
Level 9, Grosvenor Place,
225 George Street, Sydney,
NSW 2000

Details of the business of the meeting are contained in the Notice of Meeting.

Investor Information

Shareholders requiring information should contact the share registry or Chief Financial Officer:

Geoff Stephenson
Tel: 02 9412 6111
geoff.stephenson@ovato.com.au

ASX Code OVT

Share Registry

Computershare
Investor Services Pty Ltd
Level 5, 115 Grenfell Street,
Adelaide SA 5000
GPO Box 1903, Adelaide SA 5001

Enquiries:

Within Australia: 1300 556 161
International: +61 3 9415 4000
computershare.com

Board of Directors

Chairman
Matthew Bickford-Smith

CEO/Managing Director
Kevin Slaven

Non-Executive Directors
Michael Hannan
Dhun Karai
Andrew McMaster
Terry Sinclair
Wai Tang



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Ovato

Company profile

We are Ovato: Australasia's leading media, marketing and printing company. We bring experience, expertise and scale to the challenges facing modern marketers. We turn audiences into customers.

Our core strengths can support businesses across four main pillars of Print, Distribution, Production, Agency.

Our expertise producing and distributing catalogues, magazines, marketing materials and messages both physically and digitally has enabled us to develop a range of integrated marketing solutions that help our clients understand, reach and capture their audience's interest.

Our vision

We are creating a smarter and sustainable business to deliver integrated marketing solutions that turn audiences into customers.

Our values



Efficiency

Speed to market for our clients' marketing

Our co-located print and distribution capabilities allow our clients to make decisions a day closer to their message being in market. We give them back time. We're building them an even greater advantage with workflow and asset management solutions that drive this advantage upstream.



Effectiveness

Improving the impact of your campaigns

We know our letterbox deliveries drive retail results. Now, we have partnered with leaders in data to build compelling insights for our clients, better targeting of their customers, and precise measurement for each of their campaigns.



Integration

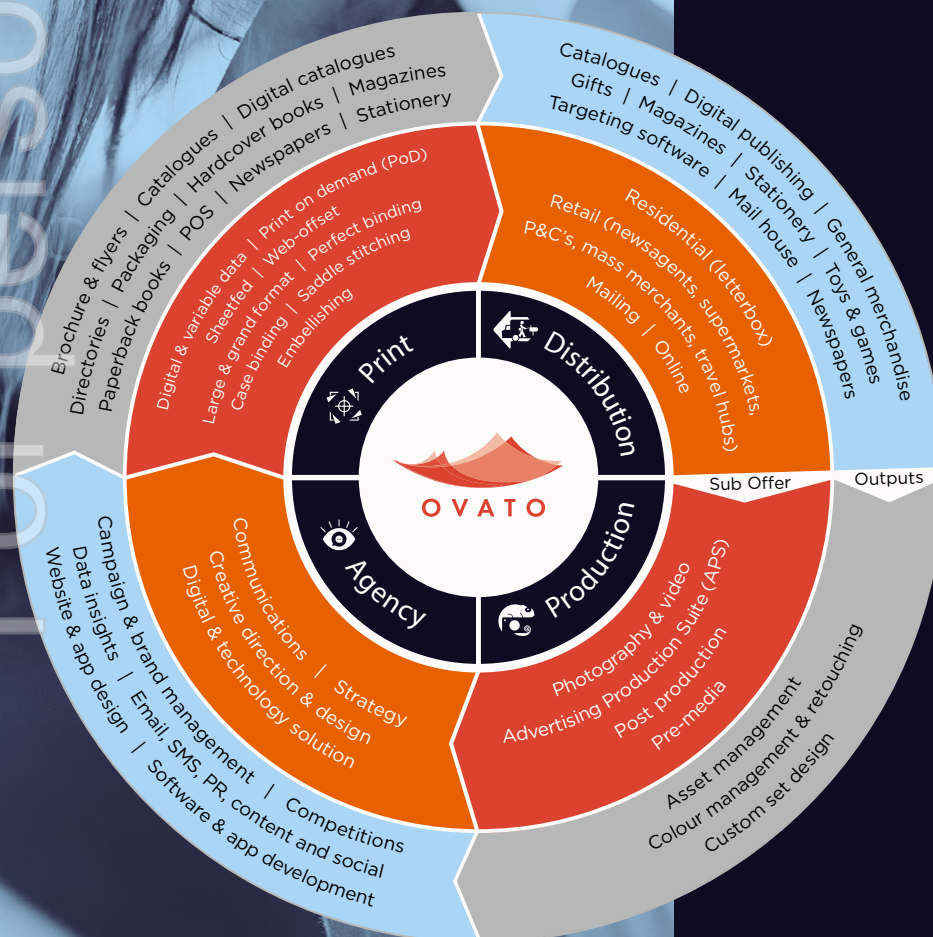
Multiplying the effect of your message

Our abilities extend far beyond print and distribution, offering production and agency capabilities that boost our clients' existing marketing investment. We can also work in close partnership with their roster of media and creative agencies to build value around their brand.

Our capabilities

Around our core offer of Print and Distribution, we give modern marketers the tools and services to reach audiences and turn them into customers. We offer an unmatched breadth of solutions for businesses to understand, reach and inspire the consumers that matter to them.

While our capabilities are diverse, we have a single-minded focus on delivering quality outcomes for our clients. Building on the physical processes of print and distribution, our Production capabilities deliver increased efficiency and effectiveness, while our Agency capabilities give our clients inspired ideas to keep customers coming back for more.





Print

We are the largest printer operating across Australia and New Zealand. We produce more than 230,000 tonnes each year. Our capabilities lead the market. If our clients need a physical touchpoint, instore or in the hands of customers – we are ready to help.

“

A catalogue printer is judged by their reliability and, in the 20 years Ovato have been printing Bunnings catalogues for us, they have never missed a delivery.

”

Rosie Willis

Print Production Manager
The Brand Agency



Distribution

Each week, our walk force can deliver our clients' message to almost eight million Australasian homes. Each step gives them a powerful lever through the letterbox to drive customers instore or online. Our extensive on-site mailing connections allow clients to address each of their customers by name. Our trucks extend reach even further, delivering magazines and retail merchandise to 11,900 retail outlets.

“

Yaffa Media has enjoyed a solid and enduring relationship with the Retail Distribution business for over 60 years. Much has changed in the media landscape over that time, but they have maintained a consistent, high quality service. The team who work with General Manager, David Hogan, are knowledgeable, efficient and good communicators.

”

Tracy Yaffa

Managing Director
Yaffa Media



Production

We work with Australia's best-known brands to tackle the challenges of scale. We put our people, processes and programs around our clients' marketing workflow to deliver the highest quality outcomes, in the most efficient manner. Whether they're looking to augment their current solution or replace it entirely – we've got them covered.

“

We have worked with the Ovato team on our magazines and catalogues, pre-press, post production and distribution over many years. We do so because we believe they're the best, and because we believe there's strength in long-term relationships. We know that our partners at what is now Ovato are always looking around the world at the different ways that things are being done in order to share best practice with us. They do this without losing track of what's important on the ground at home: the shared belief that good people and relationships are at the heart of good business.

”

Mark Muller

Editor-in-Chief R.M.Williams
Publishing Pty Ltd



Agency

Our agency capabilities bring strategic thinking, creative direction and inspired ideas to our clients' marketing challenges. We can provide fully integrated campaigns combining all our capabilities or deliver stand-out success on a narrower brief. Whatever you need to say, our agency teams can help them find a special connection with their audience.

“

I'm constantly impressed at how quickly and effectively the team has risen to the challenge of providing a full range of comms support for the combined Dell business in ANZ. I consider them an extension of my team.

”

Kirsty Matta

Head of Communications
ANZ
Dell Technologies

Our difference

We bring more than 165 years of experience, the scale of Australasia's largest of integrated print, distribution and marketing services business; and a wealth of proven and innovative solutions to bear on our clients' marketing challenges.

Innovation

We have invested in game-changing solutions and partnerships that double-down on the marketing activities our clients have in market.

We have established a dedicated innovation team that can help to apply insights and build testable concepts that turn audiences into customers.

Customer centricity and the talent that supports it is our everything

Our customers' loyalty is only possible because of the outstanding relationships that our employees have built with them.

Our talent reflects both our legacy and our eye on the future. Many members of our team are in their third decade with the company and our youngest employee was born beyond 2000.

Experience is enhanced by more recent team members with new skills and apprenticeship programs that will build our talent pipeline for decades to come.

Ovato works with leading brands, providing them with one of the only marketing channels that hasn't been fragmented – namely our residential distribution network able to reach over 8 million homes across Australia and New Zealand.

We also work with publishers, printing and distributing catalogues, magazines, newspapers and printing books. Our business has shared the disruption that has changed these industries and we are working as partners to build the models needed to sustain and evolve them.

Our service offering is like no other

Ovato's unique positioning has grown over the past year, as a company with:

- A clear attribution model for the catalogue channel linked to transactional data;
- A suite of Marketing Services businesses that can help customers with their marketing strategy, creative development, photography, layouts, colour management, proofing, image retouching, data asset management, content creation, digital deployment, audience engagement and marketing automation;
- An Advertising Production System that automates retailers' workflows, saving them time and money;
- A national footprint of print sites, ensuring the most timely and efficient production of printed material at scale; and access to over 11,900 retail locations via our retail distribution network;
- The ability to reach 8 million households via their letterboxes with our residential distribution network.

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Company profile

Ovato can take a marketing idea from concept to letterbox — our service offering is like no other.

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Ovato is now a fully integrated print, distribution and marketing services company, and an effective marketing partner for leading retailers.



Chairman's review

Matthew Bickford-Smith
Chairman

Dear Shareholders

Our earnings and absolute cashflow generation were disappointing this year. The first six months showed great promise, with earnings at close to budget and all our top 30 accounts tracking at or above our expectations from a volume perspective. This positive trend continued into the first half of the third quarter. However, as we approached the federal election in May 2019, we saw a pronounced drop in short-run retail volumes, in addition to a dramatic pullback in volumes across the publishing sector. Our large retail food and beverage clients continued to perform well, but this highlight and tight cash control were not enough to prevent a hard pullback of our full year earnings expectations.

By the time you receive this report almost all offset web print capabilities in New South Wales will have been combined at our Warwick Farm site and we will close our Moorebank site. This is the last of the large production synergies made possible by the merger of PMP and IPMG, and we have chosen to dramatically bring forward this project to balance softer demand outside of our largest retail clients.

As previously advised, annualised savings of \$24M will be generated by FY21 from the consolidation. This project is being monitored closely by both management and the board of directors. It is on schedule for milestones and the equipment moves, but there are some additional short-term costs incurred during this period of disruption as customer service is maintained.

Net debt will increase in FY20 as the new press and NSW site consolidation spend is completed. This final stage of our consolidation of operations from three sites to a super site at Warwick Farm allows for the retirement of older, less efficient presses and a significant headcount reduction. Cash flow is expected to return to positive territory as we head towards FY21 with the major restructuring costs behind us and maintenance capital expenditure to remain at circa \$5M p.a.

Overview

FY19 Key Financials

\$M	FY19	FY18	Var %
Sales Revenue	669.2	734.0	(8.8%)
EBITDA ¹ (before significant items)	30.8	40.6	(24.1%)
Depreciation and Amortisation	(28.6)	(31.3)	8.4%
EBIT (before significant items)	2.2	9.4	(76.3%)
Net (Loss)/Profit after Tax (before significant items)	(4.4)	1.1	-
Significant Items Post Tax ²	(79.9)	(44.9)	-
Loss (after significant items)	(84.3)	(43.8)	-
Cash flow from operating activities	(19.2)	(6.1)	-
Net Cash Flow ³	(12.4)	(12.6)	1.0%
Net Debt	(44.7)	(32.8)	-
EBITDA to Sales Revenue percentage	4.6%	5.5%	-
Net Debt / EBITDA ³	1.4 x	0.8 x	-

1. Before Significant items.

2. FY19 includes (\$63.6M) of significant items before tax and an (\$19.8M) impairment of deferred tax assets, \$(14.9M) of tax losses not brought to account partially offset by \$18.7M of tax benefit on significant items and (\$0.3M) of adjustments to prior year tax losses not recognised.

3. Net Cash Flow equals Cash Flow from Operations and Investing Cash Flows and proceeds from issue of shares.

Ovato Australia revenue fell 9.6% over the course of the year. Success in Retail Distribution and Marketing Services was offset by lower than expected EBITDA across Print and Residential Distribution. Strong cost savings at Print offset much of the impact from lower volumes and higher input costs we experienced across FY19.

Ovato New Zealand experienced a year of difficult conditions, where revenue fell 4.8% on a reduction of print volumes by 4% compared to the previous year. EBITDA fell 57% mainly due to large contract renewals at lower sell prices in a characteristically competitive market. Increased competition also meant that increases in paper prices were not able to be recouped.



Ovato continues to play a leading role in balancing production and demand to establish a sustainable and rational market for print in Australia.

The commitment we made to data last year is beginning to show a return. We have a range of clients committed to both targeting and measurement of the return on investment (ROI) of the catalogue. This aspect of our strategy is crucial in evolving our channel and the way clients use print. The ability to define ROI for print campaigns and use data to improve it has opened opportunities in FMCG and online, adjacent to our core retail and publishing client base.

Your Board continues to evolve with the appointment of Andrew McMaster and the departure of Wai Tang.

Andrew McMaster has extensive experience in both finance and governance. Andrew spent 36 years with KPMG, ultimately as a Partner in their audit practice and helped transform Service NSW in his role as CFO. Andrew also serves as a Director of Netball NSW, a return to governance of sport after a 22-year stint on the board of the Sydney

Swans. Following his election to the Board, Andrew was appointed as Chair of the Audit and Risk Committee and the Chair of the NSW Site Consolidation subcommittee.

The Board was sorry to lose the service and vast retail experience of Wai Tang in September, following her resignation. Unfortunately, due to personal reasons and with her increasing commitments on other public company boards, Wai determined that she was no longer able to continue as a director of Ovato. Wai's insights in the retail market, particularly around the ever-increasing impact data plays in determining marketing spend will be sorely missed.

During the year Wai chaired the Growth and Innovation Committee, a committee which provided a forum for determining areas of growth driven by digital technology and data science that are aligned to Ovato's retail strategy and provided an interface between management and the Board to report on the Company's progress in achieving growth from digital technology and data science.

Warwick Farm site

Ovato continues to play a leading role in balancing supply and demand.



The most significant corporate development this year was the rights issue in the last quarter, where the company offered one new share for every 2.3 shares. Underwritten by our core investors and with the support of retail investors, the rights issue provided additional liquidity by reducing leverage and providing additional financial flexibility to the company, enabling the earlier completion of the NSW site consolidation previously mentioned.

The year ahead will undoubtedly provide its share of challenges. Especially as we bed down the final stages of the NSW site consolidation project which will completely transform our cost base and effectiveness in the Australian print market. Despite a much-improved industry environment, we still are experiencing strong competitive behaviours, such as very targeted and keen pricing.

FY20 will be a breakthrough year for Ovato, which many shareholders will say has taken too long to materialise. In FY20, the Board will be totally focused on three issues. Firstly, the successful conclusion of the NSW site consolidation. Secondly, ensuring we have the best possible management we can in key operating roles. Finally, that our balance sheet retains flexibility and all available cash goes to reducing debt levels.

It goes without saying that we continue to strive for a better result and focus on delivering an efficient manufacturing base that can support a profitable business.



Matthew Bickford-Smith
Chairman



**FY20 will be a
breakthrough
year for Ovato.**



“

We continue to be impressed with Ovato's commitment to innovation and agile approach to printing, given the ever-changing environment. We believe it is important to partner with a company that is focused on setting up strong foundations for future success. In light of this we are really pleased to continue working with Ovato and getting the best new books into the hands of Australian readers.

”

Gavin Schwarcz
Director, Sales & Operations, Penguin Random House

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Your company has
come together under
the Ovato brand.



CEO's review

Kevin Slaven

Chief Executive Officer

Your company has come together under the Ovato brand and is finding new opportunities with our clients and in the categories adjacent to large scale retail. We are doing a better job of delivering the benefits our scale affords to our clients, with less complexity. Our focus on consolidating our sites and driving cost savings in NSW is coming to its end and we are well positioned to capitalise on this momentum in FY20 and beyond.

I started my report last year expressing gratitude for the opportunity to lead this company, our people and take the challenge of leading change for our business and industry.

A year on, the Ovato team has made real change and I am proud of what we have been able to achieve together. I remain engaged and grateful for the opportunity that leading the new Ovato business delivers. We have challenges still to meet, but we have shifted our mindset and accepted and undertaken the necessary changes in the way we operate and deliver the best product for our clients' marketing objectives.

It has been encouraging to see that our margin improvement strategies, initially focused at the Australian operations, are having a positive impact. Ovato Australia's EBITDA*/sales margin held relatively steady against the prior period at 4.7% as cost savings largely offset lower sales. At a Group level, our EBITDA ratio though has fallen from 5.5% to 4.6% mainly due to the disappointing Ovato NZ result, with EBITDA down significantly on lower print sell prices.

It has been another challenging year with the disruption of our NSW site consolidation and continuing headwinds in the retail and publishing environments, but we have come through it in a stronger position. One of our enduring skills as a business is our ability to balance a diligent focus on cost reduction while still delivering the best possible result for our clients.

The new 80-page press will shortly be commissioned and will enter full service before the end of the current busy season. The significance of this investment in allowing us to more efficiently print for the largest catalogue clients in the market cannot be overstated. It also brings new options for our clients to address their marketing challenges, particularly the ability to deliver greater customisation of versions without sacrificing the benefits of scale.

Lowering our net debt will be a principal focus in the second half of the year ahead, as the benefits of the NSW site consolidation and reduced capacity are felt, and we see a return to positive cash flow.

Internally, we are focused on our people. My talented executive team are leading change at tremendous scale across our business. I believe my role is best served by giving them both the challenge to take on tasks that are sometimes bold and difficult, and the support to enable them to use their skills and experience in the best way.

*Before Significant Items.

Julia Farrant, who joined the executive team last year has excelled in helping us to create the best structures for our business and has been leading her team in building out the framework for the values and culture that supports both our people and the plans we have as a business.

Julia's work builds on our decision to rebrand the company in February. Our shift to becoming Ovato has been a success. We used the strength of our internal teams wherever possible, only incurring external costs in the changes to physical signage across our unique national footprint in both Australia and New Zealand.

We have also made a significant addition to our leadership team with the creation of a Corporate Development role to continue to drive change and explore and implement broad opportunities across our business.

We have renewed our voice in the market. We communicate more regularly to our clients and other stakeholder audiences.

These marketing efforts have generated more than 500 new business leads since our brand launch in February. We have printed and distributed a catalogue for eBay in the last quarter of FY19, the first online retailer to follow an emerging global trend of using physical print as a powerful and cost-effective driver of online sales. We have also found new work in FMCG, leveraging insight from the supermarket register to drive trials through the letterbox with a significant and measurable impact on sales.

Clients continue to shift between the players in the market and the ever-increasing number of channels offering connections to different audiences. Our strategy of focusing on our high-volume customers, catalogues and cost competitiveness is working and we have clients who are characterised by their ambition and scale.

My talented executive team are leading change at tremendous scale across our business.



Our operations



	NSW	VIC	TAS	SA	QLD	WA	NT	NZ
Web Presses	●	●		●	●	●		●
Digital Presses	●	●		●	●			●
Sheetfed Presses	●			●	●			●
Bindery	●	●		●	●	●		●
Mailhouse	●				●			●
Distribution	●	●	●	●	●	●	●	●

● - Current operations

We have made significant investments in both data and bringing our Advertising Production Suite (APS) to market. The APS is our workflow and production management tool. This software-as-a-service solution allows Ovato clients to manage the conception, design and approvals of advertising, and leverage more than 20 years of evolution and experience we have in supporting clients through these retail intensive challenges.

We have built on our understanding of the data we hold in the business. Large sets of data and creative variation exist, and we have been focused on making these both useful and accessible for our clients and our business. Working with Quantum has allowed us to enrich this data with perhaps the most useful retail response method that exists; the purchase behaviour of consumers. We have conducted historical studies that show defined increase in spend by audiences exposed to the catalogue by between four and eight percent. We can prove the return on an investment in catalogues and provide significant recommendations based on that data to drive an improved result. A priority for the coming year is taking this programmatic approach vigorously to market with our clients.

Looking towards next year, there is much to keep us cautious. The slowing of retail and lower consumer confidence looks likely to deliver continued impacts on our retail client base. We are more prepared than we have ever been to help them make better decisions about their marketing spend and are able to support clients as marketing budgets and our clients' businesses feel the pressure.

Our strategy of focusing our efforts on our largest customers has been validated, with volumes and spend by Tier One Food & Beverage clients remaining in line with our expectations. We are also finding new opportunities with customers who turned away from print in search of better data and measurement and extending our relationships upstream to FMCG brand owners who sell through our traditional retail clients.

Our teams are focused on the challenges that lie ahead. We share a passion for the craft and capabilities that have defined our business over the last decades. We have shown the benefit and impact our core channels bring, and we are amplifying our understanding of data and analytics to deliver value and insights to our clients. We are building the next wave of retail marketing tactics and techniques with the largest retailers across Australia and New Zealand. We are ready for the challenge and excited about the change we will drive over the next year.



Kevin Slaven
Chief Executive Officer
and Managing Director



Health and safety

Our commitment to keeping people safe is a core value of Ovato through key priorities detailed in our health and safety strategy of:

- Visible leadership – building on a continuous improvement of safety culture through engagement and participation at all levels of the business
- Eliminating repeat incidents – a well embedded process for shared learning from incidents and developing business-wide solutions
- Health and Safety standards – progression of our safety management system to ensure suitable design and practical implementation
- Wellbeing – that our team members are fit and well for work and returning home safely is our primary goal

The implementation of this strategy is achieved through continuous improvement plans and monitoring performance of these plans.

We have launched a new internal brand and logo for HSEQ, bringing together initiatives that encompass Health, Safety, Environment and Quality under our message,

“Working Safe, Living Well, It’s ALL About ALL of You” headlining our HSEQ initiatives and communications.

The introduction of a new enterprise risk management platform implemented in January of 2019 has improved our reporting and transparency of data and will assist us to analyse our performance, identify trends, track progress and further enhance our safety strategy.

The principal focus during the period was on systems and processes that manage the hazards associated with high risk permits, specifically confined space and hot work, and a focus on high risk activities, specifically forklift safety through our Forksafe program addressing forklift safety across all sites.

Contractor safety has been another area of high focus throughout the NSW site consolidation project. Maintaining a high level of communication between site operations and contractors has been key to our success, particularly during high risk works on items such as; standards for permits, housekeeping, isolations,

working at height, building works and equipment transfers.

External audits continue to be used to provide valuable insights into the operation of our safety management system and to check the effectiveness of their operation.

We track our improvement progress through the TRIFR (total recordable injury frequency rate), which is calculated based on the number of recordable injuries for every million hours worked.

This year, TRIFR was 10.09 down from 14.23 with the business achieving a better than planned reduction.

While this is a significant improvement, there is more work to be done as we continue to apply a year on year 20% reduction target.

Our improvement in safety performance has improved significantly over the past 2 years and is driven by a commitment that is supported through a focused strategy and program of continuous improvement.

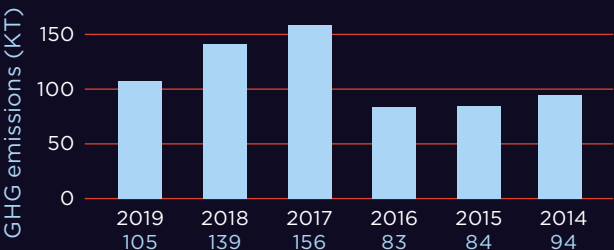
Occupational health and safety

	FY18/19	FY17/18
TRIFR*	10.09	14.23

* Total Recordable Injury Frequency Rate.

Greenhouse gas (GHG) emissions

Ovato’s comparable year-on-year Greenhouse Gas (GHG) emissions reduced in FY19. Ovato will continue to pursue energy efficiency measures across all businesses to further reduce our overall emissions.



Directors' report

For the year ended 30 June 2019

The Directors of Ovato Limited (referred to as "Ovato" or "Company") submit their report and the Company's consolidated financial report for the year ended 30 June 2019 and the Auditor's report thereon. Throughout the report, the consolidated entity is referred to as the Group.



Matthew Bickford-Smith

CHAIRMAN

Appointed 2 June 2009

Mr Bickford-Smith has been an independent Non-Executive Director of Ovato since 2009 and has been Chair of the Board of Directors since 2012. He has been a member of the Audit and Risk Management Committee since 2010. He has been a member of the Appointments and Compensation Committee from 2009 and is Chair of that Committee.

Mr Bickford-Smith is also a Director of Eastern Agricultural Australia.

Mr Bickford-Smith was previously Chief Executive Officer of Ridley Corporation Limited from 2000 to 2007. He was previously with the Man Group and was Managing Director of the Australian operations from 1996 to 2000.

Mr Bickford-Smith has extensive commercial experience within finance, manufacturing, risk management and strategy.



Kevin Slaven

BCom, CA, GAICD

MD AND CEO

Appointed 27 February 2018

The Board of Ovato appointed Mr Slaven as Managing Director ("MD") and Chief Executive Officer ("CEO") on 27 February 2018.

Prior to this he acted as interim CEO of Ovato following the retirement of Mr George on 30 November 2017. Mr Slaven joined Ovato in March 2017 as CEO of Distribution and Marketing Services following the merger with IPMG Group.

A graduate member of the Australian Institute of Company Directors and Institute of Chartered Accountants, he was appointed CEO of IPMG in July 2013 after originally joining the business in 2000 as Chief Financial Officer ("CFO") and Company Secretary. Prior to that he worked in the chartered accounting profession and then subsequently in key commercial roles, including as Commercial Manager of CSR Timber and CFO of leading information technology distributor Tech Pacific.

Mr Slaven has extensive experience in manufacturing, publishing, marketing, business development and strategic planning. He is experienced in managing people and businesses through significant change. He is currently Chair of the Real Media Collective.



Dhun Karai

B Comm, MBA, CA ANZ, MAICD

NON-EXECUTIVE DIRECTOR

Appointed 1 June 2016

Ms Karai has been an independent Non-Executive Director since 1 June 2016. Ms Karai was a member of the Audit and Risk Management Committee ("ARMC") from 1 June 2016 to 30 May 2019. She was Chair of the ARMC from 26 August 2016. Ms Karai has been a member of the Appointments and Compensation Committee from 31 May 2019.

Ms Karai's experience spans over 20 years in senior executive roles in financial services, customer engagement, digital / new products development, internal audit and risk management, initiating major transformational projects in Australia, New Zealand and the UK. Ms Karai held the position of Chief Manager Personal Markets with the Commonwealth Bank and for over ten years as the Head of Group Financial Services at Woolworths spearheading its banking services, digital partnerships, customer loyalty and data-driven marketing initiatives. Currently Ms Karai is a Partner at Grant Thornton Australia.

Ms Karai's other directorships have included being a Non-Executive Director of eftpos Payments Australia Limited and GI Technology Private Limited. Her committee memberships have included the Australian Payments Council, the National Financial Literacy Program and the International Merchants Advisory Group (USA).

1. Directors

The Directors of Ovato during the financial year were:

CHAIRMAN

Matthew Bickford-Smith

MANAGING DIRECTOR ("MD") and CHIEF EXECUTIVE OFFICER ("CEO")

Kevin Slaven

NON-EXECUTIVE DIRECTORS

Dhun Karai

Michael Hannan

Wai Tang

Terry Sinclair

Andrew McMaster (appointed 4 October 2018)



Michael Hannan

NON-EXECUTIVE DIRECTOR

Appointed 1 March 2017

Mr Hannan has been a Director since 1 March 2017, following the merger of IPMG Group with Ovato (formerly PMP). Mr Hannan was a member of the Appointments and Compensation Committee from 31 May 2017 to 30 May 2019.

Mr Hannan was instrumental in taking IPMG into printing in the early 1970s and in the early 1980s into heatset printing and throughout that time continuing to drive the development of its community newspaper group and its consumer magazine empire.

Under Mr Hannan's Chairship, IPMG had the largest group of privately owned print and digital marketing services businesses in the southern hemisphere. He also has responsibility for significant Hannan family interests including industrial, commercial, rural and property portfolios together with other key investments.



Wai Tang

BAppSc, MBA, GAICD

NON-EXECUTIVE DIRECTOR

Appointed 10 October 2017

Ms Tang has been an independent Non-Executive Director of Ovato since 10 October 2017. Ms Tang has been a member of the Appointments and Compensation Committee since 1 December 2017. On 10 September 2019, Ms Tang resigned as a Non-Executive Director of Ovato.

Ms Tang has extensive retail industry experience and knowledge gained through senior executive and board roles. Her former senior executive roles included Operations Director for Just Group and Chief Executive Officer of the Just Group sleepwear business, Peter Alexander. Prior to joining the Just Group, Ms Tang was General Manager of Business Development for Pacific Brands. Ms Tang was also co-founder of the Happy Lab retail confectionary concept.

Ms Tang is a Non-Executive Director of Vicinity Limited, JB Hi-Fi Limited and Metcash Limited (appointed 1 August 2019). Ms Tang is a member of the Visit Victoria Board and is Deputy Chair of the Melbourne Festival. Her former directorships include Specialty Fashion Group, kikiki.K Pty Limited and the Melbourne Fashion Festival. She holds a Master of Business Administration and a Bachelor of Science degree.



Terry Sinclair

MBA, GradDipMgmt, MAICD

NON-EXECUTIVE DIRECTOR

Appointed 10 October 2017

Mr Sinclair has been an independent Non-Executive Director since 10 October 2017. Mr Sinclair has been a member of the Audit and Risk Management Committee since 1 December 2017.

Mr Sinclair has extensive experience across industrial, resources and consumer services sectors including 20 years in senior management roles in BHP (Minerals, Steel and Transport/Logistics) and 10 years with Australia Post (Logistics and Corporate Development). He was previously the Managing Director of Service Stream Limited, Chair of AUX Investments (jointly owned by Qantas and Australia Post), Director of Sai Cheng Logistics (China) and Director of Asia Pacific Alliance (HK).

Mr Sinclair is a Non-Executive Director of Cleanaway Waste Management Limited, Zoom2U Pty Ltd and GMDx Group Limited. He is also a member of various advisory boards for private equity ventures in e-commerce and technology/ infrastructure. He holds a Master of Business Administration, a Graduate Diploma in Management and tertiary qualifications in Mining, including surveying.



Andrew McMaster

BCom (Hons), CA

NON-EXECUTIVE DIRECTOR

Appointed 4 October 2018

Mr McMaster joined the Board of Ovato as a Non-Executive Director on 4 October 2018. Mr McMaster was appointed a member of the Audit and Risk Management Committee on 22 February 2019 and Chair from 31 May 2019.

Mr McMaster has extensive professional financial and accounting experience, including 27 years as a partner of KPMG.

During his professional accounting career, experience was gained with a wide range of clients in the public and private sectors including extensive experience in the printing, publishing, distribution and retailing industries, and in all aspects of governance and risk services, with a focus on assurance, risk management and financial advisory.

Mr McMaster was the inaugural Chief Financial Officer of Service NSW for five years, directly involved in all aspects of the design and building of the cultural, structural, governance and financial foundations of Service NSW as an executive agency of the NSW government.

Mr McMaster was a Director of Sydney Swans Limited for 22 years until February 2017. He was also a Director and Treasurer of The Bradman Foundation and the Bradman Museum Trust from 1996 to 2006. He is currently a Director of Netball NSW.

Directors' report

For the year ended 30 June 2019

2. Directors' and Executives' Disclosures

The disclosures required for Director share holdings and Director and Executive remuneration are included within the Remuneration Report.

3. Company Secretary – Qualifications & Experience

Alistair Clarkson B Com, LLB, MBA, ACIS, GradDipACG

Mr Clarkson was appointed Company Secretary of Ovato Limited on 24 April 2009 and has been Company Secretary of Ovato's subsidiaries since December 2005. He is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

Mr Clarkson holds a Bachelor of Commerce, a Bachelor of Laws, a Masters of Business Administration and a post graduate diploma of Applied Corporate Governance. He is an associate of the Institute of Chartered Secretaries and a member of the Law Society of NSW.

As Company Secretary of Ovato, Mr Clarkson is responsible for managing the Company's corporate governance framework, its continuous disclosure and listing rule compliance and managing all matters relating to the Company's Board of Directors and Board Committees.

Mr Clarkson has been Corporate Counsel for Ovato since 2001 and General Counsel since 2009. Prior to joining Ovato, Mr Clarkson was an associate at a law firm in New Zealand.

4. Directors' Meetings

The number of Directors' meetings (including meetings of Board Committees) and the number of meetings attended by each of the Directors of Ovato during the financial year were:

		Matthew Bickford-Smith	Kevin Slaven	Michael Hannan <d>	Dhun Karai <c> <d>	Terry Sinclair	Wai Tang <e>	Andrew McMaster <c>
Board of Directors	Attended	21	21	20	20	19	17	14
	Maximum possible attended	22	22	22	22	22	22	15
Audit & Risk Management	Attended	4	<a>	<a>	3	4	<a>	1
	Maximum possible attended	4	<a>	<a>	3	4	<a>	1
Appointment & Compensation	Attended	9	<a>	8	1	<a>	9	<a>
	Maximum possible attended	9	<a>	8	1	<a>	9	<a>

Table 1. Directors' Meetings.

- <a> Directors may attend Committee meetings but where not Committee members, their attendance is not recorded.
- Mr McMaster appointed to the Board of Directors on 04/10/18. Appointed as a member of the Audit & Risk Management Committee on 22/02/19.

- <c> Ms Karai resigned as Chair of the Audit & Risk Management Committee on 30/05/19; Mr McMaster appointed as Chair of the Audit & Risk Management committee on 31/05/19.
- <d> Mr Hannan resigned from the Appointments and Compensation Committee on 30/05/19; Ms Karai appointed as a member of the Appointments and Compensation Committee on 31/05/19.
- <e> Wai Tang took a leave of absence for the 5 board meetings missed due to personal reasons.

5. Corporate Governance Statement

Ovato believes that high standards of corporate governance practices through effective oversight, risk management and transparency are a critical prerequisite of a successful Company and is intrinsically linked to creation of value. The core principles of good corporate governance that Ovato has based its corporate governance framework on are:

- Ethical business conduct;
- Responsible management and remuneration;
- Sound financial reporting and risk management; and
- Appropriate communication and disclosure.

Ovato's corporate governance framework is designed and implemented to accord with the best practice recommendations set by the ASX Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles") where practicable. The table on the following page indicates where specific ASX Principles are dealt with within this Statement. Ovato has followed the recommendations

other than measurable objectives for achieving gender diversity were not set and Mr McMaster being Chair of the Audit and Risk Management Committee is not an independent Director by virtue of being nominated as Director by the Hannan family.

The Board of Directors approved the Corporate Governance statement on 28 August 2019, with this being the effective date for that statement.

Recommendation

Section Reference

Principle 1 — Lay solid foundations for management and oversight		Location
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its Board and management; and (b) those matters expressly reserved to the Board and those delegated to management.	5.1 "Board Charter"
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.	5.1 "Director appointment, training and continuing education"
1.3	A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	5.1 "Director appointment, training and continuing education"
1.4	The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	3 "Company Secretary - Qualifications & Experience" 5.1 "Board access to information and independent advice"
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and either: (1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	5.5 "Diversity Policy"
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	5.1 "Board Performance Evaluation"
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	7.4 "Senior Executive Performance Evaluation"
Principle 2 — Structure the Board to add value		
2.1	The Board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent Directors; and (2) is Chaired by an independent Director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	1 "Directors" 4 "Directors' Meetings" 5.2 "Appointments and Compensation Committee"
2.2	A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	5.1 "Board Composition and Membership" "Board Skills"
2.3	A listed entity should disclose: (a) the names of the Directors considered by the Board to be independent Directors; (b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and (c) the length of service of each Director.	1 "Directors" 5.1 "Board Independence"
2.4	A majority of the Board of a listed entity should be independent Directors.	1 "Directors" 5.1 "Board Independence"
2.5	The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	5.1 "Chair"
2.6	A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.	5.1 "Director appointment, training and continuing education"

Directors' report

For the year ended 30 June 2019

Recommendation

Section Reference

Principle 3 — Act ethically and responsibly		Location
3.1	A listed entity should: (a) have a code of conduct for its Directors, senior executives and employees; and (b) disclose that code or a summary of it.	5.5 "Code of Conduct"
Principle 4 — Safeguard integrity in corporate reporting		
4.1	The Board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are Non-Executive Directors and a majority of whom are independent Directors; and (2) is Chaired by an independent Director, who is not the Chair of the Board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	1 "Directors" 4 "Directors' Meetings" 5.2 "Audit and Risk Management Committee"
4.2	The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	5.3 "Management Representation"
4.3	A listed entity that has an Annual General Meeting ("AGM") should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	5.4 "Investor Relations"
Principle 5 — Make timely and balanced disclosures		
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	5.5 "Disclosure and Shareholder Communication Policy" and on the Website
Principle 6 — Respect the rights of security holders		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	5.5 "Disclosure and Shareholder Communication Policy" and on the Website
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	5.4 "Investor Relations"
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	5.4 "Investor Relations"
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	5.4 "Investor Relations" and on the Website
Principle 7 — Recognise and manage risk		
7.1	The Board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent Directors; and (2) is Chaired by an independent Director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	1 "Directors" 4 "Directors' Meetings" 5.2 "Audit and Risk Management Committee"
7.2	The Board or a committee of the Board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	5.3 "Risk Management Framework"
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	5.3 "Internal Audit"
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does how it manages or intends to manage those risks.	6.7 "Risks, likely developments and future prospects"

Recommendation

Section Reference

Principle 8 — Remunerate fairly and responsibly		Location
8.1	The Board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent Directors; and (2) is Chaired by an independent Director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	1 "Directors" 4 "Directors' Meetings" 5.2 "Appointments and Compensation Committee"
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of Non-Executive Directors and the remuneration of Executive Directors and other senior executives.	7.3 "Remuneration structure" 7.6 "CEO" 7.8 "Non-Executive Director Remuneration"
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	5.5 "Trading in Ovato Shares"

5.1 Board of Directors

BOARD

Directors are selected to achieve a broad range of skills, experience and expertise complimentary to the Group's activities. Details of individual Directors are in Section 1. The current Board comprises seven Directors, being: the Non-Executive Chair, the MD / CEO and five other Non-Executive Directors.

The roles of Chair and MD are not exercised by the same individual.

Ovato's Board Charter sets out the role, responsibilities and powers of the Board of Directors and the MD.

BOARD CHARTER

The Company's Board is responsible for:

- Overseeing the Company, including reviewing, ratifying and monitoring systems of risk management, internal control, code of conduct and legal compliance, that are designed to ensure compliance with regulatory and prudential requirements;
- Appointing and removing the CEO and ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer ("CFO") and the Company Secretary;
- Providing input into and final approval of management's development of corporate strategy and performance objectives;
- Monitoring performance against Board approved objectives, targets and strategies;
- Succession planning for the CEO and senior executives;
- Approving the progress of major capital expenditure, capital management, acquisitions and divestitures;
- Approving and monitoring financial and other reporting; and
- Approving delegated authority limits for senior executives.

The MD, as CEO, is responsible for:

- Implementing Board and Management decisions;
- Conducting the Company's operational, strategic, management and general business and affairs; and
- Bringing material and other relevant matters to the attention of the Board in an accurate and timely manner.

The Board has set through the Delegation of Authority Policy specific limits to management's ability to incur expenditure, enter into contracts or acquire or dispose of assets or businesses without Board approval.

The Charter requires that Ovato's Board consist of a majority of independent Non-Executive Directors who have a broad range of commercial expertise and experience and/or appropriate professional qualifications. They must also demonstrate a proven ability and capacity to monitor Company performance and participate in strategy development.

While it is not mandatory for Directors to hold shares in Ovato, Directors are encouraged to own shares in Ovato and where possible they do so. Their share holdings are disclosed via the ASX and in the Remuneration Report.

BOARD COMPOSITION AND MEMBERSHIP

The Board (through the Appointments and Compensation Committee) seeks to ensure that the Board and its Committees continue to have the right balance of skills, knowledge, qualifications, diversity and business experience necessary to direct the Company in accordance with high standards of corporate governance.

When considering appointments, the Board considers the skills, experience and expertise which they believe to be particularly relevant for that available position. In doing so the Board takes into account the existing collective capability of the Board, Ovato's strategy and the prevailing and expected market conditions.

In respect of diversity on the Board, Directors strongly believe that differences in gender, age, ethnicity and cultural background in Board membership encourage diversity of thought and decision making. This will, in turn, drive and improve business efficiency and results for the Company and shareholders.



Directors' report

For the year ended 30 June 2019

BOARD SKILLS

When reviewing the composition of the Board and making recommendations to the Board regarding the appointment of Directors, the Appointments and Compensation Committee aims to ensure that the Board continues to include Directors with an appropriate balance of skills, experience, expertise and diversity to efficiently and effectively discharge its responsibilities and govern the Company.

Collectively, the Board has a diverse range of skills and experience relevant and adequate for the efficient and effective management of the business. Board members, including some who are also Directors of other ASX-listed companies, together have a combination of experience in the following areas:

- Manufacturing including printing, publishing and logistics;
- Retail & FMCG (business operations, branding and marketing);
- Digital and Data Analytics;
- Corporate strategy;
- Business transformation;
- Finance;
- Mergers and acquisitions;
- Risk management; and
- Health, TRIFR and environment.

Biographies of current Directors, including details of their qualifications and independent status, are set out in Section 1.

The Board considers its current membership represents an appropriate mix of skills, experience, expertise and qualifications to enable the Board to effectively advise and set the Company's strategic direction and govern on behalf of shareholders.

DIRECTOR RETIREMENT AND RE-ELECTION

The Constitution requires Directors to retire at the third AGM following the election or most recent re-election. The appointment of any new Directors will be based on the principle of further strengthening the diversified composition of the Board.

When a Director stands for re-election, the Company will provide such information as is necessary to allow the shareholders to make an informed decision around the Directors appointment including: biographical details and their relevant qualifications and experience and the skills they bring to the Board; details of any other material directorships currently held by the candidate; the term of office currently served by the Director; if the Board considers the Director to be an independent Director, a statement to that effect; and a statement by the Board as to whether it supports the election or re-election of the candidate.

BOARD PERFORMANCE EVALUATION

The Appointments and Compensation Committee is responsible for, amongst other things, evaluating the performance of the Board and individual Directors. The Chair continuously reviews and discusses with the Directors his and their collective contribution to the Board.

BOARD INDEPENDENCE

The Board's policy is that there should be a majority of independent Non-Executive Directors on the Board and this requirement is embodied in the Board Charter, ensuring that all Board discussions and decisions have the benefit of independent judgement.

The Board reviews the independence of the Directors before they are appointed, on an annual basis and at any other time where the circumstances of a Director changes such as to require reassessment. Such assessment considers the factors relevant to assessing independence consistent with the ASX Principles.

The Board assesses materiality of any contractual relationship that may affect independence on a case-by-case basis. With the exception of Mr Hannan, who is a substantial shareholder of the Company and Mr McMaster who was nominated for appointment by the Hannan family shareholders, the other Non-Executive Directors are considered to be independent.

CONFLICTS OF INTEREST

Directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. A Director who has an actual or potential conflict of interest or a material personal interest in a matter is required to declare that potential or actual conflict of interest to the Board. If the Board determines that there is a material conflict of interest, the Board may require the relevant Director to:

- not receive the relevant papers;
- not be present at the meeting while the matter is considered; and
- not participate in any decision on the matter.

The Board may resolve to permit a Director to have an involvement in a matter involving a potential or actual conflict of interest. In such instances, the Board will minute full details of the basis of the determination and the nature of the conflict, including a formal resolution concerning the matter.

CHAIR

The Chair of the Board, Mr Matthew Bickford-Smith, is an independent Non-Executive Director. The Chair is responsible for leadership and effective performance of the Board and the maintenance of productive relations between the Directors and the management team. The Chair's responsibilities are set out in more detail in the Board Charter.

DIRECTOR APPOINTMENT, TRAINING AND CONTINUING EDUCATION

Before the appointment of any Director the Company undertakes, with the consent of the candidate, appropriate checks in relation to the potential Director's character, experience, education, criminal record and bankruptcy history. The Appointments and Compensation Committee will also seek from the candidate details of his or her other commitments and an indication of time involved with those commitments, and acknowledgement that he or she will have sufficient time to fulfil his or her responsibilities as a Director.

When a Director stands for election for the first time, the Company will require such information as is necessary to allow the shareholders to make an informed decision around the Directors appointment including: biographical details, including their relevant qualifications and experience and the skills they bring to the Board; details of any other material directorships currently held by the candidate; any material adverse information revealed by the pre-appointment checks; details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence their capacity to bring an independent judgement; and if the candidate will qualify as an independent Director.

Each Non-Executive Director has signed a letter of appointment detailing the key terms and conditions of their appointment, including duties, rights and responsibilities and the matters recommended in the ASX Principles.

Induction training is provided to all new Directors. This includes amongst other things an induction manual with information on the Company and its financial position, culture and values, Company policies, rights and responsibilities of Directors and the role of the Board and management. The Board has regular discussions with the CEO and management and is invited to attend tours of Ovato's operational sites.

Directors are expected to maintain the skills required to discharge their obligations to the Company. Ovato undertakes an ongoing program to keep Directors abreast of the nature of its business, current issues and corporate strategy. Directors also have access to, and are encouraged to undertake, continuing education opportunities to update and enhance their skills and knowledge and have a strong working relationship with operational management.

BOARD ACCESS TO INFORMATION AND INDEPENDENT ADVICE

Subject to identification of any conflict of interest, Directors have direct access to senior executives as required and to any Company information in the possession of management it considers necessary to make informed decisions and to discharge its responsibilities.

All Directors have access to the Company Secretary who is accountable to the Board, through the Chair. The Board must approve the appointment and removal of the Company Secretary.

Any Director can seek independent professional advice in the discharge of their duties and responsibilities to Ovato. Ovato will reimburse reasonable expenses incurred in obtaining this advice. Unless the Chair determines otherwise, the advice will generally be circulated to the Board.

BOARD MEETINGS

The Board and the Committees meet on a regular basis and additional meetings are called when required to address specific issues. The Chair, in conjunction with the CEO and the Company Secretary, sets the agenda for each meeting. Any Director may request matters to be included on the agenda.

Directors receive Board papers in advance of the Board meetings and these papers provide them with sufficient information to enable them to participate in informed discussion at each meeting. The Board will also provide for time at board meetings to meet without the presence of management.

Details of Board and Committee meetings held during the 2019 financial year and attendance at those meetings are set out on page 22 of this report.

5.2 Board Committees

ROLE, MEMBERSHIP AND CHARTERS

The Board has the ability under the Constitution to delegate its powers and responsibilities to Committees of the Board. This allows the Directors to spend additional and more focused time on specific issues.

The Board has established standing Committees to assist with the effective discharge of its duties, as follows: Audit and Risk Management Committee; and Appointments and Compensation Committee. The Board during the year has also established ad hoc committees for the purposes of: due diligence when the Company issued the corporate bond in November 2018 and for the accelerated rights issue in June 2019; and had Directors sit on the NSW site consolidation committee and the Growth and Innovation Committee.

Membership of the Committees is based on Directors' qualifications, skills and experience.

All Directors are entitled to attend meetings of the Committees where there is no conflict of interest. Papers considered by the Committees, and minutes of each Committee meeting, are provided to all Directors. The proceedings of each Committee meeting are reported at the next Board meeting by the relevant Committee Chair (if all Directors have not been present at the meeting).

Each Committee operates under a specific Charter approved by the Board, detailing its role, duties and membership requirements.

The Board reviews the appropriateness of the existing Committee structure, as well as the membership and Charter of each Committee.

AUDIT AND RISK MANAGEMENT COMMITTEE

Composition

The charter provides that the Committee must comprise: at least three Non-Executive Directors, a majority of whom are required to be independent; members who are financially literate; at least one member shall have relevant qualifications and experience; some members shall have an understanding of the industry in which Ovato operates; and the Chair must be an independent Non-Executive Director who is not the Chair of the Board. Mr McMaster is the Chair of this committee and was appointed on 31 May 2019. He was previously a Partner of KPMG with over

30 years audit experience, and is appropriately qualified for this role. He is not an independent Director by virtue of being nominated by the Hannan family.

The Committee's members and their record of attendance in the last financial year are set out in Section 4.

Responsibilities

The Audit and Risk Management Committee provides assistance to the Board in relation to its corporate governance and oversight responsibilities by reviewing, assessing and making recommendations in relation to: Ethical considerations and compliance with the Code of Conduct; Financial reporting; Internal control structure; Risk management framework and systems; Policies to reduce exposure to fraud; Health, safety and the environment; and Internal and external audit functions.

Ovato combines the roles and responsibilities of the Audit and the Risk Committees in its Audit and Risk Management Committee.

The Audit and Risk Management Committee has direct and unlimited access to the external auditors. The external and internal auditors have direct and unlimited access to the Audit and Risk Management Committee.

APPOINTMENTS AND COMPENSATION COMMITTEE

Composition

The charter provides that the Committee shall consist of a minimum of two independent Directors. Where the Committee consists of more than two members, the majority must be independent Directors.

The Committee's members and their record of attendance in the last financial year are set out in Section 4.

Responsibilities

Ovato combines the roles and responsibilities of the Nomination Committee and the Remuneration Committee in its Appointments and Compensation Committee.

The Appointments and Compensation Committee has ultimate authority for executive remuneration policy. The Remuneration Report provides further detail on the role of the Committee in respect of compensation.

In relation to appointments, the Committee: reviews Director competence standards and Board succession plans; and evaluates the Board's performance and makes recommendations for appointing or removing Directors.

In relation to compensation, the Committee makes recommendations to the Board on: executive remuneration and incentive policies; senior management remuneration packages; recruitment, retention and termination policies for senior management; incentive schemes; superannuation arrangements; and the remuneration framework for Directors.

The Committee is also responsible for evaluating potential candidates for executive positions, including the role of CEO, and overseeing the development of executive succession plans.

The CEO has the authority to employ and remunerate executives within the scope of the policy established by the Committee. In carrying out its duties, the Committee is committed to providing sound remuneration policies and practices that enable Ovato to: attract and retain high quality executives and Directors who are dedicated to the interests of Ovato shareholders; and fairly and responsibly reward executives, while taking into account the interests of shareholders, the Company's performance, performance of the relevant executive and market conditions.

In executing its responsibilities, the Committee has unlimited access to senior management. It also has the Board's authority to seek information it requires from employees and external parties and obtain outside legal or other professional advice at the expense of the Company.



Directors' report

For the year ended 30 June 2019

5.3 Risk Management

Ovato recognises that shareholder value is driven by taking considered risks, and that effective risk management is a fundamental driver to achievement of its strategic, operational and compliance objectives, and to the Board meeting its corporate governance responsibilities.

The Board is responsible for overseeing the implementation of an effective system of risk management and internal control.

The responsibility for designing, implementing and maintaining a sound system of risk management and internal control has been delegated to management through the CEO.

The Audit and Risk Management Committee assists the Board with its oversight responsibility by reviewing, assessing and making recommendations to the Board in relation to the risk management framework and internal control structures put in place by management.

APPROACH TO RISK MANAGEMENT

The Board has adopted a Risk Management Policy that sets out Ovato's objectives for risk management and the responsibilities of all Ovato staff in relation to management of risk.

The Policy is supplemented by a Risk Management Framework, which provides a consistent and systematic process to identify, evaluate, mitigate, monitor and report material risks throughout Ovato. The Framework is aligned with Risk Management Standard ISO: 31000 and Principle 7 of the ASX Principles.

The Risk Management Framework is periodically reviewed by the Audit and Risk Management Committee to provide assurance as to its adequacy and effectiveness, with the last review being undertaken in July 2019.

RISK MANAGEMENT FRAMEWORK

The CEO meets at least quarterly with the CFO and senior business managers to oversee the implementation and effective operation of the systems of risk management and internal controls, and to review the existing and emerging material strategic, operational and compliance risks. Further assessment and identification of risks is performed during the annual strategic planning cycle, and the quarterly forecasting cycle.

Management is responsible for completing, on a six-monthly basis, the internal control questionnaire supporting the Section 295A Corporations Act compliance statements, and also attends Audit and Risk Management Committee meetings as required, to assist the Committee in its oversight of risk.

In addition to the Risk Management Framework, Ovato's approach to risk management also incorporates input and mitigating controls from a range of existing systems, programs and policies including:

- A comprehensive health, safety and environment programme;
- A Delegation of Authority Policy, including guidelines and approval limits for operational and capital expenditure and investments;
- A comprehensive annual insurance program;
- A Board approved finance policy to manage exposure to credit and liquidity risks;
- Annual budgeting and monthly reporting systems for all divisions to monitor performance against budget targets; and
- Detailed policies and internal controls over management of financial reporting, management accounting and maintenance of financial records.

MATERIAL ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISKS

Ovato believes there are a number of inherent material Economic, Environmental and Social Sustainability Risks, both specific to the industry in which it operates, and of a general nature, which may impact its ability to achieve its business strategies and objectives.

The identification of these risks is provided to assist stakeholders to understand the nature of risks faced by Ovato, and the broad approach Ovato takes to mitigate these risks. The risks are not listed in order of significance, and it is not an exhaustive list.

Economic Conditions

Ovato's business segments are primarily in marketing services, printing and distribution of publications including catalogues, magazines, and books. There is a risk that Ovato's product demand and pricing could be subject to adverse impact from:

- Reductions in demand volume and the effect of consumer confidence on retail marketing;
- Pagination reductions and title closures by magazine and newspaper publishers;
- Competitive market pricing pressure; and
- Migration of advertising, entertainment and information media from print to digital platforms.

To the extent possible, Ovato mitigates these risks by considering its future expectations of these economic conditions, in its strategic, operational and financial plans, and by planning contingency actions.

Operations and Service Continuity

There is a risk of:

- Lack of continuity of supply of utilities, raw material inputs and distribution services;
- Industrial action;
- Loss of, or material damage to, an operating site; and
- Increased cost of supply of utilities, raw material inputs and distribution services not being promptly passed on to customers.

These risks could result in unanticipated circumstances causing inability to meet customer commitments, or significant increase in the cost of doing business, which could adversely impact upon Ovato's achievement of its financial performance objectives.

Ovato mitigates these risks through:

- Management of raw material purchase lead times and safety stock levels and hedging of purchase cost;
- Endeavouring to promptly pass on material input price increases to customers;
- Ability to reschedule work across multi-site operations;
- Business interruption and asset insurance programmes in place; and
- Effective workplace industrial relations.

Health and Safety

There is a risk of a major health and safety incident which could result in a serious injury or fatality at an Ovato workplace. Ovato mitigates this risk by implementing training, policies, procedures and systems to comply with health and safety requirements, which are supported by the Board-approved Group Safety Plan.

Financial Management

Ovato is exposed to credit risk, and adverse movements in foreign currency exchange rates and interest rates. This could adversely impact Ovato's ability to achieve its financial performance objectives and reduce its ability to access financing facilities. Information on how Ovato mitigates these risks is included in the Notes to the Financial Statements in the Financial Report section of the Annual Report.

Regulatory and Legislative Requirements

There is a risk of a major change to, or a major breach of, existing regulations or legislation, which could impact Ovato's ability to continue its current business operations or achieve its financial performance objectives. To the extent possible, Ovato mitigates these risks by implementing policies, procedures and systems to comply with regulatory requirements, and by planning contingency actions.

Technology and Cyber Security

There is a risk of outage, disruption, or security breach of IT systems. This could result in significant business disruption or a loss of confidential business data. Ovato mitigates this risk through IT security and infrastructure solutions. This is supported by IT policies and procedures governing security and usage of IT systems.

MANAGEMENT REPRESENTATION

Detailed and comprehensive questionnaires are completed by all business units and functional management on a six-monthly basis. These questionnaires include management's assessment of risk management, financial reporting and the internal control environment operating within each business unit. The questionnaires are reviewed by executive management as part of the half-yearly reporting to the market and to achieve compliance with Section 295A of the Corporations Act and Recommendation 4.2 of the ASX Principles.

Based on the questionnaires, the Board has received written assurance from the CEO and the CFO that, to the best of their knowledge and belief, the declaration provided to them is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

INTERNAL AUDIT

The Internal Audit function provides independent assurance of management's control over the adequacy and effectiveness of the governance, risk management and internal control frameworks of Ovato. The internal audits are undertaken by Ovato's in-house internal audit function, supplemented by services provided by external consultants where specialist technical expertise is considered necessary.

Internal Audit conducts a series of risk-based internal audits based on a rolling assurance activity plan which is aligned to the risks identified in Ovato's risk register and is agreed with management.

To ensure the independence of Internal Audit, the Audit and Risk Management Committee review and endorse the planned internal audit and assurance activities, and the results of all internal audit and assurance activities are summarily reported to the Audit and Risk Management Committee on a regular basis.

5.4 Investor Relations

Ovato engages its shareholders at its AGM, providing investor presentations following the full year and half-year results, and upon request. The investor presentations are lodged with the ASX and the contents of those presentations are available from the Company's website.

Ovato facilitates participation at shareholder meetings by arranging for the meetings to be at convenient times and locations and provides for direct voting to allow shareholders to vote ahead of the meeting without having to attend, or to appoint a proxy. The Chair at the AGM provides reasonable time for shareholders to ask questions or make comments about the management of the Company. The Company's external auditor attends the AGM.

At any other times, shareholders can email their questions or contact the CFO if they have any questions about the Company.

Ovato provides its shareholders with the option to receive and send communications electronically to the Company and its share registry.

5.5 Governance Policies

CODE OF CONDUCT

Ovato recognises that its reputation is an essential element to its continued success and that its reputation is directly attributable to the ethical behaviour of those who represent it. Ovato has developed a Code of Conduct which sets out certain basic principles that all Directors, employees, contractors and consultants are expected to follow in all dealings related to Ovato, to ensure that Ovato's business is conducted in accordance with the laws and regulations of all areas in which it operates.

The Code of Conduct is fully endorsed by the Board and is reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in Ovato's integrity.

Any breach of the Code of Conduct is considered a serious matter which may result in disciplinary action, including termination of employment. The Code of Conduct is Ovato's cornerstone corporate governance policy. The Code of Conduct provides a consistent understanding of the expected behaviour towards each stakeholder. It stipulates that:

- Ovato is to conduct its business with honesty, integrity and respect for the interests of its stakeholders;
- Ovato employees will avoid any personal, financial or other real or apparent conflicts of interest that could compromise the performance of their duties;
- Ovato will continually strive to be a good corporate citizen, including complying with laws and regulations of Australia and New Zealand and in each state and territory in which it operates;
- Ovato employees will ensure that resources of Ovato are used for their intended use;
- Ovato is to respect the privacy of private information, including customer, business partner and fellow employee information;
- Ovato is to continually strive to provide a safe and healthy work environment for all employees;
- Ovato is to recognise and act upon its responsibility to limit negative impacts on the environment and the communities within which it operates; and
- Ovato is to ensure that there is a clear communication process for material items of concern between employees and the Board via open and non-hierarchical communications including whistle blower provisions.

A copy of the Code is available online at ovato.com.au/investors/

Supporting the Company's Code of Conduct are the Whistle Blower Policy, and Probity Policy Guidelines, which further set out the Company's commitment to high standards of conduct and ethical behaviour in all areas of business activity.

WHISTLE BLOWER POLICY

Key elements of Ovato's Whistle Blower Policy are as follows:

- Ovato encourages employees to report, in good faith, any violations of the standards, requirements and expectations described in the Code of Conduct;
- require appropriate action be taken in response to any such violations; and
- require that where an employee reports, in good faith, an actual or suspected violation of this Code of Conduct, the position of the reporting officer will be protected and remain confidential unless disclosure is required by law.



Directors' report

For the year ended 30 June 2019

TRADING IN OVATO SHARES

Ovato's Securities Trading Policy reinforces the Corporations Act 2001 restrictions in relation to insider trading and prohibits Directors, Executives and other employees from dealing in Ovato securities at any time if that person is in possession of price sensitive information that has not been made publicly available.

Under its share purchasing policy, Ovato Directors and Executives are not permitted to buy and sell shares in the Company when they are in possession of information that is not generally available and if it were available, it would - or would be likely to - influence investors in trading Ovato shares. They also may not trade in Ovato shares during specific black-out periods. The black-out periods are:

- the period from 1 January through to the day half-year results are announced (including the day half-year results are announced);
- the period from 1 July through to the day full year results are announced (including the day full year results are announced); and
- the period of 30 days immediately leading up to the Annual General Meeting (including the day of the Annual General Meeting).

The Board of Ovato may also declare a black-out period for a specified period at other times (such as prior to the announcement to the Australian Securities Exchange of a significant event such as change in control transaction or capital raising). At all other times these officers are permitted to trade in Ovato shares where such trading has received the prior approval from the CEO.

Directors, Executives and other employees are prohibited from engaging in short-term or speculative trading in Ovato securities and trading in derivatives in respect of Ovato securities, including performance rights issued under Ovato incentives schemes. This includes entering into any hedging arrangements or acquiring financial products (such as equity swaps, caps and collars or other hedging products) over unvested performance rights which have the effect of reducing or limiting exposure to risks associated with the market value of Ovato securities. The Policy also applies to parties related to the Directors, Executives and employees of the Company.

APPROPRIATE COMMUNICATION AND DISCLOSURE

Ovato recognises the importance of open and effective communication with all stakeholders. Therefore, Ovato requires its officers and employees to act at all times with integrity and in accordance with the law, including the disclosure requirements of the ASX Listing Rules, ASX Principles and the Corporations Act. Ovato has a Disclosure Committee comprising the CEO, CFO and Company Secretary/General Counsel, which meet as and when required.

DISCLOSURE AND SHAREHOLDER COMMUNICATION POLICY

Ovato's Disclosure Policy requires any price sensitive information concerning Ovato that is required to be disclosed to the market, be communicated to the ASX immediately and before any other person. The policy prevents selective disclosure by: ensuring only authorised spokespeople comment on behalf of Ovato; and providing a process for issuing any external statement or press release that has been previously channelled through the CEO.

It also sets out protocols for handling trading halts, responding to market speculation and avoiding inadvertent disclosure. The Policy ensures shareholders can make informed decisions about their investment in Ovato by providing them with:

- the annual and half-year reports;
- disclosures made to ASX;
- notices and explanatory memoranda of General Meetings;
- the AGM, where the external auditor will be available to answer questions about the audit; and
- its website ovato.com.au.

DIVERSITY POLICY

Diversity Policy Statement

Ovato strives to provide industry leadership for workforce diversity by:

- integrating diversity principles in all aspects of human resources management policies such as recruitment, selection and training;
- considering options to enable flexible working practices;
- facilitating equal employment opportunities based on merit; and
- striving to build safe working environments by taking action against inappropriate workplace and business behaviour that does not value diversity including discrimination, harassment, bullying, victimisation and vilification.

The Company produced its public report to the Workplace Gender Equality Agency for the reporting period, a copy of which can be found on Ovato's website. As a diverse business, Ovato employs a broad range of occupational groups to staff its creative, print and distribution businesses. Consequently, Ovato seeks to attract talent from different labour markets, trades and professions. Ovato's current gender profile reflects our reliance on trades and engineers in our print business and the associated lack of gender balance in that sector.

The proportion of females employed in the Company under the following classifications is set out as follows:

Board of Directors	29%
Ovato Executive Management *	18%
Ovato Group Employees	24%

* These are the senior executives included in the CEO's executive management team.

6. Other Matters

6.1 Remuneration Policy

The Group's remuneration policies for Directors and management are detailed in the Remuneration Report included in this report.

Non-Executive Directors' fees are within the limits set by shareholders at the 2004 Annual General Meeting, and are set at levels which fairly represent the responsibilities of, and time spent by, the Non-Executive Directors on Group matters.

6.2 Principal Activities

The principal activities of the Ovato Group are marketing services, digital premedia, commercial printing, letterbox delivery and magazine distribution services.

6.3 Results

The consolidated result after income tax of the Ovato Group for the financial year ended 30 June 2019 was a \$84.3 million loss (2018: \$43.8 million loss).

6.4 Dividends

No dividends were declared or paid during the year ended 30 June 2019 (2018: Nil).

6.5 Review of Operations

OVERVIEW

FY19 full year EBITDA* was \$30.8 million down 24.1% year on year on 8.8% lower revenues. EBITDA*/sales ratio fell from 5.5% to 4.6% mostly due to lower performance at Ovato New Zealand. Ovato Australia EBITDA* of \$26.3 million was down \$3.7 million with EBITDA*/sales ratio down from 4.9% to 4.7%.

Ovato New Zealand EBITDA* of \$4.6 million is down 57% with EBITDA*/sales ratio down from 8.8% to 4.0%. Net debt at \$44.7 million was within revised guidance.

FY19 was a challenging year with reduced revenues leading to a reduction in profitability. We have reacted with the continuation of our strong cost focus through

* Before significant items

the consolidation of manufacturing sites in NSW as well as evolving new products and services through our Marketing Services offering. We remain committed to our strategy aligned to client focus and operational efficiency.

It is encouraging to see that our margin improvement strategies, initially focused at the Australian business, are having a positive impact with Ovato Australia's EBITDA* sales margin holding relatively steady against the prior period at 4.7% as cost savings largely offset lower sales. The Group EBITDA ratio though has fallen from 5.5% to 4.6% mainly due to the disappointing EBITDA* result at Ovato New Zealand down 57% on lower print sell prices.

We remain committed to the continual evaluation of the most effective and efficient footprint for our manufacturing operations. As part of these efforts, we announced earlier this year the closure of the Moorebank site and consolidation of Print and Distribution capabilities into our single super-site at Warwick Farm. This project is on schedule and will deliver a significant reduction in our underlying manufacturing cost base. As previously advised, annualised savings of \$24 million will be generated by FY21 from the NSW site consolidation. Total cash cost associated with this project in FY20 is expected to be circa \$35 million.

OVATO AUSTRALIA

EBITDA* for Ovato Australia at \$26.3 million was down 12.5% or \$3.7 million on previous corresponding period ("pcp") with the advancements in marketing services profitability and the impact of the reducing cost base being offset by reduced print and distribution revenues and the inefficiencies associated with the disruption surrounding the NSW site consolidation project.

Despite these challenges, EBITDA*/sales ratio remained relatively stable against FY19 at 4.7%. This margin is expected to improve with the ongoing revenue and cost initiatives being implemented throughout FY20.

Tier 1 retailer catalogue volumes (particularly food & beverage) have remained consistent with FY18. This has been offset by a general weakness in the non-grocery retail sector market with Tier 2-3 print & distribution revenues reducing.

Subdued consumer confidence saw a continuation of soft retail conditions where the volumes of magazines and real estate dependent publications fell further than that anticipated when the half year results were announced in February. Year-on-year Australian newspaper and magazine print revenues are down 35% and 16% respectively.

Ovato Retail Distribution (formerly Gordon & Gotch Australia) mitigated lower magazine volumes delivered through an increase in the average sell price & additional revenues from new product streams utilising the existing delivery platform to Newsagents. We continue to work closely with Publishers to create operational efficiencies in the distribution network that can deliver financial benefits for all parties.

Residential Distribution sales were lower against FY18 as a result of the loss of a major customer during FY19 and continued competitive market pricing offsetting contract wins. We remain committed to enhancing our distribution network in order to develop solutions for both our print and distribution customers and to finding an appropriate, sustainable solution for the industry.

Ovato Marketing Services revenues and profitability continue to increase as momentum builds through our focus on innovation.

OVATO NEW ZEALAND

EBITDA* at \$4.6 million down \$6 million or 57% mostly due to lower print sell prices.

New Zealand continues to be impacted by overcapacity in the heat set printing market and fierce competition for residential distribution volumes to support two separate delivery networks resulting in continued intense pricing pressure leading to lower revenues and reduced margins.

We continue to take a market leadership position in proactively seeking an industry led solution to the current market dynamics.

OTHER

Full year FY19 statutory loss after tax was \$84.3 million vs \$43.8 million loss in FY18 up \$40.5 million pcp mostly due to \$34.9 million higher significant items after tax (due to higher non-cash impairments) and \$7.1 million lower EBIT.

Net cash flow in FY19 at (\$12.4) million was better by \$0.1 million pcp as \$5.5 million lower cash significant items and \$15.1 million equity proceeds (net of fees) were offset by lower EBITDA, higher interest paid and unfavourable working capital movements. Net debt to EBITDA (before significant items) was up from 0.8x to 1.4x. Net debt at June 2019 of \$44.7 million is in line with market guidance.

SIGNIFICANT ITEMS

Significant items booked in FY19 were \$79.9 million after tax up \$34.9 million pcp. Cash significant items at \$30.1 million were \$5.5 million lower in FY19 with \$30.1 million for restructuring (mainly labour related costs) and press relocations. Non-cash significant items at \$49.8 million were up year on year due to impairments of plant and equipment and deferred tax assets.

DEBT

The company has a Net Debt position at June 2019 of \$44.7 million which is in line with FY19 market guidance and \$11.9M higher than June 2018. Net Debt/EBITDA (before significant items) is 1.4x at June 2019 vs 0.8x last year. A Commerzbank loan has been arranged to fund the new 80-page press in FY20.

* Before significant items

6.6 Significant Changes in the state of affairs

At the Annual General Meeting held on 22 November 2018, it was resolved to change the Company name from 'PMP Limited' to 'Ovato Limited'. The name change was effective from 7 February 2019. The Company's ASX code changed from PMP to OVT.

The consolidation of Ovato's NSW sites commenced during the 2019 financial year. The Moorebank print site will be closed in 2020 and the best equipment and personnel from the Moorebank site will be consolidated at Warwick Farm, Ovato's largest and most modern print facility.

During the financial year the company undertook a 1 for 2.3 shares held accelerated pro-rata non-renounceable institutional and retail entitlement offer to raise \$15.5 million. 222 million shares were issued at \$0.07 per share. The proceeds are being applied to accelerate the completion of the NSW site consolidation project and strengthen the Company's balance sheet by reducing leverage and providing additional financial flexibility.

Directors' report

For the year ended 30 June 2019

6.7 Risks, likely developments and future prospects

Ovato's business segments are primarily in printing and distribution of publications including catalogues, magazines, and books and marketing services including premedia.

Ovato's long term profitability and cash flows are subjected to domestic economic conditions in Australia and New Zealand. For example, catalogue printing and distribution is driven by consumer confidence and retailer activity and the printing of these publications are all influenced by user migration to electronic information platforms.

As noted under the Material Economic, Environmental and Social Sustainability Risks on page 28, Ovato believes there are a number of inherent material risks, both specific to the industry in which it operates, and of a general nature, which may impact its ability to achieve its business strategies and objectives.

These include fluctuations in demand volume, timing and extent of title closures and pagination reductions by publishers, competitive market pricing pressure, migration of media from print to digital platforms, reliance on the continuity of supply of utilities, raw material inputs and distribution services, and fluctuations in the cost of these supplies.

Catalogue and magazine printing and distribution make up the majority of Ovato's earnings. Recent experience indicates that retailers are using an integrated advertising approach where online media and traditional media are combined for greater effect.

The print industry has been progressively shrinking for a number of years but with the rationalisation undertaken heatset prices should become more stable. The Company will continue to leverage the core values of our print business and connect audiences; becoming a platform for marketing.

6.8 Environmental regulation performance

Ovato is committed to conducting its business activities with respect for the environment, while continuing to meet its obligations to its shareholders, employees, customers and suppliers. Ovato believes its operations are in compliance with all environmental regulations to the extent material to its financial position or results of its continuing operations. As of the date of this report, there were no material legal proceedings concerning environmental matters pending against Ovato or against any of its properties.

Ovato completed the required Australian Federal Government Environmental Indicators Survey and the National Pollution Inventory report.

6.9 Share issues

222 million new shares were issued from the institutional and retail entitlement offer announced by Ovato on 20 May 2019. Under the entitlement offer 1 new share for every 2.3 shares held at the record date were issued at \$0.07 per share. The new shares have the same terms as existing fully paid ordinary shares.

6.10 Share rights

The names of the persons who currently hold rights are entered in the register of rights kept by the Company pursuant to Section 168 of the Corporations Act 2001. Pursuant to an Australian Securities and Investments Commission Class Order, the Directors have taken advantage of relief available from the requirement to disclose the names of executives not being Directors (other than the Key Management Personnel executives of the Group) to whom rights are issued, and the number of rights issued to each person.

6.11 Share Buy Back

There is not a current on-market buy back in place for Ovato shares.

6.12 Non-audit services

The Audit and Risk Management Committee reviewed the non-audit services provided by Deloitte Touche Tohmatsu. These non-audit services include taxation and related advisory services. The following non-audit services were provided during the 12 months to 30 June 2019:

Description of non-audit services <a>	Australia	New Zealand
	\$	\$
Taxation and related advisory services	127,546	77,414

<a> Unless otherwise specified all amounts have been paid or are due and payable to a member firm of Deloitte Touche Tohmatsu or its affiliates.

In accordance with advice provided by the Audit and Risk Management Committee, the Directors are satisfied that based on the approval procedures required for the external auditors to provide non-audit services to Ovato and from a review of actual services provided the non-audit services provided by Deloitte Touche Tohmatsu met the standards of independence.

6.13 Auditor's independence declaration

In accordance with the Audit Independence requirements of the Corporations Act 2001, the Directors have received and are satisfied with the Auditor's Independence Declaration provided by the Ovato Group external auditors, Deloitte Touche Tohmatsu. The Independent Auditor's Declaration has been attached to the Directors' Report on page 42.

6.14 Directors' and Officers' liability insurance and indemnity

Ovato has liability insurance policies for all Directors and Officers of the Ovato Group.

The policy agreement prohibits disclosure of the policy terms and the premium paid. Directors and Officers are also indemnified by the Company against all liabilities to another person (other than Ovato or a related body corporate) that may arise from their position as Directors or Officers of Ovato and the Ovato Group. The insurance cover and indemnity is not applicable where the liability arises out of conduct involving a lack of good faith.

6.15 Significant events after balance date

Other than the refinancing arrangements as set out in Note 12(e), the Directors are not aware of any matter or circumstance post balance date not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the Ovato Group, the results of those operations or the state of affairs of the Group in subsequent years.

6.16 Proceedings on behalf of the Company

No proceedings have been brought on behalf of the Company, nor have any applications been made in respect of the Company under Section 237 of the Corporations Act 2001.

6.17 Rounding of amounts

The company is of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.



Remuneration report

7. Remuneration Report

7.1 Coverage

This remuneration report outlines the Director and executive remuneration arrangements in accordance with the requirements of the Corporations Act 2001 and its Regulations. It covers the Directors of Ovato, the CEO, and other Key Management Personnel (refer Section 7.7) with the authority and responsibility for planning, directing and controlling the activities of Ovato.

The report also contains information about the broader remuneration practices applying to management below the executive level.

7.2 Remuneration principles

Ovato's remuneration policy provides a direct link between remuneration and corporate performance by:

- Offering sufficiently competitive rewards to attract and retain high calibre executives;
- Putting a significant portion of executive remuneration at risk against pre-determined performance benchmarks;
- Setting appropriate stretch performance hurdles to variable executive remuneration;
- Linking short term incentives to both Company and personal performance; and
- Linking long term incentives (including rights) to shareholder value measures and performance hurdles.

The Board also recognises that, although remuneration is a major factor in recruiting and retaining talented and effective people, other factors play a substantial role in attracting suitable candidates, including: Ovato's business operations, corporate reputation, ethical culture and other human resources' policies and practices.

Combined with its policies, Ovato's remuneration principles ensure that:

- Executive remuneration packages are appropriately benchmarked against the market for comparative roles in similar sized entities at the time of appointment and upon review to attract and retain critical talent;
- Executive remuneration packages for key middle and senior personnel include an at risk variable component that is developed in line with Ovato's short term incentive program; and
- Variable pay schemes align to key areas of focus for the business. Current standard performance criterion includes: Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA"); safety performance (measured by the Total Recordable Injury Frequency Rate); and personal objectives that align personal behaviours and professional development with the overall goals and values of the Company.

7.3 Remuneration structure

The roles and responsibilities of the Appointments and Compensation Committee are discussed on page 27. The Board believes well designed and managed incentive plans that provide incentives over the short and long term are important elements of employee remuneration, providing tangible incentives for employees to strive to improve Ovato's performance over both the short and long term, and thereby aligning their interest with shareholders.

The three tiers of the structure are:

- Fixed remuneration made up of base salary including statutory superannuation as prescribed by appropriate country legislation and other incidental benefits;
- Short term performance incentives ("STI") and other accepted variable pay schemes; and
- Longer term based incentives - which has been through an employee share rights plan ("LTI") to date. A cash-based component is under construction.

This three-tier structure results in management having more of their total remuneration and reward package at risk, linked to individual performance and business results and, in the case of longer term incentives, to the long term performance of the Company.

To ensure executives are sufficiently motivated and aligned with Ovato company performance objectives, executives are expected to have approximately 25% of their maximum potential remuneration at risk.

Whilst these incentives are linked to EBITDA and other performance goals each financial year, the Committee additionally can impart conservative measures in restricting incentives and invoking salary freezes to support short term business goals.

BASE SALARY

Ovato generally sets salaries based on a classification structure which is referenced to the market median, while also allowing flexibility from this reference point where it is warranted by individual performance levels and where there is a critical demand for particular skills and experience. The remuneration structure is managed by the Human Resources function leveraging tools such as: job evaluation, career level benchmarking and salary reviews. Ovato's remuneration system allows some flexible packaging of benefits via salary sacrifice at no additional total employment cost ("TEC") to the Company.

SUPERANNUATION

Ovato complies with all relevant statutory superannuation obligations to its employees. The standard Company superannuation plan is primarily an accumulation plan, providing a lump sum benefit equal to the balance of a member's account, which includes contributions made by the member and the relevant Ovato group entity, together with net fund earnings.

Relevant superannuation contributions for all senior executives form part of the executive's total remuneration package. All such amounts are included in the fixed remuneration disclosed for the CEO and key management personnel in this report.

OTHER BENEFITS

Ovato does not provide senior executives or Directors with benefits such as life insurance, vehicle allowance, club memberships or retirement benefits other than the superannuation benefits, as required by law.

Directors' report

For the year ended 30 June 2019

VARIABLE REMUNERATION

Ovato links all variable remuneration to both Company and individual performance. The proportion of variable remuneration increases with job responsibility, with senior executives having a greater proportion of their remuneration at risk.

SHORT TERM INCENTIVES ("STI")

The STI plan applies to key middle and senior personnel roles, directly linking variable remuneration to Ovato's corporate strategy. The employee's STI is generally between 25% to 50% of their TEC.

The STI is dependent on achieving a number of targets. For eligible personnel, the targets are generally allocated between:

- Budgeted EBITDA (between 50% - 70% of STI);
- Improved safety (up to 20% of STI); and
- Personal objectives (between 10% - 30% of STI)

Budgeted EBITDA is measured before significant items with the Board retaining discretion to take into account the financial impact of any acquisition, and any other significant restructuring cost or rationalisations within the Group, or changes in accounting standards, when calculating EBITDA in order that the target is measured on a comparable basis.

The personal objectives align individual behaviours with Company strategy and values. The targets are set by the CEO in consultation with the Appointments and Compensation Committee.

Results above the target will not increase the incentive payment above the STI percentage, unless authorised by the CEO and approved by the Appointments and Compensation Committee.

STI entitlements are formalised after the end of year accounts have been finalised and any entitlement is paid in September. STI payments to the CEO and other specified executives satisfying the definition of Key Management Personnel are disclosed in this report.

No senior leaders will be paid an STI under the STI Plan in the 2019 financial year due to overall business performance. EBITDA (before significant items) of \$30.8 million was significantly less than the budgeted EBITDA. The safety target for the Group was a Total Recordable Injury Frequency Rate ("TRIFR") of 10.81 for the year. To achieve this target the Company needed to achieve a 24% reduction on the TRIFR for the previous year of 14.23. The Company achieved this reduction with a TRIFR for the 2019 financial year of 10.09. Whilst Personal objectives were generally achieved, as the EBITDA hurdle was not achieved no payments were made against these personal objectives.

LONG TERM INCENTIVES ("LTI")

Following on from the merger of IPMG and Ovato (formerly PMP), and with valued input from shareholders, the Appointments and Compensation Committee continues to review the structure of the Company's LTIs with the intention of better aligning executive LTI incentives with Group strategy and with the interests of shareholders.

No rights were granted during FY19 and no further performance rights will be granted under the LTI Plan.

LTIs - PERFORMANCE RIGHTS

The Company currently has no performance rights issued under the Ovato LTI Plan.

As at 30 August 2018, following the announcement of the result to 30 June 2018 to the ASX, the performance rights issued in June 2016 to the eligible executives under the Ovato Long Term Incentive Plan were tested. The Company's performance relative to the TSR hurdle was such that the Company did not outperform the 51st percentile when measured against the peer group and accordingly no TSR rights vested. The Company's performance relative to the EBITDA hurdle was such that the Company did not achieve 80% of the target EBITDA over the three years. As such the remaining performance rights lapsed.

LTIs - PERFORMANCE CONDITIONS

Table 2 summarises executive LTIs performance conditions and achievement assessment methods.

Performance rights: Issued 1 October 2015 and 1 June 2016, Expiring 30 August 2018	
Rights	Rights - \$436,995*. CEO/MD, EMT and Senior Managers.
Performance Hurdles	<p>The performance hurdles are: TSR and EBITDA. 50% of rights granted are to be subject to each hurdle.</p> <p>Total Shareholder Return ("TSR")</p> <p>Ovato's (formerly PMP's) TSR over the three year period comprising financial years 16, 17 and 18 is measured against a comparator group of ASX listed companies ranked between S&P/ASX 200 to 300 entities (excluding entities in the metals, mining and materials indexes). If a rank of less than the 51st percentile is achieved nil vest, if a rank of between the 51st and 75th percentile is achieved 50-100% of rights vest and if a rank of greater than 75th percentile is achieved 100% vest.</p> <p>Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")</p> <p>Ovato's EBITDA over the three year period comprising financial years 16, 17 and 18 was measured against a target for the Ovato Group. The number of rights to vest are pro rated based on a target EBITDA range. In determining the EBITDA, the Board retains discretion to take into account: the financial impact of any acquisition, and any other significant restructuring costs or rationalisations within the Group in order that the target is measured on a comparable basis.</p>
Assessment Method	Determined on TSR and EBITDA result for FY16, FY17 and FY18.
Vesting	49% of the former CEO and MD's 3,000,000 rights vested post retirement on 1 December 2017. 0% of the executive rights vested on 30 August 2018.

Table 2. LTI Performance Hurdles and Assessment Methods.

* Calculated in accordance with AASB 2: Share-based payment.

Remuneration realised by the Executive Director and Key Management Personnel for the year ended 30 June 2019

2019		Fixed annual remuneration <a>	Cash STI 	Total Remuneration Realised during FY19
		\$	\$	\$
K Slaven	MD and CEO	687,500	—	687,500
S Ellis <c>	MD - Ovato NZ Limited	327,109	—	327,109
G Stephenson	CFO	475,000	—	475,000

Table 3. Remuneration realised by the Executive Director and Key Management Personnel for the year ended 30 June 2019.

The table discloses total remuneration realised during the 2019 financial year. This includes fixed annual remuneration and cash STI.

- <a> Fixed annual remuneration based on current gross salary package, which includes base salary, annual leave and superannuation contributions.
- No STI payable for the 2019 financial year as the EBITDA hurdle was not achieved.
- <c> New Zealand dollar payment converted into Australian dollars at the average profit and loss exchange rate prevailing during 2019. Remuneration includes housing allowance.

7.4 Senior executive performance evaluation

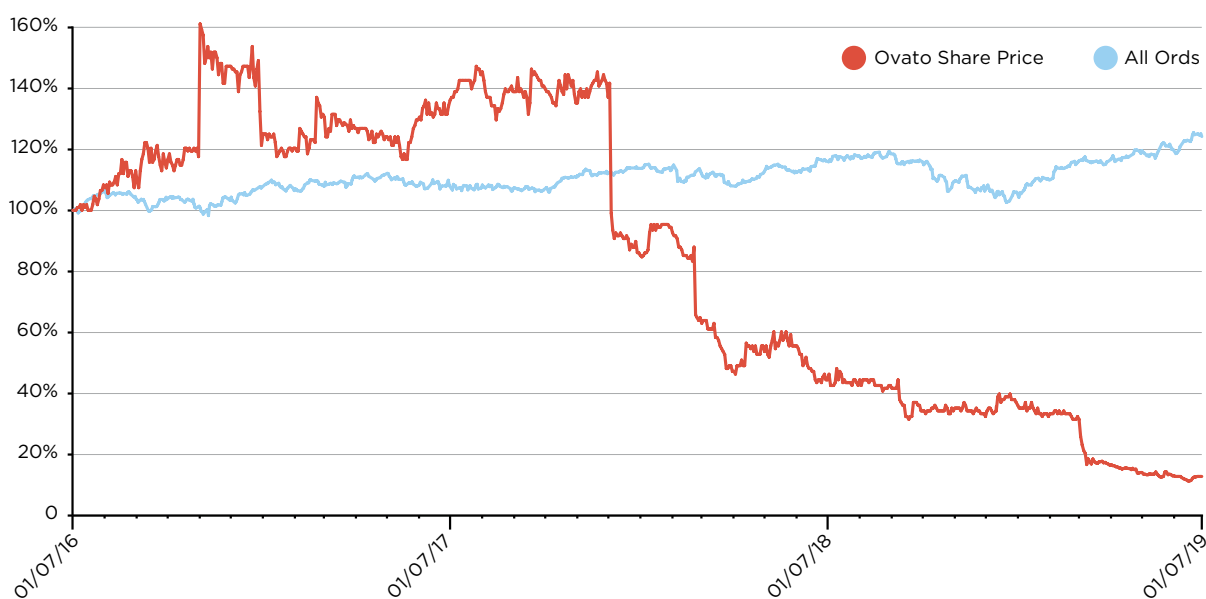
Ovato rewards executives for both Individual and Company performance. At the beginning of the financial year, the CEO sets objectives for each direct report, which are reviewed by the Appointments and Compensation Committee. This includes corporate goals such as EBITDA (before significant items), safety, values and personal objectives, including activities to drive the development of business

opportunities across the Group. The CEO reviews performance against objectives during the year and at the financial year end and the outcomes are used to determine overall performance and STI payments. The CEO provides recommendations to the Appointments and Compensation Committee in relation to the STI payments and the performance of the executives in relation to these payments for the Committee to ratify.

7.5 Company performance

The graph below shows Ovato's performance over the last three years.

Ovato Share Price Performance against ASX All Ords Index*



Ovato Share Price Performance against ASX All Ords Index.

* Source: ASX

Directors' report

For the year ended 30 June 2019

7.6 CEO

The following Section details the remuneration arrangement for Mr Slaven, CEO of Ovato.

EMPLOYMENT CONTRACT

Mr Slaven was appointed CEO and MD of Ovato Limited on 27 February 2018.

A new contract was completed on 17 September 2018 for a three-year term. Either party may terminate with 12 months' notice.

The details of the remuneration pursuant to his contract is set out below.

SUMMARY OF REMUNERATION STRUCTURE

Fixed Remuneration:

Base salary including superannuation is \$650,000 per annum.

Short Term Incentive ("STI"):

STI of up to 75% of his fixed remuneration ("Maximum STI") FY19, comprising of the following components:

- performance against EBITDA target being 70% of Maximum STI ("EBITDA Target"); and
- performance against other indicators set by the board being 30% of maximum STI ("Other Indicators")

Any STI achieved will be paid 70% in cash and 30% in Ovato shares. The Ovato shares will be purchased on market no later than 1 October in the following financial year and are subject to a 12-month holding lock from the start of that financial year. Unless at least 90% of the EBITDA target is achieved in the financial year, Ovato may determine no payment is made under the STI plan for the EBITDA Target. There is no gateway for the other indicators.

Long Term Incentive ("LTI"):

Under the long-term incentive bonus award arrangement, Mr Slaven may receive at the end of the three-year performance period ending 30 June 2021 ("Performance Period") a maximum award of \$2,437,500 ("Maximum Award") subject to satisfying a cumulative EBITDA performance target ("the Target").

Where less than 80% of the Target is achieved no payment is made in relation to the Maximum Award. Where between 80% and 110% of the Target is achieved, a corresponding proportion (i.e. between 50% and 100%) of the Maximum Award may be paid.

Any payment under the LTI is to be paid 50% in cash and 50% in Ovato shares purchased on market subject to a 12-month holding lock.

The Target is tested on the earlier of 30 June 2021 or an early vesting event. Where there is an early vesting event, nothing will be awarded before 1 July 2019 and thereafter the Maximum Award and the Target will be pro-rated to reflect the reduced performance period.

Remuneration summary

The remuneration paid to Mr Slaven for the year ended 30 June 2019 is set out in the table below:

Salary Component	2019
- Base Salary (including superannuation) <a>	\$687,500
- Non-Monetary Benefits	—
- LSL	\$4,588
- STI: Cash 	—
- LTI : Cash <c>	—
Total	\$692,088

Table 4. Chief Executive Officer remuneration.

- <a> Appointed MD and CEO on 27/02/18. Remuneration for the period 01/07/18 to 16/09/18 was on a base salary including superannuation of \$800,000 per annum. Remuneration for the period 17/09/18 to 30/06/19 was on a base salary including superannuation of \$650,000 per annum.
- STI of up to a maximum of 75% of annual FY19 remuneration, comprising of an EBITDA target (70%) and other indicators determined by the Board (30%). The Board has the discretion to withhold payment of the EBITDA target component if achievement of at least 90% of the EBITDA target is not achieved. No STI payable for the 2019 financial year as the EBITDA hurdle was not achieved.
- <c> A maximum award of \$2,437,500 subject to satisfying a 3-year cumulative EBITDA performance target. Where less than 80% of target is achieved no payment is made. Where between 80% and 110% of the target is achieved, a corresponding proportion (i.e. between 50% and 100%) of the maximum award may be paid. The target is tested on 30 June 2021. No amount has been provided as at 30 June 2019.

7.7 Key Management Personnel (other than Non-Executive Directors)

Ovato's Key Management Personnel (excluding Non-Executive Directors) during the financial year are:

K Slaven	MD and CEO (Refer section 7.6 for remuneration details.)
S Ellis	MD - Ovato NZ Limited
G Stephenson	CFO

Employment contracts

Ovato does not (subject to limited exceptions) include termination or severance payments for Ovato executives in their employment contracts other than agreed notice provisions and the application of the Ovato redundancy policy (where applicable).

Name	Notice Period Ovato	Notice Period Employee	Termination Payments
S Ellis	6 Months	6 Months	No specific termination payment provided for.
G Stephenson	6 Months	6 Months	Where there is a change of control or a significant and material adverse change in his duties or responsibilities in which case if the employment is terminated Ovato is to pay the equivalent of 12 months TEC.

Table 5. Executive Employment Contracts.

Remuneration of Key Management Personnel

The table below outlines the remuneration packages of Key Management Personnel ("KMP") (excluding Non-Executive Directors). All rights are independently valued in accordance with AASB 2 using either the Black Scholes Model or the Monte Carlo Simulation Model. The amounts disclosed as part of remuneration for the financial year have been determined by allocating the grant date fair value on a straight-line basis over the period from grant date to vesting date.

Key Management Personnel (excluding Non-Executive Directors)			Short Term			Long Term			Total Excluding Rights	Equity Rights <g>	Grand Total
			Salary	Non-Monetary benefits	STI	Post Employment Superannuation	LSL	LTI			
			\$	\$	\$	\$	\$	\$	\$	\$	\$
K Slaven	<a>	2019	666,969	—	—	20,531	4,588	—	692,088	—	692,088
		2018	805,883	—	—	20,528	12,534	333,333	1,172,278	—	1,172,278
S Ellis	<c>	2019	317,851	—	—	9,258	—	—	327,109	—	327,109
	<c>	2018	301,095	—	—	8,770	—	—	309,865	—	309,865
A O'Connor	<d>	2018	421,420	—	—	19,651	(1,239)	—	439,832	—	439,832
G Stephenson		2019	454,469	—	—	20,531	7,503	—	482,503	3,701	486,204
		2018	454,951	—	—	20,049	7,526	—	482,526	9,248	491,774
P George	<e> <f>	2018	241,646	54,910	—	8,354	(50,166)	—	254,744	51,023	305,767
Total Remuneration KMP (excluding Non-Executive Directors)		2019	1,439,289	—	—	50,320	12,091	—	1,501,700	3,701	1,505,401
		2018	2,224,995	54,910	—	77,352	(31,345)	333,333	2,659,245	60,271	2,719,516

Table 6. Key Management Personnel (excluding Non-Executive Directors) remuneration of the Company and the Group.

- <a> Appointed MD and CEO on 27/02/18. Remuneration for the period 01/07/18 to 16/09/18 was on a base salary including superannuation of \$800,000 per annum. Remuneration for the period 17/09/18 to 30/06/19 was on a base salary including superannuation of \$650,000 per annum.
- Appointed interim CEO of Ovato (formerly PMP) Limited on 01/12/17 and MD and CEO of Ovato on 27/02/18. He was the CEO of Distribution and Marketing Services from 01/07/17 to 30/11/17. Remuneration is for the 12 month period to 30/06/18. Annual base salary including superannuation is \$800,000. During the financial year he received a back payment for wages that were underpaid during the period September 2016 to June 2017 of \$26,411.
- <c> New Zealand dollar payment converted into Australian dollars at the average profit and loss exchange rate prevailing during 2019 and 2018. Remuneration includes housing allowance.
- <d> Not considered a KMP for 2019 due to change in internal management reporting structure. Annual base salary including superannuation for 2018 was \$450,000. Five days leave without pay was taken during the financial year which equated to \$8,929.
- <e> Retired on 30/11/17 (Termination payment of \$600,000 excluded. Payment made on 30/11/17.).
- <f> Mr George's salary includes non-monetary benefits being \$54,910 for accommodation.
- <g> This is based on the accrued accounting value in accordance with AASB 2 Share-based Payment.

Directors' report

For the year ended 30 June 2019

Key Management Personnel achievement of performance hurdles

	Fixed Remuneration	At Risk STI	At Risk Cash LTI	At Risk Equity Settled LTI	Annual Remuneration Paid During the Year	Actual STI	Cash LTI	Equity Rights	Actual Reward	Proportion of Remuneration Performance Related
	<a>	<a>	<a>	<a>			<c>	<c>		
	%	%	%	%	\$	\$	\$	\$	\$	%
K Slaven	33	25	42	-	687,500	-	-	-	687,500	0%
S Ellis <d>	67	33	-	-	327,109	-	-	-	327,109	0%
G Stephenson	67	33	-	-	475,000	-	-	3,701	478,701	1%

Table 7. Key Management Personnel achievement of performance hurdles.

- <a> The table above represents the total remuneration mix for KMP in the current year. The at risk STI is disclosed at target levels, the at risk equity settled LTI amount is provided based on the value granted in the current year and the at risk cash LTI is the maximum amount entitled to in the current year.
- No STI payable for the 2019 financial year as the EBITDA hurdle was not achieved.
- <c> All LTIs are composed of "rights" with the exception of the existing LTI scheme for Mr Slaven. The value for the rights in this table has been independently valued at the grant date with rights subject to the TSR hurdle valued using a Monte Carlo Simulation and the Black Scholes model used to value the rights with a EBITDA performance condition. The value disclosed is the fair value for two months (July 2018 and August 2018) of the TSR rights issued in June 2016 recognised as an expense in the reporting period. These rights lapsed in FY19 following the release of the 2018 financial results on 30/08/18. No equity settled LTIs were granted in FY19. Mr Slaven's entitlement is based on a cash based LTI scheme which is described under LTIs at 7.6.
- <d> Remuneration paid in New Zealand dollars. New Zealand dollar remuneration converted into Australian dollars at the average profit and loss rate prevailing during the year.

Share rights

No Directors were granted or hold rights over shares of Ovato Limited. During and since the end of the financial year none of the Directors and top 5 remunerated officers were granted share rights. The table below lists the top 5 remunerated officers. No share rights vested to management during the year ended 30 June 2019.

Top 5 remunerated personnel rights granted

	30 June 2019			30 June 2018	
	Granted number	Vested Number		Granted number	Vested Number
					<a>
K Slaven	—	—	K Slaven	—	—
A Clarkson	—	—	A Clarkson	—	148,958
C Dunsford	—	—	C Dunsford	—	—
J Hannan	—	—	A O'Connor	—	—
A O'Connor	—	—	B Straw	—	—
G Stephenson	—	—	G Stephenson	—	247,396
Total	—	—	Total	—	396,354

Table 8. Top 5 remunerated personnel rights granted.

- <a> As at 28 August 2017, following the announcement of the result to 30 June 2017 to the ASX, the performance rights issued in October 2014 to eligible executives under the Ovato (formerly PMP) LTI Plan that exceeded the hurdles vested.

Rights Holdings Key Management Personnel (excluding Non-Executive Directors)

	Balance 1 July 2018	Granted as Remuneration	Rights Exercised	Rights Lapsed	Rights Cancelled	Other	Balance 30 June 2019
2019				<a>			
K Slaven	—	—	—	—	—	—	—
S Ellis	—	—	—	—	—	—	—
G Stephenson	431,818	—	—	(431,818)	—	—	—
J Nichols 	345,455	—	—	(345,455)	—	—	—
Total	777,273	—	—	(777,273)	—	—	—

	Balance 1 July 2017	Granted as Remuneration	Rights Exercised	Rights Lapsed	Rights Cancelled	Other	Balance 30 June 2018
2018			<d>	<e>			
K Slaven	—	—	—	—	—	—	—
P George <c>	3,000,000	—	(1,456,650)	(1,543,350)	—	—	—
S Ellis	—	—	—	—	—	—	—
J Nichols 	741,288	—	(197,916)	(197,917)	—	—	345,455
A O'Connor	—	—	—	—	—	—	—
G Stephenson	926,610	—	(247,396)	(247,396)	—	—	431,818
Total	4,667,898	—	(1,901,962)	(1,988,663)	—	—	777,273

Table 9. Rights holdings Key Management Personnel (excluding Non-Executive Directors).

<a> Lapse of 100% of TSR and EBITDA performance rights issued in June 2016.

 Retired on 31/10/17. Mr Nichols remained eligible for the rights issued in June 2016 subject to satisfaction of the performance hurdles which were assessed following the release of the 2018 financial year results on 30/08/18. These rights have since lapsed in FY19.

<c> Retired on 30/11/17. As at 01/12/17 with the retirement of Mr George and in accordance with the terms of the Ovato (formerly PMP) Long Term Incentive Plan and his Employee Service Agreement an early vesting event occurred and 1,456,650 TSR rights vested (97.11% of TSR rights) with no EBITDA rights vesting.

<d> 100% of TSR performance rights issued in October 2014 were exercised.

<e> Lapse of 100% of EBITDA performance rights issued in October 2014.

Directors' report

For the year ended 30 June 2019

Shareholdings of Directors and Key Management Personnel

2019	Balance 1 July 2018	On Exercise of Rights	Acquired	Disposed	Other	Balance 30 June 2019
Directors						
M Bickford-Smith	450,000	—	195,653	—	—	645,653
K Slaven	—	—	386,620	—	—	386,620
M Hannan <a>	187,970,295	—	184,764,260	—	—	372,734,555
D Karai	30,000	—	91,428	—	—	121,428
T Sinclair	—	—	—	—	—	—
W Tang	—	—	—	—	—	—
A McMaster 	—	—	—	—	—	—
Total	188,450,295	—	185,437,961	—	—	373,888,256
Executives						
S Ellis	—	—	—	—	—	—
G Stephenson	744,664	—	35,714	—	—	780,378
Total	189,194,959	—	185,473,675	—	—	374,668,634

Table 10. Share holdings of Directors and Key Management Personnel.

<a> Direct share holding 79,138,104 and indirect share holding 293,596,451 as at 30 June 2019.

 Appointed on 04/10/18.

7.8 Non-Executive Director Remuneration

The remuneration of Non-Executive Directors is determined by the full Board, within a maximum amount approved by shareholders in a general meeting and with regard to the level of fees paid to Non-Executive Directors by other companies of similar size.

The maximum allowance for the aggregate amount of fees has remained unchanged since 2004 at \$750,000 per annum. In the last financial year, the Board paid \$660,539 of this amount for Non-Executive Directors' remuneration - as shown in Table 11.

Non-Executive Directors are not entitled to retirement benefits other than statutory superannuation or other statutory required benefits.

	Fees *
Chair of the Board	\$215,222
Non-Executive Director	\$82,125
Chair of Audit and Risk Management Committee	\$28,470
Member of Audit and Risk Management Committee	\$14,235
Chair of Appointments and Compensation Committee	\$28,470
Member of Appointments and Compensation Committee	\$14,235

There is no element of Non-Executive Director salaries contingent on performance.

* Inclusive of statutory superannuation of 9.5%.

7.9 Performance assessment

The Chair continuously evaluates the Board and Director performance directly with each Director.

7.10 Retirement benefits

Non-Executive Directors receive cash remuneration plus statutory superannuation contributions only.

Specified Director Remuneration

Specified Directors		Salary & Fees	Non - Monetary Benefits	Post Employment Superannuation	Short Term Incentive	Long Service Leave	Long Term Incentive	Equity Rights <i>	Grand Total
		\$	\$	\$	\$	\$	\$	\$	\$
Total Remuneration: Non-Executive Directors									
M Bickford-Smith (Board Chair)	2019	196,550	—	18,672	—	—	—	—	215,222
	2018	196,550	—	18,672	—	—	—	—	215,222
M Hannan	2019	86,869	—	8,253	—	—	—	—	95,122
	2018	88,000	—	8,360	—	—	—	—	96,360
D Karai	2019	99,869	—	9,488	—	—	—	—	109,357
	2018	101,000	—	9,595	—	—	—	—	110,595
T Sinclair	2019	88,000	—	8,360	—	—	—	—	96,360
	2018	62,129	—	5,902	—	—	—	—	68,031
W Tang	2019	88,000	—	8,360	—	—	—	—	96,360
<c>	2018	62,129	—	5,902	—	—	—	—	68,031
A McMaster	<a> 2019	61,169	—	5,811	—	—	—	—	66,980
S Anstice	<d> 2018	73,333	—	6,967	—	—	—	—	80,300
A Cheong	<e> 2018	22,000	—	—	—	—	—	—	22,000
Total	2019	620,457	—	58,944	—	—	—	—	679,401
	2018	605,141	—	55,398	—	—	—	—	660,539
Total Remuneration: Executive Directors									
K Slaven (CEO)	<f> 2019	666,969	—	20,531	—	4,588	—	—	692,088
	<g> 2018	805,883	—	20,528	—	12,534	333,333	—	1,172,278
P George	<h> 2018	241,646	54,910	8,354	—	(50,166)	—	51,023	305,767
Total	2019	666,969	—	20,531	—	4,588	—	—	692,088
	2018	1,047,529	54,910	28,882	—	(37,632)	333,333	51,023	1,478,045
Total Remuneration: Directors									
	2019	1,287,426	—	79,475	—	4,588	—	—	1,371,489
	2018	1,652,670	54,910	84,280	—	(37,632)	333,333	51,023	2,138,584

Table 11. Specified Director remuneration.

- <a> Appointed a Non-Executive Director on 04/10/18. A member of the Audit and Risk Management Committee from 22/02/19 to 30/05/19. Appointed Chair of the Audit and Risk Management Committee on 31/05/19.
- Appointed a Non-Executive Director on 10/10/17 and a member of the Audit and Risk Management Committee on 01/12/17.
- <c> Appointed a Non-Executive Director on 10/10/17 and a member of the Appointments and Compensation Committee on 01/12/17.
- <d> Retired on 01/05/18.
- <e> Retired on 30/09/17. Payments made for Directorship services provided by Mr Cheong are made to Fraser & Neave (Singapore) Pte Ltd.
- <f> Appointed MD and CEO on 27/02/18. Remuneration for the period 01/07/18 to 16/09/18 was on a base salary including superannuation of \$800,000 per annum. Remuneration for the period 17/09/18 to 30/06/19 was on a base salary including superannuation of \$650,000 per annum.
- <g> Appointed interim CEO of Ovato (formerly PMP) Limited on 01/12/17 and MD and CEO on 27/02/18. He was the CEO of Distribution and Marketing Services from 01/07/17 to 30/11/17. Remuneration is for the 12 month period to 30/06/18. Annual base salary including superannuation is \$800,000. During the financial year he received a back payment for wages that were underpaid during the period September 2016 to June 2017 of \$26,411.
- <h> Retired on 30/11/17 (Termination payment of \$600,000 excluded. Payment made on 30/11/17.). Mr George's salary includes non-monetary benefits being \$54,910 for accommodation.
- <i> Equity rights are calculated as per Table 6.

This report has been made in accordance with a resolution of Directors.



Matthew Bickford-Smith
Chair

Sydney, 13th September 2019



Kevin Slaven
Managing Director and Chief Executive Officer

Independent auditor's declaration

For the year ended 30 June 2019

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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The Board of Directors
Ovato Limited
Level 4
60 Union Street
Pyrmont NSW 2009

13 September 2019

Dear Directors,

Ovato Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Ovato Limited.

As lead audit partner for the audit of the financial statements of Ovato Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JL Gorton

JL Gorton
Partner
Chartered Accountants

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The CFO of Ovato is responsible for all finance and support functions in the Company as well as leading a corporate team covering financial accounting, management reporting, treasury, taxation and investor relations.

Mr Stephenson has over 30 years of experience with a range of blue chip companies including Iplex Pipelines, Fairfax Media and Goodman Fielder. He has held a range of senior commercial and financial roles at both a divisional and head office level working in Australia and offshore.

CFO's review

Geoff Stephenson
B.Bus CPA GAICD

Chief Financial Officer ("CFO")
Appointed 31 May 2010

Sales Revenue

Sales revenue for the year ended 30 June 2019 was \$669.2 million down \$64.7 million or 8.8% due mainly to lower sales at Print Australia down \$53.2 million. At Ovato Australia, sales of \$554.9 million were down \$59 million or 9.6% mostly from \$53.2 million lower print sales with \$29 million reductions in property related newspapers and magazines. Catalogue sales were down \$23 million on contract losses/cessation and lower tier 2-3 volumes. Tier 1 retailer catalogue volumes have remained consistent with FY18. Residential Distribution Australia unaddressed volumes were down 4.9% on pcp on contract loss and lower existing customer volumes. Ovato New Zealand sales were down \$5.8 million or 4.8% due to lower heatset revenues mainly due to lower sell prices. In the last 12 months the company has rebranded to Ovato to promote a broad range of its capabilities to key customers through a Group Sales & Marketing team (vs bidding for services separately) and developed a Growth & Innovation function to develop new revenue streams. As such it is appropriate to change segment reporting to Ovato Australia Group and Ovato New Zealand Group. Ovato Australia Group comprises all the businesses in Australia as well as the Corporate function.

Earnings Before Interest, Tax and Depreciation ("EBITDA")

The full-year EBITDA (before significant items) at \$30.8 million, was down 24.1% or \$9.8 million on the prior year EBITDA (before significant items) of \$40.6 million. Ovato Australia EBITDA (before significant items) was down \$3.7 million or 12.5% as improved profits at Retail Distribution and Marketing Services were offset by lower outcomes at Print (where lower volumes offset strong cost savings from FY18 cost out programmes flowing through into FY19 and the commencement of the NSW site consolidation). Residential Distribution Australia fell as lower revenues offset lower costs. Retail Distribution has reduced costs, higher price/mix and new products which all offset lower volumes. Ovato New Zealand EBITDA (before significant items) at \$4.6 million was down \$6.0 million or 57% year on year as mainly due to lower print sell prices and volumes.

Net Loss After Tax

A net loss after tax of \$84.3 million was recorded for FY19 which was \$40.5 million higher than the \$43.8 million loss in the previous year. EBITDA (before significant items) was lower by \$9.8 million and was partially offset by lower depreciation. The main variance year on year was a \$34.9 million increase in after tax significant items due to impairment of plant and equipment and deferred tax assets.

Cash Flow

The Group's net cash flow at negative \$12.4 million was \$0.1 million better compared to FY18 as \$5.5 million lower cash significant items and \$15.1 million of equity proceeds (net of fees) offset lower EBITDA, higher interest expense and unfavourable working capital movements. Working capital movements were \$5.7 million unfavourable pcp.

Balance Sheet

At year end, net assets for the Group were \$141.9 million, down \$68.6 million from \$210.4 million in the previous year mainly due to the \$84.3 million statutory loss in fiscal 2019 and partially offset by \$15.1 million of equity proceeds. Current assets at \$229.1 million were down by \$29.9 million on mainly lower debtor and cash balances. Current liabilities at \$226.9 million were down \$10.4 million on lower accounts payable.

In fiscal 2019, the company issued a new \$40 million corporate bond for 4 years at 8.25% coupon with second ranked security to replace the previous bond. In addition, a \$15.5 million equity rights issue took place in May 2019 and June 2019 to strengthen the balance sheet and a new Commerzbank loan was finalised to fund the new press in FY20.



Highlights

\$M	2019	2018	% Change
EBITDA (before significant items)	30.8	40.6	(24.1%)
Depreciation & Amortisation	(28.6)	(31.3)	8.4%
EBIT (before significant items)	2.2	9.4	(76.3%)
Financing Costs	(8.4)	(7.4)	(13.0%)
Income tax benefit/(expense) (before significant items)	1.8	(0.8)	—
Net (Loss)/Profit (before significant items)	(4.4)	1.1	—
Significant items	(63.6)	(39.4)	(61.6%)
Income tax expense on significant items	(16.3)	(5.6)	—
Net Loss after income tax	(84.3)	(43.8)	(92.4%)

Segment Revenue[~]

\$M	2019	2018	% Change
Sales Revenue			
Ovato Australia Group	554.9	613.9	(9.6%)
Ovato New Zealand Group	114.3	120.1	(4.8%)
Total	669.2	734.0	(8.8%)

Segment EBITDA (before significant items)[~]

\$M	2019	2018	% Change
EBITDA (before significant items)			
Ovato Australia Group	26.3	30.0	(12.5%)
Ovato New Zealand Group	4.6	10.6	(57.0%)
Total	30.8	40.6	(24.1%)

The Group adjusted its segment reporting in the year under review due to changes to the way the Group sells to its customers and a revised management structure. This has resulted in a change to how the group defines its segments. Refer to comments on 'Change in segment reporting' contained in Note 1: Summary of significant accounting policies. The 2018 comparatives have been adjusted to reflect the changes.

Cash Flow

\$M	2019	2018
EBITDA (before significant items)	30.8	40.6
Borrowing costs	(9.3)	(6.2)
Income tax payments	—	(0.1)
Net movement in working capital	(10.6)	(4.9)
Trading cash flow	10.9	29.5
Significant items	(30.1)	(35.6)
Cash flow from operating activities	(19.2)	(6.1)
Asset sales	0.1	2.6
Capital expenditure	(8.4)	(9.0)
Share issue	15.1	—
Net cash flow	(12.4)	(12.6)
Gain/(Loss) on foreign currency cash & other	0.5	(1.7)
Reconciliation to net debt movement	(11.9)	(14.3)

Balance Sheet

\$M	2019	2018
Current assets	229.1	259.0
Non-current assets	204.6	259.3
Total assets	433.7	518.3
Current liabilities	226.9	237.4
Non-current liabilities	64.9	70.5
Total liabilities	291.8	307.9
Net assets	141.9	210.4

Financial statements

For the year ended 30 June 2019

Consolidated statement of profit or loss and other comprehensive income

		Ovato Group	
YEAR ENDED 30 JUNE 2019	NOTES	2019 \$'000	2018 \$'000
Continuing operations			
Sales revenue	2(a), 20	669,236	733,968
Other revenue	2(a), 20	10,754	12,527
Raw materials and consumables used		(257,788)	(273,486)
Cost of finished goods sold		(1,475)	(986)
Employee expenses		(275,669)	(303,477)
Outside production services		(13,417)	(14,492)
Freight		(68,807)	(78,355)
Repairs and maintenance		(15,203)	(18,436)
Occupancy costs		(39,953)	(35,550)
Other expenses		(39,788)	(20,446)
Depreciation and amortisation	2(e), 20	(28,635)	(31,276)
Finance costs	3	(9,046)	(7,449)
Loss before income tax		(69,791)	(37,458)
Income tax expense:			
Current tax benefit in respect of the current period		15,810	15,737
Deferred tax expense in respect of the current period		(30,270)	(22,074)
Total tax expense	4	(14,460)	(6,337)
Net loss after income tax		(84,251)	(43,795)
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss:			
Defined benefit plan actuarial (losses)/gains	21	(642)	145
Income tax relating to items that will not be reclassified subsequently		193	(44)
		(449)	101
Items that may be reclassified subsequently to profit or loss:			
Exchange gains/(losses) arising on translation of foreign operations		1,654	(1,273)
Other		-	(4)
(Loss)/Gain on cash flow hedges taken to equity		(181)	391
Income tax relating to items that may be reclassified subsequently		51	(112)
		1,524	(998)
Other comprehensive income/(expense) for the period (net of tax)		1,075	(897)
Total comprehensive loss for the year		(83,176)	(44,692)
Basic earnings per share (cents)	24	(16.0)	(8.6)
Diluted earnings per share (cents)	24	(16.0)	(8.6)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share ('000)	24(a)	526,955	509,460

The above Consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

		Ovato Group	
		2019	2018
AS AT 30 JUNE 2019	NOTES	\$'000	\$'000
Current assets			
Cash and cash equivalents	25(b)	38,701	54,418
Receivables	5	81,783	91,924
Inventories	6	102,692	105,015
Financial assets	14	1,205	1,470
Other	7	4,739	6,149
Total current assets		229,120	258,976
Non-current assets			
Property, plant and equipment	8	113,410	154,299
Deferred tax assets	10	48,812	62,659
Goodwill and intangible assets	9	39,117	37,710
Financial assets	14	1,207	1,768
Other	7	2,011	2,910
Total non-current assets		204,557	259,346
Total assets		433,677	518,322
Current liabilities			
Payables	11	143,875	157,502
Interest bearing liabilities	12(a)	39,735	39,899
Income tax payable		8	5
Financial liabilities	14	144	121
Provisions	13	43,172	39,829
Total current liabilities		226,934	237,356
Non-current liabilities			
Interest bearing liabilities	12(b)	43,243	48,787
Provisions	13	21,627	21,737
Total non-current liabilities		64,870	70,524
Total liabilities		291,804	307,880
Net assets		141,873	210,442
Equity			
Contributed equity	15	497,523	482,433
Reserves	17	11,703	10,436
Accumulated losses		(367,353)	(282,427)
Total equity		141,873	210,442

The above Consolidated statement of financial position should be read in conjunction with the accompanying notes.

Financial statements

For the year ended 30 June 2019

Consolidated statement of cash flows

		Ovato Group	
		2019 \$'000	2018 \$'000
YEAR ENDED 30 JUNE 2019	NOTES		
Cash flows from operating activities			
Receipts from customers		1,185,560	1,319,127
Payments to suppliers and employees		(1,195,496)	(1,319,473)
Fee paid for early termination of corporate bond		(400)	—
Interest received		488	488
Interest and other costs of finance paid		(9,330)	(6,171)
Income tax paid		(45)	(56)
Net cash flow (used in)/provided by operating activities	25(a)	(19,223)	(6,085)
Cash flows from investing activities			
Payments for property, plant and equipment		(7,796)	(9,031)
Payments for development and licence costs		(607)	(16)
Proceeds from sale of property, plant and equipment		95	2,571
Net cash flow (used in)/provided by investing activities		(8,308)	(6,476)
Cash flows from financing activities			
Repayment of corporate bond	12(e)	(40,000)	—
Proceeds from corporate bond	12(e)	40,000	—
Repayments of borrowings		(15,260)	(5,550)
Proceeds from new borrowings		11,451	18,407
Proceeds from issue of shares	15	15,090	—
Net cash flow provided by/(used in) financing activities		11,281	12,857
Net (decrease)/increase in cash and cash equivalents		(16,250)	296
Cash and cash equivalents at the beginning of the financial year		54,418	54,340
Effects of exchange rate changes on cash and cash equivalents		533	(218)
Cash and cash equivalents at end of the financial year	25(b)	38,701	54,418

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

YEAR ENDED 30 JUNE 2019	Ovato Group (\$'000)					
	Attributable to equity holders of Ovato Limited					
	Contributed equity	Accumulated losses	Foreign currency translation reserve	Share-based payment reserve	Cash flow hedge reserve	Total equity
At 1 July 2017	481,758	(238,729)	11,150	849	23	255,051
Currency translation differences	—	—	(1,273)	—	—	(1,273)
Cash flow hedges (net of tax)	—	—	—	—	279	279
Other	—	(4)	—	—	—	(4)
Defined benefit plan (net of tax)	—	101	—	—	—	101
Total (expense)/income recognised directly in equity	—	97	(1,273)	—	279	(897)
Loss for the year	—	(43,795)	—	—	—	(43,795)
Total comprehensive (expense)/income for the year	—	(43,698)	(1,273)	—	279	(44,692)
Share-based payments #	675	—	—	(592)	—	83
At 30 June 2018	482,433	(282,427)	9,877	257	302	210,442
At 1 July 2018	482,433	(282,427)	9,877	257	302	210,442
Change in accounting policy (net of tax) ~	—	(498)	—	—	—	(498)
Restated total equity at the beginning of the financial year	482,433	(282,925)	9,877	257	302	209,944
Currency translation differences	—	—	1,654	—	—	1,654
Cash flow hedges (net of tax)	—	—	—	—	(130)	(130)
Defined benefit plan (net of tax)	—	(449)	—	—	—	(449)
Total income/(expense) recognised directly in equity	—	(449)	1,654	—	(130)	1,075
Loss for the year	—	(84,251)	—	—	—	(84,251)
Total comprehensive (expense)/income for the year	—	(84,700)	1,654	—	(130)	(83,176)
Shares issued *	15,090	—	—	—	—	15,090
Share-based payments	—	272	—	(257)	—	15
At 30 June 2019	497,523	(367,353)	11,531	—	172	141,873

The above table represents the Ovato Group position.

~ Cumulative effect of the initial application of AASB 9 Financial Instruments on 1 July 2018. Refer to Changes in accounting policies in Note 1.

* During the financial year the company undertook a 1 for every 2.3 shares held fully underwritten accelerated pro-rata non-renounceable entitlement offer. On 30 May 2019, 156,709,664 shares were issued at \$0.07 per share under the institutional entitlement. On 14 June 2019, 65,110,974 shares were issued at \$0.07 per share under the retail entitlement. Transaction costs arising from the institutional and retail entitlement of \$437,000 were accounted for as a deduction from equity during the financial period.

On 28 August 2017, the performance rights issued in October 2014 to the eligible executives were exercised. The vested rights were settled by the issue of 699,204 shares on 29 August 2017 for \$0.238 million, utilising the provision. On 1 December 2017, the eligible performance rights issued on 1 October 2015 to the former Managing Director and Chief Executive Officer vested on retirement. The vested rights were settled by the issue of 1,456,650 shares for \$0.437 million, utilising the provision.

The above Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



Financial notes

1	Summary of significant accounting policies
2a	Revenue
2b	Significant items
2c	Loss before income tax
2d	Auditors' remuneration
2e	Depreciation and amortisation
3	Finance costs
4	Income tax
5	Receivables
6	Inventories
7	Other assets
8	Property, plant and equipment
9	Goodwill and intangible assets
10	Deferred tax
11	Payables
12	Interest bearing liabilities
13	Provisions
14	Financial assets and financial liabilities
15	Contributed equity
16	Dividends
17	Reserves
18	Commitments
19	Controlled entities
20	Segmental information
21	Pension plans
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23	Related parties
24	Earnings per share
25	Cash flow statement notes
26	Financial instruments
27	Contingent liabilities
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1 Summary of significant accounting policies

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other mandatory professional reporting requirements.

The financial report comprises the financial statements of the consolidated entity (Ovato Group) consisting of Ovato Limited (parent) and its controlled entities. For the purposes of preparing the consolidated financial statements, Ovato Limited is a for-profit entity.

Historical cost convention

The financial statements have been prepared in accordance with the historical cost convention, except for the revaluation of derivative financial instruments that have been measured at fair value. Historical cost is based on the fair values of the consideration given in exchange for goods and services.

Statement of compliance

Compliance with IFRS

The financial statements comply with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements, comprising the financial statements and notes, thereto comply with International Financial Reporting Standards ("IFRS"). The financial statements were authorised for issue by the Directors on 13 September 2019.

Standards and interpretations issued not yet adopted

At the date of publication, the Standards and Interpretations that were issued but not yet effective are listed below.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
- AASB 16 Leases.	1 January 2019	30 June 2020

AASB 16 Leases

The Group will apply *AASB 16 Leases* from 1 July 2019. AASB 16 replaces existing accounting requirements for leases under *AASB 117 Leases*, *Interpretation 4 Determining whether an Arrangement Contains a Lease*, *Interpretation 115 Operating Lease - Incentives* and *Interpretation 127 Evaluating the Substance of Transactions in the Legal Form of a Lease*.

AASB 16 requires lessees to recognise most leases on balance sheet. The distinction between operating and finance leases is eliminated. Under the new standard, an asset being a right-to-use the underlying asset and a lease liability representing the obligation to make lease payments will be recognised. The only recognition exceptions are short-term leases and leases of low-value assets.

Depreciation of leased assets and interest on the lease liabilities will be recognised in the income statement over the useful life of the right-of-use asset.

This will primarily impact the Group's leases of property, presses, forklifts, motor vehicles, IT and equipment which are currently classified as operating leases. Under current standards, lease payments are expensed on a straight-line basis to the income statement over the term of the lease and assets and liabilities are recognised only to the extent that there is a timing difference between actual lease payments and the expense recognised.

AASB 16 requires an intermediate lessor to assess and classify sub-leases as either operating or finance leases. The criteria for classification of sub-leases has been amended under AASB 16. The Group has sub-leases in which it is the intermediate lessor and on adoption of AASB 16 will be required to make adjustments to the classification and accounting. Refer to *iv. Estimated impact on adoption of AASB 16*.

Adoption of new and revised accounting standards

In the current year, Ovato Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the year ended 30 June 2019.

In preparing the consolidated financial statements for the current year, the Group has applied the changes required by the following amendments to AASBs:

- *AASB 9 Financial Instruments* and the relevant amending standards
- *AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions*. Amendments to *AASB 2 Share-based Payment*.

None of these standards have had a material impact on Ovato in the current reporting period.

Change in segment reporting

The Group applies a 'management approach' to identify its segments, based on the information provided to the Group's chief operating decision-makers. This information is used to make decisions about resources to be allocated to the segment and assess their performance.

During the financial year, the Group changed its internal reporting structure due to a number of changes to the way the Group sells to its customers by making bundled offers under a rebranded company and revised management structure. This has resulted in a change to how the Group defines its operating segments. The Group has combined Marketing Services Australia (includes Retail Distribution and the digital businesses), Residential Distribution Australia, Print Group Australia and Corporate into one discrete segment, Ovato Australia Group. There has been no change to the Ovato New Zealand Group segment. The 2018 comparatives have been restated.

i. Transition

AASB 16 must be applied retrospectively, either with the restatement of comparatives or with the cumulative impact of adopting AASB 16 recognised as an adjustment to the opening balance of retained earnings as at 1 July 2019. The Group will apply the modified retrospective approach and will not restate comparative amounts for the year prior to adoption.

The definition of a lease has changed under AASB 16 compared to that under current guidance. There is transitional relief under AASB 16 to grandfather the definition of a lease on transition. If elected, the relief must be applied to all contracts entered into before 1 July 2019. The Group has elected to apply this relief.

ii. Leases in which the Group is lessee

The lease liability has been measured at the present value of the remaining lease payments as at 1 July 2019 discounted using the incremental borrowing rate at transition.

On transition, under the modified retrospective approach, the Group has the choice to measure the Right-Of-Use ("ROU") assets as equal to the lease liability (adjusted for any prepayments or accruals) or calculated retrospectively as if AASB 16 has always applied from the date of lease commencement discounted using the incremental borrowing rate at transition. This is applied on a lease-by-lease basis. For material property leases the Group will measure the ROU asset on transition as if AASB 16 had always been applied. Any difference between the lease asset and liability is recognised as an adjustment to opening retained earnings. All other ROU assets will be measured at the amount of the lease liability on adoption.



Financial statements

Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

1 Summary of significant accounting policies (continued)

There are a number of practical expedients available on transition under the modified retrospective approach for leases previously classified as operating leases which the Group will apply. The expedients applied are as follows:

- The Group has excluded any initial direct costs from the measurement of the ROU asset on transition where the ROU asset has been calculated as if AASB 16 has always applied.
- The Group has used hindsight when determining the lease term where the agreement contained options to extend the lease. These have been included when calculating the ROU asset as if AASB 16 has always applied.
- Not to bring on to the balance sheet short-term leases (remaining lease term 12 months or less at 1 July 2019 including reasonably certain options to extend). These leases will continue to be expensed directly to the income statement on a straight-line basis.
- The Group will adjust the ROU asset carrying amount by the amount of any existing onerous lease provisions at 1 July 2019. An impairment review must be performed on ROU assets at initial application of the standard. The group has elected to rely on its onerous lease assessments under *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*, as at 30 June 2019 as permitted by AASB 16.
- The Group has elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group has made the following additional choices as permitted by AASB 16:

- Ovato has elected not to record leases, entered into post 1 July 2019, which have a short-term (less than 12 months from lease commencement) or are low-value (fair value of less than \$10,000 when new) as a ROU asset and lease liability. The payments for these leases will be expensed on a straight-line basis.
- The Group has elected not to combine lease and non-lease components for property leases. The Group will calculate the lease liability for property leases excluding outgoing. The standalone outgoing price will be determined by separate identification on the rental invoice.
- The Group has excluded from the measurement of the lease liability and ROU asset, variable lease payments linked to future use of the leased item. These costs are expensed to the profit or loss as incurred.

iii. Leases in which the Group is an intermediate lessor in a sub-lease

The criteria for classification of sub-leases for the intermediate lessor as a finance or operating lease has been amended under AASB 16. The Group has some sub-lease arrangements that have been reassessed at transition for classification purposes. On 1 July 2019, some sub-leases will be reclassified as finance leases, resulting in the recognition of finance lease receivables.

iv. Estimated impact on adoption of AASB 16

Based on the information currently available the Group has assessed that the estimated impact of AASB 16 will be material. The Group expects on 1 July 2019 to recognise lease related liabilities of between \$120 million to \$130 million. The Group also expects on 1 July 2019 to recognise right-of-use assets of between \$75 million to \$85 million which have been adjusted by \$19 million of onerous lease provisions and recognise finance lease receivables on reclassification of sub-leases of between \$4 million to \$6 million.

The operating lease expense recognised under the existing standard will largely be replaced by depreciation, finance costs and finance income. EBITDA will increase as the operating lease cost is charged against EBITDA whereas depreciation and interest are excluded from EBITDA. Short-term and low-value leasing costs, non-lease components and variable costs will continue to be charged against EBITDA.

The actual impacts of adopting the standard is subject to change until the Group presents its first financial statements that include the date of initial application. This is because the Group is still testing and assessing the controls over its new lease accounting system, reviewing completeness and composition of the Group's lease portfolio and establishing new accounting policies.

Changes in accounting policies

AASB 9 Financial Instruments

AASB 9 includes revised guidance on the classification and measurement of financial instruments, new general hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets. This standard replaces *AASB 139 Financial Instruments: Recognition and Measurement*.

The Group has adopted *AASB 9 Financial Instruments* from 1 July 2018.

The adoption has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. This has arisen from the new impairment rules.

Comparative figures have not been restated in accordance with the transitional provisions under the standard but adjustments have been recognised in the opening balance sheet as at 1 July 2018.

The impact on the financial statements is as follows:

i. Classification and measurement of financial assets

Under AASB 9 classification of financial assets is based on the entity's purpose for holding such instruments and the contractual cash flow characteristics of the individual financial asset.

There are 3 classification categories for financial assets under AASB 9 - amortised cost, fair value through other comprehensive income and fair value through profit or loss. The categories of held to maturity, loans and receivables and available for sale have been eliminated.

Ovato Group has the following financial assets - cash and cash equivalents, trade and other receivables and derivative financial instruments.

All assets, apart from derivatives that are used as hedging instruments which are measured at fair value, are held to collect contractual cash flows. The cash flows are payments of principal and interest on the principal amount. Cash and cash equivalents and receivables have been reclassified from loans and receivables under AASB 139 to amortised cost under AASB 9.

The contractual cash flow payments continue to be measured at amortised cost using the effective interest method.

ii. Classification and measurement of financial liabilities

AASB 9 largely retains the classification and measurement requirements under AASB 139 with the exception of financial liabilities which are held for trading. These liabilities continue to be measured at fair value through profit or loss. However, under AASB 9 the effects of changes in fair value due to changes in credit risk are recognised in other comprehensive income.

Ovato Group has the following financial liabilities - trade and other payables, interest bearing liabilities and derivative financial instruments.

There were no changes in the measurement of the Group's financial liabilities. The Group's financial liabilities (apart from derivatives which are held for trading and measured at fair value) continue to be measured at amortised cost using the effective interest method.

1 Summary of significant accounting policies (continued)

The main effects resulting from the new classification and measurement categories for each class of financial assets and liabilities at 1 July 2018 are shown in the table below:

Financial Assets/Liabilities	AASB 139 Classification and Measurement	AASB 9 Classification	Impact
Cash and cash equivalents	Loans and Receivables - measured at amortised cost	Amortised Cost	No changes.
Receivables	Loans and Receivables - measured at amortised cost	Amortised Cost	Impacted by the new impairment requirements.
Payables	Other Financial Liabilities - measured at amortised cost	Other Financial Liabilities - measured at amortised cost	No changes.
Interest Bearing Liabilities	Other Financial Liabilities - measured at amortised cost	Other Financial Liabilities - measured at amortised cost	No changes.
Forward exchange contracts used for hedging	Fair Value - hedging instrument	Fair value - hedging instrument	No changes.
Cross currency swap used for hedging	Fair Value - hedging instrument	Fair value - hedging instrument	No changes.

Receivables that were classified as loans and receivables under AASB 139 are now classified as amortised cost. They continue to be measured under AASB 9 at amortised cost using the effective interest method. An increase of \$0.711 million in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 July 2018 on transition to AASB 9. This was due to the replacement of the incurred loss model with an expected credit loss model under AASB 9. Refer to *iv. Impairment of financial assets* for further details.

The Group has used the exemption under AASB 9 not to restate comparative information for prior periods. Therefore, differences in classification and measurement (including impairments) of financial assets and liabilities resulting from the adoption of AASB 9 are recognised in retained earnings as at 1 July 2018.

iii. Hedge accounting

Under AASB 9 the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting has been broadened. Also, the effectiveness test has been replaced with the principle of an 'economic relationship' that more closely aligns hedge accounting with risk management activities. Retrospective assessment of hedge effectiveness is no longer required with the standard introducing a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group adopted the new general hedge accounting model in AASB 9 from 1 July 2018 with changes to hedge accounting policies applied prospectively. The Group reviewed its risk management objectives and strategies and did not identify any new qualifying hedging instruments and hedged items under the revised model at 1 July 2018. The Group assessed all of its hedging relationships and confirmed that they were in alignment with the Group's risk management policy. Upon application of AASB 9 on 1 July 2018 they met the criteria for hedge accounting and qualified as continuing hedging relationships.

The Ovato Group is exposed to foreign exchange risk when purchasing paper and ink from foreign suppliers. This risk is managed through the use of forward exchange currency derivatives with a portion of these transactions hedged in accordance with the Group's risk management policy.

The Group is also exposed to foreign exchange risk from a Euro denominated borrowing and interest rate risk. Ovato has eliminated this risk by taking out a cross currency swap to exchange the loan's principal and floating Euro interest payments for an equally valued Australian dollar loan and floating Australian dollar interest payments in accordance with the Group's risk management policy.

Overall there has been no impact with the adoption of AASB 9 on the Group's derivatives and hedge accounting.

iv. Impairment of financial assets

AASB 9 introduces new impairment requirements for financial assets with the replacement of the incurred loss model under AASB 139 with a forward-looking expected credit loss model.

The incurred loss model recognised credit losses only when an event had occurred that had a negative effect on future cash flows and the effect could be reliably measured.

The new model does not require a loss event to occur before an impairment loss is recognised instead an ongoing assessment will have to be made of expected credit losses. Therefore, credit losses are recognised earlier under AASB 9 than under AASB 139.

The model involves a three stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses. A simplified approach is available for financial assets that do not have a significant financing component. The new model will apply to financial assets measured at amortised cost (receivables) or fair value through other comprehensive income.

Ovato's trade debtors are the only material financial assets in scope under the AASB 9 impairment model. The Group has applied the simplified impairment approach and recorded a lifetime expected loss allowance for all trade debtors.

To measure the expected credit losses, the Group's trade debtors were examined and grouped based by country and business and similar risk profile. Historical bad debt data was extracted to calculate historical loss rates. This data was overlaid with current and forward-looking information on macro-economic factors affecting the ability of customers to pay. Historical loss rates are adjusted based on expected changes in these factors.

The revised methodology for calculation of impairment for trade debtors resulted in an additional loss allowance of \$0.711 million (\$0.498 million net of tax) as at 1 July 2018. A corresponding adjustment has been made to the opening balance of retained earnings. In accordance with AASB 9, comparative information has not been restated.

Basis of consolidation

Subsidiaries

The consolidated financial statements are those of the economic entity (Ovato Group) comprising Ovato Limited (the head entity 'Ovato') and its subsidiaries.

The consolidated financial statements include the information contained in the financial statements of Ovato and each of its subsidiaries as from the date Ovato obtains control until such time as control ceases. Control is achieved when Ovato Limited:

- Has power over the investee;
- Is expected, or has rights to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns

Financial statements

Notes to and forming part of the Financial Statements for the year ended 30 June 2019

1 Summary of significant accounting policies (continued)

The financial statements of controlled entities are prepared for the same reporting period as Ovato using consistent accounting policies.

All intercompany balances, transactions, and unrealised profits arising on transactions between Group companies have been eliminated in full.

Foreign currencies

The individual financial statements of each entity in the Ovato Group are presented in their functional currency which equates to their local currency. For the purposes of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars, which is the functional currency of Ovato Limited and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are converted to functional currency at the rate of exchange ruling at the date of the transaction.

Monetary amounts payable to and by the entities within the Ovato Group that are outstanding at the balance date and are denominated in foreign currencies have been converted to functional currency using rates of exchange at the end of the year.

Non-monetary amounts that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The assets and liabilities of the controlled entities incorporated overseas are translated into the Ovato Group presentation currency at the rates of exchange ruling at balance date. The Consolidated statements of profit or loss and other comprehensive income are translated at an average rate for the year.

Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

On the disposal of a foreign operation, a proportionate share of the amount recognised in the foreign currency translation reserve relating to that particular foreign operation is recognised in the Consolidated statement of profit or loss and other comprehensive income, as part of the gain or loss on sale.

Cash and cash equivalents

For the purposes of the Consolidated cash flow statement, cash includes cash on hand and in banks. Cash on hand and in banks is stated at nominal amount.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of present value of the minimum lease payments or the fair value of the leased property, disclosed as leased property, plant and equipment, and amortised over the shorter of the lease term and useful life of the asset.

Operating leases, which do not transfer to the Group substantially all the risks and benefits of the leased item, are not capitalised and rental payments are included in the determination of the profit and loss in equal instalments over the lease term.

The cost of improvements to leasehold property related to these operating leases is capitalised and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

In the event that lease incentives are received to enter into operating leases, such incentives are initially recorded as a liability and are then recognised as a reduction in rental expense on a straight line basis over the lease term.

A provision for make good is recognised when property leases require the restoration of premises to its original condition at the conclusion of the lease. Refer to the Group's accounting policy on provisions for the criteria that must be satisfied for the recognition of a provision.

Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except where:

- the GST incurred on purchase of goods and services is not recoverable from the taxation authority, in which case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and

- receivables and payables are stated with the GST amount included.

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.

Cash flows are included in the cash flow statement 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.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 8 - Impairment testing of property, plant and equipment
- Note 9 - Impairment testing of goodwill
- Note 10 - Deferred tax
- Note 26 - Financial instruments

i. Goodwill, intangible assets, property, plant and equipment

The Group determines whether goodwill is impaired on a bi-annual basis and assesses impairment of all other assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technology, economic and political environments. If an impairment trigger exists the recoverable amount of the asset is determined. Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless it does not generate inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs. An estimation of recoverable amount of cash generating units is made by using a value in use model or fair value less costs of disposal. A number of assumptions are made by the Group in this estimation of recoverable amount.

In assessing value in use, the estimated future cash flows, excluding future uncommitted restructurings and associated benefits, are discounted to their present value using a pre-tax discount rate that approximates the weighted average cost of capital for that cash generating unit.

In assessing fair value less costs of disposal, primary consideration is given to external sources of value such as comparable transactions adjusted for costs of disposal, market price in an actively traded market or the best information available to reflect the amount to be obtained from disposal. In the absence of comparable transactions, fair value has been assessed using a discounted cash flow methodology. This is supported by EBITDA multiples which serve as an external cross check. Ovato believe that this provides the best indication of the recoverable amount to be obtained from disposal of the cash generating unit at arms length between knowledgeable and willing parties.

Based on testing carried out at 30 June 2019, the Print – New Zealand business unit impairment analysis showed a deficit. Plant and equipment of NZ\$10 million associated with this cash generating unit was impaired at 30 June 2019. After the impairment, the Directors estimate, that if forecast EBITDA reflected in the model were to decrease by 10%, the carrying value of this cash generating unit would exceed the recoverable amount by approximately NZ\$1 million.

While the Ovato Australia business unit impairment analysis shows a surplus which is lower than at 30 June 2018, the Directors estimate, that if forecast EBITDA reflected in the model were to decrease by 10%, it could result in the aggregate carrying value of this cash generating unit exceeding the recoverable amount in the

1 Summary of significant accounting policies (continued)

range of approximately \$10 million to \$15 million. This model includes benefits from the new Manroland press from late 2019 onwards. In addition, the company will continue to respond to lower volumes by addressing the fixed cost base as applicable.

Refer to Note 8 and Note 9 for further details.

ii. Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax asset that can be recognised, based on the likely timing and level of future taxable profits.

Consistent with prior periods, the deferred tax assets of \$14.9 million pertaining to the current financial year Australian tax loss was not recognised in the financial statements as at 30 June 2019.

The Directors also decided to reduce the deferred tax asset balance relating to Australian tax losses to \$15 million, being an impairment of \$19.8 million included in tax expense for the year to 30 June 2019. This impairment was necessary to ensure the deferred tax asset remains forecast to be recouped over a 6-8 year period, a time frame that the Directors consider is a reasonable recovery period (consistent with prior years).

The Directors believe that the reduced deferred tax asset of \$15 million is supportable given the level of forecast future tax profits from the 2020 financial year onwards. This position will continue to be reassessed on an ongoing basis.

The New Zealand deferred tax asset value of \$918,000 attributable to tax losses is also expected to be fully recouped over the 6-8 year period (noting this increased in 2019 due to FY19 losses).

Despite the non-recognition of these losses on the Consolidated statement of financial position, the losses will remain available indefinitely for offset against future taxable profits, subject to continuing to meet the statutory tax tests of continuity of ownership or failing that, the same business test.

iii. Fair value measurement and valuation process

Ovato has financial instruments that are carried at fair value in the Consolidated statement of financial position. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, Ovato determines fair value by using various valuation models. The objective of using a valuation technique is to establish the price that would be received to sell an asset or paid to transfer a liability between market participants. The chosen valuation models make maximum use of market inputs and relies as little as possible on entity specific inputs. The fair values of all positions include assumptions made on the recoverability based on the counterparty's and Ovato's credit risk.

Details of the inputs to the fair value of financial instruments are included in Note 26.

		Ovato Group	
		2019	2018
		\$'000	\$'000
YEAR ENDED 30 JUNE 2019	NOTES		
2a Revenue			
External sales		635,789	696,217
Freight		33,447	37,751
Total sales revenue		669,236	733,968
Included in loss before income tax are the following items of other revenue:			
Recoveries from the manufacturing process		10,159	9,973
Other income - external		44	44
Net gain on disposal of plant and equipment		—	1,961
Rental income		64	59
Interest income	3	487	490
Total other revenue		10,754	12,527
Total revenue	20	679,990	746,495

(a) Significant accounting policies

Revenue is recognised when the Group transfers control of the good or service to a customer. It is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Amounts are recognised net of returns, discounts and rebates.

Some contracts with customers may contain multiple deliverables such as printing and distribution. These are considered separate performance obligations. Revenues are recognised as each performance obligation is met.

(b) Nature of goods and services

Below is a description of the principal activities from which the Group derives its revenue separated by reportable segments.

The Group may also be engaged by customers to provide a freight service to a specified location. These services form part of a contract with multiple deliverables. Freight is

treated as a separate performance obligation as it is a distinct service that is separately included in the customer contract. It is not part of the overall performance obligation as not every customer engages the Group to perform this service. Freight services are provided across all reportable operating segments. Revenue is recognised at a point of time, being when the freight services are provided.

For more information about reportable segments refer to Note 20.

i. Commercial and book printing

The Ovato Australia Group and Ovato New Zealand Group segments generate revenue from the printing of magazines and books for publishers and catalogues for customers.

- Revenue is recognised when control of the good is transferred, being as the printing jobs are completed over time. Customers provide specifications for each job and as the printing work is performed, control is then passed to the customer.

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

2a Revenue (continued)

- For each job, there is no alternative use for this asset to the Group, and the Group has a right to payment for performance completed to-date. Revenue is accrued for partly completed jobs in the month of service using the input method. This is calculated based on resources consumed (i.e. paper issued) relative to total resources expected to be consumed (i.e. paper allocated).
- Contracts can have separate transaction pricing for each service provided and includes fixed and variable pricing. Variable pricing includes discounts, revenue rebates and volume based rebates. The Group estimates the amount using a 'most likely method' and is included to the extent that it is highly probable that a significant reversal of revenue will not occur.

ii. Residential distribution

The Ovato Australia Group and Ovato New Zealand Group segments generate revenue from letterbox delivery of addressed and unaddressed, mass and targeted catalogues and newspapers.

- Revenue is recognised when control of the goods are transferred to the customer, which is when the product is available for delivery to the letterbox or into store in accordance with the customers contract.
- Contracts can have separate transaction pricing for each service provided and includes fixed and variable pricing. Variable pricing includes discounts, revenue rebates and volume based rebates. The Group estimates the amount using a 'most likely method' and is included to the extent that it is highly probable that a significant reversal of revenue will not occur.

iii. Retail distribution

- Ovato Retail Distribution distributes magazines and other products to stores and outlets located across Australia and New Zealand. Ovato Retail Distribution is engaged by publishers to sell magazines on their behalf to retail outlets and is acting as an agent. A distribution fee is earned for this service based on copies sold or delivered.
- Revenue is recognised in the accounting period in which the distribution occurs and control is passed and the services are satisfied in accordance with the contractual arrangements.

iv. Marketing services

- Marketing services are provided in Australia and include digital printing and professional services (photography, creative, public relations, digital premedia and infrastructure services).

- Professional services revenue is recognised up to the amount of the fees that the Group is entitled to invoice for services performed to-date based on contracted rates and the percentage of job completion. This percentage is determined by reference to the actual hours incurred per time sheets as a proportion of the estimated total hours expected to complete the job. The performance obligations are satisfied over time, generally being three to six months.
- Digital printing revenue is recognised when control of the good is transferred, being as the printing jobs are completed over time.
- Contracts may include discounts and are estimated to the extent that it is highly probable that a significant reversal of revenue will not occur.

(c) Financing component

The Group in general does not have any contracts with a financing component as the period between when the Group transfers the promised good or service to a customer and the customer pays for it is less than one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(d) Contract balances

Contract assets relate to the Group's rights to consideration for product and services provided but not invoiced at the reporting date. Contract assets at the reporting date are disclosed in Note 5 as Other debtors.

Contract liabilities primarily relate to consideration received in advance from customer contracts. The Group has an immaterial contract liability balance of \$0.5 million (2018: \$0.8 million) at 30 June 2019 which will be recognised in the next reporting period on performance of outstanding marketing service obligations. Contract liabilities are disclosed in Note 11 as Other accruals.

Changes in contract assets and liabilities during the period resulted from satisfaction of performance obligations. The opening contract liability relating to income received in advance was recognised as revenue during the period.

(e) Transaction price allocated to the remaining performance obligations

The revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date is disclosed in the below table.

	Ovato Group	
	2019 \$'000	2018 \$'000
Commercial and book printing	—	—
Distribution	—	—
Magazine distribution	—	—
Marketing services	487	773
Freight	—	—
	487	773

The Group expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2019 will be recognised as revenue during the next reporting period.

(f) Costs to obtain a contract

Under AASB 15 the incremental costs of obtaining a contract with a customer are capitalised when expected to be recovered under the contract. In accordance with AASB 15, the Group can expense the incremental costs of obtaining a contract with a customer as incurred, as if capitalised would have been amortised within less than 1 year.

(g) Disaggregation of revenue

The Group derives revenue at a point in time and over time. At 30 June 2019 revenue earned over time is considered immaterial.

Note 20 provides details of revenue by major products and service offerings, by geographical segment and by operating segment.

(h) Revenue other than contracts with customers

Ovato recycles materials from the manufacturing process and revenue is recognised when the materials are sold.

Rental income is recognised on a straight line basis over the lease term.

Interest income is recognised as interest accrues.

		Ovato Group	
YEAR ENDED 30 JUNE 2019		2019 \$'000	2018 \$'000
NOTES			
2b Significant items			
Included in net loss after income tax are the following significant items of income and expense:			
Net loss/(gain) on disposal of plant and equipment		749	(1,904)
Restructure initiatives and other one-off costs		24,689	27,015
Onerous leases and make good provisions		14,483	9,614
Relocation of presses		5,019	5,502
Impairment/(reversal) of plant and equipment due to restructure initiatives	2(c), 8(b)	18,017	(868)
Fee paid for early termination of corporate bond	3	400	—
Write off of prepaid financing costs	3	231	—
Total significant items (included in loss before interest and tax)		63,588	39,359
Tax benefit associated with significant items		18,733	11,581
Adjustment of prior year losses not recognised to actual		(270)	(217)
Tax losses not brought to account		(14,912)	(16,935)
Impairment of deferred tax asset		(19,821)	—
Tax expense included in net loss after tax		(16,270)	(5,571)
Significant items have been included in the Consolidated statement of profit or loss and other comprehensive income within the following categories:			
Other revenue - Net gain on sale of equipment		—	(1,904)
Raw materials and consumables used		782	68
Cost of finished goods sold		—	431
Employee expenses		20,540	23,749
Freight		447	993
Repairs and maintenance		186	229
Occupancy costs		14,483	9,614
Other expenses - Impairment/(reversal of impairment)	2(c), 8(b)	18,017	(868)
- Legal and professional fees		2,291	1,378
- Relocation of presses		5,019	5,502
- Net loss on disposal of plant and equipment		749	—
- Other expenses		443	167
Finance costs	3	631	—
		63,588	39,359

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

		Ovato Group	
		2019 \$'000	2018 \$'000
YEAR ENDED 30 JUNE 2019			
NOTES			
2c Loss before income tax			
Loss before income tax is arrived at after charging/(crediting) the following items:			
Lease rental expenses - operating leases		44,070	38,990
Share-based payment plans	17	15	83
Net loss/(gain) on disposal of plant and equipment		775	(1,961)
Impairment/(reversal) of plant and equipment	2(b)	18,017	(868)
Net remeasurement of expected credit loss allowance	5(b)	89	283
		2019 \$	2018 \$
2d Auditors' remuneration			
Auditor of the parent entity			
Auditing the accounts		411,075	395,850
Other services			
- Taxation and related advisory services		127,546	138,801
		538,621	534,651
Network firm of the parent entity auditor			
Auditing the accounts		103,054	98,765
Other services			
- Taxation and related advisory services		77,414	35,600
		180,468	134,365
		2019 \$'000	2018 \$'000
2e Depreciation and amortisation			
Depreciation			
Leasehold improvements	8(a)	1,165	969
Plant and equipment	8(a)	26,945	29,727
Total depreciation		28,110	30,696
Amortisation			
Development and licence costs	9(a)	525	580
Total amortisation		525	580
Total depreciation and amortisation		28,635	31,276
3 Finance costs			
Interest expense			
Bank loans and overdraft		7,179	6,784
Unwind of discount on long term onerous lease and make good provisions		1,236	665
Total interest expense		8,415	7,449
Fee paid for early termination of corporate bond	2(b)	400	—
Write off of prepaid finance costs	2(b)	231	—
Total finance costs		9,046	7,449
Interest income	2(a)	(487)	(490)
Net finance costs		8,559	6,959

Significant accounting policies

Finance costs are recognised in the Consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

		Ovato Group	
YEAR ENDED 30 JUNE 2019		2019 \$'000	2018 \$'000
4	Income tax		
	(a) Reconciliation of income tax expense		
	Loss before income tax	(69,791)	(37,458)
	Prima facie income tax benefit thereon at 30% (2018: 30%)	(20,937)	(11,237)
	Tax effect of non-temporary and other differences:		
	Non-assessable items	—	(338)
	Effect of differences in overseas tax rate	235	(89)
	Income tax (over)/under provided in previous year	(251)	218
	Non-deductible items for tax purposes	680	848
	Benefit of tax losses not brought to account	14,912	16,935
	Impairment of deferred tax asset	19,821	—
	Income tax expense attributable to loss	14,460	6,337
	Major component of income tax expense:		
	Current tax benefit	(15,810)	(15,737)
	Deferred tax expense	30,270	22,074
	Income tax expense attributable to loss	14,460	6,337

(b) Significant accounting policies

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the notional income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

(c) Deferred tax assets and deferred tax liabilities

At 30 June 2019 there is no recognised or unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of Ovato's wholly owned subsidiaries, as the Ovato Group has no liability for additional taxation should such amounts be remitted or any such tax due would be offset by existing unrecognised deferred tax losses (2018: \$nil).

		Ovato Group	
		2019 \$'000	2018 \$'000
(d) Franking credits			
	The amount of franking credits available are:		
	Franking account balance as at the end of the financial year at 30% (2018: 30%)	62,529	62,529

(e) Tax consolidation and tax effect accounting by members of the tax consolidated group

Effective 1 July 2003, for the purposes of income taxation, Ovato Limited (formerly PMP Limited) and its 100% owned Australian subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. The agreement also provides for the allocation of income tax liabilities between the entities should the head entity default on its obligations. At the balance date the possibility of default is remote. The head entity of the tax consolidation group is Ovato Limited.

Members of the Australian tax consolidated group have also entered into a tax funding agreement. The tax funding agreement provides for the allocation of current tax assets and liabilities between wholly owned group members. Each group member of the Ovato tax group calculates its current year tax liability/tax loss on the basis of the stand alone approach. Once each member has calculated its own current year tax liability/tax loss the head entity will then assume these current year tax liabilities/tax losses and be paid/pay compensation for this assumption by way of an intercompany receivable/payable. Allocations under the tax funding agreement are made on a yearly basis.

All 100% owned Ovato entities operating in New Zealand are members of the Ovato NZ Limited tax consolidated group. Although there is no New Zealand tax funding agreement, Ovato NZ Limited and its group members have also calculated their current year tax liabilities/tax losses, and Ovato NZ Limited is paid/pays compensation for this assumption by way of an intercompany receivable/payable on a yearly basis, in the same manner as the Australian tax funding agreement operates.

		\$'000	
(f) Tax losses not brought to account		Gross Current Year	Tax effected
	Revenue losses	350,821	105,246
	Capital losses	287,956	86,387

The benefit of these revenue losses has not been brought to account as realisation is not probable. Refer to Note 10 for further details. In addition, capital losses are only able to be used against capital gains and so are not recognised until used in any tax year. The revenue losses above have increased substantially in the current year due to the impairment of the deferred tax asset therefore increasing tax losses not recognised (in addition to the current year loss not recognised).

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

NOTES

Ovato Group

2019
\$'000

2018
\$'000

5 Receivables

Trade debtors*		78,856	88,236
Allowance for expected credit losses	5(b)	(1,211)	(1,280)
Net trade debtors		77,645	86,956
Other debtors	5(d)	4,138	4,968
Total current receivables		81,783	91,924

* Trade debtors are non-interest bearing and are on commercial terms. There were no material unhedged foreign currency receivables.

(a) Significant accounting policies

Trade debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less any allowance under the expected credit loss model. Bad debts are written-off as incurred. Subsequent recoveries of amounts previously written off are credited against the same line item.

Receivables from related parties are recognised and carried at the nominal amount due less allowance for expected credit losses.

(b) Impaired trade receivables

Ovato Group:

At 30 June 2019 an allowance for expected credit losses of \$1,211,000 (2018: \$1,280,000) has been recognised. This relates to a variety of customers who are in unexpectedly difficult economic situations.

Ovato Group

2019
\$'000

2018
\$'000

Movements in the allowance for expected credit losses are as follows:

Balance as at 1 July - calculated under AASB 139		1,280	1,324
Adjustment on initial application of AASB 9		711	—
Balance at 1 July under AASB 9		1,991	1,324
Amounts written off		(877)	(319)
Net remeasurement of allowance	2(c)	89	283
Net foreign currency translation difference		8	(8)
Balance at 30 June		1,211	1,280

The Group has applied the simplified impairment approach in assessing the expected credit losses associated with trade debtors. This requires expected lifetime losses to be recognised from initial recognition of all trade debtors. This has resulted in an increase in the loss allowance on 1 July 2018 by \$711,000 for trade debtors. This was recognised in opening retained earnings at 1 July 2018 on transition to AASB 9.

The allowance has been calculated by grouping trade debtors by shared credit risk characteristics and the days past due. A provision matrix is then determined based on the historic credit loss rate. This is adjusted for changes in current and forward-looking factors that affect the ability of customers to pay.

The allowance for expected credit losses as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows:

	Trade debtors					
	Days past due					
	Current	< 30 days	30-60 days	61-90 days	> 91 days	Total
30 June 2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expected loss rate %	0.30%	1.1%	6.9%	30.2%	77.0%	1.5%
Carrying amount - trade debtors	63,396	12,579	1,460	671	750	78,856
Allowance for expected credit losses	190	140	101	203	577	1,211
1 July 2018						
Expected loss rate %	0.13%	0.79%	2.7%	26.3%	76.0%	2.3%
Carrying amount - trade debtors	68,782	15,106	1,524	809	2,015	88,236
Allowance for expected credit losses	86	120	41	213	1,531	1,991

YEAR ENDED 30 JUNE 2019

5 Receivables (continued)

(c) Past due but not impaired

At 30 June 2019 there were \$14,439,000 (2018: \$18,203,000) of trade receivables in the Ovato Group past due but not impaired.

	Ovato Group	
	2019 \$'000	2018 \$'000
The aging analysis of these trade receivables is as follows:		
Past due 1 - 30 days	12,439	15,057
Past due 31 - 60 days	1,359	1,520
Past due 61 - 90 days	468	750
Past due greater than 90 days	173	876
	14,439	18,203

There are no receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

(d) Other debtors

Other debtors generally arise from transactions outside of the usual operating activities of the Group. Other debtors do not contain impaired assets and are not past due. Collateral is not usually obtained.

		Ovato Group	
	NOTES	2019 \$'000	2018 \$'000
YEAR ENDED 30 JUNE 2019			
6 Inventories			
Raw materials, spare parts and stores at cost		55,579	51,885
Less: provision for diminution		(367)	(598)
Net raw materials, spare parts and stores		55,212	51,287
Finished goods at cost		44,189	50,076
Work in-progress at cost		3,291	3,652
Total current inventories		102,692	105,015

Significant accounting policies

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: cost is determined by the average cost method.
- Finished goods and work-in-progress: cost of direct material and labour and an appropriate proportion of fixed and variable manufacturing overheads based on normal operating capacity.

		Ovato Group	
	NOTES	2019 \$'000	2018 \$'000
YEAR ENDED 30 JUNE 2019			
7 Other assets			
Current other assets			
Prepayments		4,739	6,149
Total current other assets		4,739	6,149
Non-current other assets			
Defined benefit plan asset	21	1,527	2,122
Other assets		484	788
Total non-current other assets		2,011	2,910

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

		Ovato Group	
		2019 \$'000	2018 \$'000
YEAR ENDED 30 JUNE 2019			
	NOTES		
8 Property, plant and equipment			
Leasehold improvements			
At cost		15,329	14,465
Accumulated depreciation		(9,707)	(8,445)
Accumulated impairment		(1,846)	(2,026)
Net leasehold improvements	8(a)	3,776	3,994
Plant and equipment			
At cost		560,619	619,545
Accumulated depreciation		(416,353)	(437,893)
Accumulated impairment		(34,632)	(31,347)
Net plant and equipment	8(a)	109,634	150,305
Leased plant and equipment			
At cost		220	220
Accumulated depreciation		(220)	(220)
Net leased plant and equipment		—	—
Total net property, plant and equipment	8(a)	113,410	154,299
(a) Reconciliations			
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:			
Leasehold improvements			
Carrying amount at beginning of year		3,994	4,912
Additions		141	—
Disposals		(14)	—
Transfer from other asset category		1,366	156
Depreciation	2(e)	(1,165)	(969)
Impairment	2(b), 2(c), 8(b)	(630)	—
Net foreign currency translation difference		84	(105)
Carrying amount at end of year		3,776	3,994
Plant and equipment			
Carrying amount at beginning of year		150,305	170,183
Additions		7,431	9,508
Disposals		(1,562)	(609)
Impairment (charge)/reversal	2(b), 2(c), 8(b)	(17,387)	868
Transfer to other asset category		(1,366)	(156)
Transfer from inventories		—	1,336
Transfer to intangibles	9(a)	(1,239)	(292)
Depreciation	2(e)	(26,945)	(29,727)
Expensed to the profit and loss		(384)	(48)
Net foreign currency translation difference		781	(758)
Carrying amount at end of year		109,634	150,305
Total net property, plant and equipment		113,410	154,299
(b) Impairment			
Impairment/(Reversal) of plant and equipment	2(b), 2(c)	18,017	(868)
		18,017	(868)

Based on impairment testing carried out at 30 June 2019, the Print – New Zealand business unit analysis showed a deficit. Plant and equipment of NZ\$10 million associated with this cash generating unit was impaired. The balance of the impairment in the 2019 financial year, related to the write down of individual items of plant and equipment as part of the consolidation of Ovato's NSW print sites.

YEAR ENDED 30 JUNE 2019

8 Property, plant and equipment (continued)

(c) Significant accounting policies

Carrying value

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Subsequent costs are included either in the assets carrying value or as a separate asset only when it is probable that future economic benefits will flow to the Group and the cost can be reliably measured.

Derecognition

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation

Property, plant and equipment is depreciated or amortised at rates based upon their expected useful lives using the straight-line method. Major depreciation periods are consistent with the prior period and are as follows:

- Leasehold improvements to the lease term
- Printing presses 7.5 to 20 years
- Computer equipment 3 to 4 years

Useful lives are reviewed, and adjusted, if appropriate at each reporting date. Any adjustments are made on a prospective basis.

Impairment

Property, plant and equipment is tested for impairment when there is an indication that an asset may be impaired (assessed at least at each reporting date) or where there is an indication that an existing impairment may have changed.

Where an indicator of impairment exists, the Ovato Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless it does not generate inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

The assumptions used in the assessment of recoverable amount are discussed in Note 9(c).

YEAR ENDED 30 JUNE 2019		Ovato Group	
	NOTES	2019 \$'000	2018 \$'000
9 Goodwill and intangible assets			
Development and licence costs			
At cost		7,854	6,008
Accumulated amortisation		(6,032)	(5,507)
Closing net book amount	9(a)	1,822	501
Goodwill			
At cost		133,963	133,557
Goodwill on acquisition		—	406
Accumulated impairment		(99,623)	(99,623)
Net foreign currency translation difference		2,955	2,869
Closing net book amount	9(a)	37,295	37,209
Total net intangibles	9(a)	39,117	37,710

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

		Ovato Group	
YEAR ENDED 30 JUNE 2019		2019 \$'000	2018 \$'000
	NOTES		
9 Goodwill and intangible assets (continued)			
(a) Reconciliations			
Development and licence costs			
Carrying amount at beginning of year		501	773
Additions		607	16
Transfer from/(to) other asset category	8(a)	1,239	292
Amortisation	2(e)	(525)	(580)
Carrying amount at end of year		1,822	501
Goodwill			
Carrying amount at beginning of year		37,209	36,875
Goodwill on acquisition		-	406
Net foreign currency translation difference		86	(72)
Carrying amount at end of year	9(c)	37,295	37,209
Total net intangibles		39,117	37,710

(b) Significant accounting policies

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition of a business.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised, but is reviewed for impairment each reporting date, or more frequently if events or changes indicate that the carrying amount may be impaired.

At the date of any acquisition, goodwill acquired is allocated to the cash generating unit or groups of cash generating units expected to benefit from the acquisition.

Where the recoverable amount of the cash generating unit is less than the carrying amount of goodwill, an impairment loss is recognised.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included within the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Development and licence costs

Costs incurred in acquiring products or systems that will generate future benefits are capitalised.

Amortisation is charged on a straight-line basis, the expense is taken to the Consolidated statement of profit or loss and other comprehensive income through the "amortisation" line item as follows:

- Database development costs 3 years
- Software development costs 3 - 7 years

Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

YEAR ENDED 30 JUNE 2019		Ovato Group	
		2019 \$'000	2018 \$'000
9	Goodwill and intangible assets (continued)		
	(c) Impairment testing of goodwill		
	Carrying amount of goodwill allocated to each cash generating unit:		
	Ovato Residential Distribution - New Zealand	2,092	2,006
	Ovato Australia	35,203	35,203
	Total goodwill	37,295	37,209
	9(a)		

In accordance with Ovato policy, impairment testing has been undertaken at 30 June 2019 for all cash generating units ("CGU's") with indefinite useful life intangible assets or where there is an indication of impairment. The testing has been conducted using the higher of a value in use model and a fair value less costs of disposal model.

New cash generating unit

During the financial year, the Group has made a number of changes to the way the Group sells to its customers by making bundled offers under a rebranded company and revised management structure. This has resulted in a change to how the Group defines its operating segments. From a CGU perspective, a new CGU was created in the name of Ovato Australia that combined the existing CGU's of Print Australia, Marketing Services and Residential Distribution Australia into one new CGU. Ovato Book Printing Australia (formerly Griffin Press), Retail Distribution Australia (formerly Gordon & Gotch Australia) and the CGUs within New Zealand will remain unchanged.

Fair value less costs of disposal

The recoverable amount of the CGU, Ovato Australia is determined based on a fair value less costs of disposal calculation. In the absence of comparable transactions, fair value has been assessed using a discounted cash flow methodology with cross checks performed to external indicators, such as EBITDA multiples. This represents a Level 3 model in line with the fair value hierarchy in accordance with *AASB 13 Fair Value Measurement*. Ovato believe that this methodology provides the best indication of the price that would be received to sell the business in an orderly transaction between market participants at balance sheet date.

In assessing fair value less costs of disposal, the estimated post tax future cash flows, including future uncommitted restructurings and associated benefits, are discounted using a post tax rate. The key assumptions used in the calculation are disclosed in the table on the following page.

While the Ovato Australia business unit impairment analysis shows a surplus which is lower than at 30 June 2019, the Directors estimate, that if forecast EBITDA reflected in the model were to decrease by 10%, it could result in the aggregate carrying value of this cash generating unit exceeding the recoverable amount in the range of approximately \$10 million to \$15 million. This model includes benefits from the new Manroland press from late 2019 onwards. In addition, the company will continue to respond to lower volumes by addressing the fixed cost base as applicable.

Value in use

The recoverable amount of the CGUs, Print – New Zealand, Ovato Retail Distribution - New Zealand, Ovato Residential Distribution - New Zealand, Ovato Book Printing - Australia and Ovato Retail Distribution - Australia, is determined based on a value in use calculation.

In assessing value in use, the estimated future cash flows, excluding future uncommitted restructurings and associated benefits, are discounted to their present value using a pre-tax discount rate. The key assumptions used are disclosed in the table on the following page.

Based on testing carried out at 30 June 2019, the Print – New Zealand business unit impairment analysis showed a deficit. Plant and equipment of NZ\$10 million was impaired at 30 June 2019. After the impairment, the Directors estimate, that if forecast EBITDA reflected in the model were to decrease by 10%, it could result in the aggregate carrying value of this CGU exceeding the recoverable amount by approximately NZ\$1 million.

For all other CGUs, the Directors believe that sensitivity analyses performed indicate that if a change in EBITDA reflected in the models were to decrease by up to 10% for the respective CGUs, it is unlikely that there will be an impairment.

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

9 Goodwill and intangible assets (continued)

(c) Impairment testing of goodwill (continued)

Key assumptions:

Management judgement is required in assessing whether the carrying value of assets can be supported by the net present value of future cash flows. The following are the key estimates and assumptions used in determining the net present value of future cash flows using a value in use calculation and fair value less costs of disposal calculation:

Area of judgement	Assumption used in value in use calculation
	<ul style="list-style-type: none"> - Print (New Zealand) - Ovato Retail Distribution (New Zealand) - Ovato Residential Distribution (New Zealand) - Ovato Book Printing (Australia) - Ovato Retail Distribution (Australia)
Budgeted EBITDA	<p>The Group prepares three year plans which are internally approved by senior management. These plans form the basis of the discounted cash flow models used for impairment testing and are based upon past experience and future outlook.</p> <p>Budgeted EBITDA is calculated as operating profit before depreciation and amortisation, based upon past experience and future outlook. Adjustments are made to budgeted EBITDA as follows:</p> <ul style="list-style-type: none"> - removal of benefits from future uncommitted restructuring - inclusion of working capital movements
Long term growth rate	<p>Management's plan is used for the first three years of the Group's value in use calculations.</p> <p>An annual growth rate of 0% for years four, five and perpetuity (where applicable) has been applied. The rate applied is based on management's assessment of the specific circumstances of that business.</p>
Budgeted capital expenditure	<p>The cash flow forecasts for capital expenditure are based on past experience and include the ongoing capital expenditure required to maintain current fixed asset levels after taking into account budgeted repairs and maintenance.</p>
Pre-tax discount rate	<p>The pre-tax discount rate applied to the cash flows of each of the Group's cash generating units in Australia and New Zealand is 11.7% (2018: 13.4%).</p> <p>The pre-tax discount rate is approximated by applying a gross up formula to the calculated post tax rate. The discount rate is based on the risk-free rate for ten year government bonds adjusted for a risk premium to reflect the increased risk of investing in equities ("equity market risk premium") and the systematic risk adjustment ("beta") to reflect the risk of the Company relative to the market as a whole.</p>
Area of judgement	Assumption used in fair value less costs of disposal calculation
	<ul style="list-style-type: none"> - Ovato Australia
Budgeted EBITDA	<p>The Group prepares three year plans which are internally approved by senior management. These plans form the basis of the discounted cash flow models used for impairment testing, and are based upon past experience and future outlook.</p> <p>Post tax cash flows used. Notional tax of 30% in Australia and 28% in New Zealand applied. Cash flows include working capital movements as well as future uncommitted restructurings and benefits associated with those future restructurings.</p> <p>Includes costs to sell cash outflow of 1.5%.</p> <p>An annual growth rate of 0% has been applied.</p>
Long term growth rate	<p>Management's plan is used for the first three years of the Group's fair value less costs of disposal calculations.</p> <p>An annual growth rate of 0% for years four, five and perpetuity (where applicable) has been applied. The rate applied is based on management's assessment of the specific circumstances of that business.</p>
Post-tax discount rate	<p>The post tax discount rate applied to the cash flows was 9.5% (2018: 10.0%).</p>

				Ovato Group		
YEAR ENDED 30 JUNE 2019				2019	2018	
NOTES				\$'000	\$'000	
10 Deferred tax						
Deferred tax assets						
Temporary differences:						
- Provisions/accruals				23,075	23,429	
- Property, plant and equipment				10,819	5,475	
- Cash flow hedges				(74)	(125)	
- Other assets				(926)	(1,170)	
Tax losses				15,918	35,050	
Total deferred tax assets				10(a)	48,812	62,659

	Provisions/ accruals	Other assets	Property, plant and equipment	Cash flow hedges	Tax losses	Total
(a) Movements in deferred tax assets	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2017	26,158	(949)	5,081	(13)	36,505	66,782
(Charged)/credited						
- to profit or loss	(3,796)	(177)	(949)	—	—	(4,922)
- to other comprehensive income	—	(44)	—	(111)	—	(155)
- foreign currency translation reserve	(49)	—	(6)	(1)	(59)	(115)
- to goodwill	1,116	—	1,349	—	—	2,465
Utilisation of tax losses	—	—	—	—	(1,396)	(1,396)
At 30 June 2018	23,429	(1,170)	5,475	(125)	35,050	62,659
(Charged)/credited						
- to profit or loss	(620)	51	5,329	—	—	4,760
- to other comprehensive income	213	193	—	50	—	456
- foreign currency translation reserve	53	—	15	1	10	79
Increase in New Zealand tax losses	—	—	—	—	679	679
Impairment of Australian tax losses	—	—	—	—	(19,821)	(19,821)
At 30 June 2019	23,075	(926)	10,819	(74)	15,918	48,812



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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

10 Deferred tax (continued)

(b) Significant accounting policies

Deferred tax assets and liabilities are recognised for temporary differences at the rates expected to apply when the assets are recovered or liabilities are settled, based on the tax rates for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(c) Deferred tax losses

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax asset that can be recognised, based on the likely timing and level of future taxable profits.

Consistent with prior periods, the deferred tax assets of \$14.9 million pertaining to the current financial year Australian tax loss was not recognised in the financial statements as at 30 June 2019.

The Directors also decided to reduce the deferred tax asset balance relating to Australian tax losses to \$15 million, being an impairment of \$19.8 million included in tax expense for the year to 30 June 2019. This impairment was necessary to ensure the deferred tax asset remains forecast to be recouped over a 6-8 year period, a time frame the Directors consider is a reasonable recovery period (consistent with prior years).

The Directors believe that the reduced Australian deferred tax asset of \$15 million is supportable given the level of forecast future tax profits from the 2020 financial year onwards. This position will continue to be reassessed on an ongoing basis.

The New Zealand deferred tax asset value of \$918,000 attributable to tax losses is also expected to be fully recouped over the 6-8 year period (noting this increased in 2019 due to FY19 losses).

Despite the non-recognition of these losses on the Consolidated statement of financial position, the losses will remain available indefinitely for offset against future taxable profits, subject to continuing to meet the statutory tax tests of continuity of ownership or failing that, the same business test.

YEAR ENDED 30 JUNE 2019

NOTES

Ovato Group

2019
\$'000

2018
\$'000

11 Payables

Current payables

Creditors - unsecured

Trade creditors and accruals *

Interest payable

Total current payables

143,350

156,748

525

754

143,875

157,502

* Trade creditors are non-interest bearing and are on normal commercial terms.

Significant accounting policies

Liabilities for trade creditors and other amounts are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount.

YEAR ENDED 30 JUNE 2019

NOTES

Ovato Group

2019
\$'000

2018
\$'000

12 Interest bearing liabilities

(a) Current interest bearing liabilities

Secured

Bank loans - working capital facility: Australian dollars

Bank loans - repayable in: Euros *

Equipment financing: Australian dollars

Receivables financing: Australian dollars

Other

Other: Australian dollars

Prepaid finance costs

Total current interest bearing liabilities

—

10,000

3,230

3,138

1,409

2,819

34,556

23,233

1,314

1,186

(774)

(477)

39,735

39,899

(b) Non-current interest bearing liabilities

Secured

Bank loans - repayable in: Euros *

Equipment financing: Australian dollars

Corporate bond: Australian dollars

Unsecured

Corporate bond: Australian dollars

Other

Prepaid finance costs

Total non-current interest bearing liabilities

4,846

7,844

—

1,409

40,000

—

—

40,000

(1,603)

(466)

43,243

48,787

* Represents Euro denominated loan of 5.0 million (2018: 7.0 million) measured at the exchange rate prevailing at balance date.

(c) Significant accounting policies

Borrowings are initially measured at fair value net of transaction costs.

After initial recognition, loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Financial statements

Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

12 Interest bearing liabilities (continued)

(d) Interest bearing liabilities - facility details

Facility details

2019

Secured

Overdraft facility

9,788

—

9,788

Export finance facility *

8,076

8,076

—

Equipment financing facility

1,409

1,409

—

Receivables financing facility

40,000

34,556

5,444

Corporate bond

40,000

40,000

—

Unsecured

Other loan

1,314

1,314

—

Total facilities

100,587

85,355

15,232

2018

Secured

Overdraft facility

9,591

—

9,591

Export finance facility *

10,982

10,982

—

Equipment financing facility

4,228

4,228

—

Receivables financing facility

40,000

23,233

16,767

Working capital facility

10,000

10,000

—

Unsecured

Corporate bond

40,000

40,000

—

Other loan

1,186

1,186

—

Total facilities

115,987

89,629

26,358

* Represents the loan measured at the exchange rate prevailing at balance date.

(e) Terms and conditions

Ovato entered into a fully secured \$5 million Australian Dollar and \$5 million New Zealand Dollar Overdraft Facility in February 2016 replacing the previous Overdraft and a Revolving facility. A bank guarantee facility is also provided in conjunction with the overdraft facilities. These facilities have a maturity date of 2 March 2020. ANZ Banking Group is the lender. Security pledged involves a first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and New Zealand. The facilities are subject to a number of financial covenants, including the Ovato Group being measured against a maximum Net Debt/EBITDA ratio and a minimum Fixed Charge Ratio. The facilities are also subject to the warranties and conditions of the agreement, including a requirement to maintain a minimum cash balance in total of \$7.5 million and also a change of control clause.

Ovato issued a secured \$40 million corporate bond on 22 November 2018 replacing the previous unsecured \$40 million bond which has been repaid. This new bond has a fixed coupon of 8.25% per annum and a four year term. It is subject to a number of financial covenants, including the Ovato Group being measured against a maximum lease effected Debt/EBITDA gearing ratio and a minimum debt service ratio. Capital management restrictions also apply which limits payouts on the maximum dividend to be paid in any financial year.

Ovato entered into a Euro 17 million export financing bank loan agreement in February 2013, secured against an offset rotary press. As at 30 June 2019, this loan was fully drawn and after amortisation payments had a balance of Euro 5.0 million. This facility has a maturity date of 30 September 2021 with semi-annual amortisations. The lender is Commerzbank AG. The facility is also subject to the warranties and conditions of the agreement during the term of it.

As a result of the IPMG acquisition, Ovato took on a fully secured amortising \$8.5 million Australian Dollar equipment financing facility. As at 30 June 2019, this loan was fully drawn at \$1.4 million. This facility has a maturity date of 23 November 2019 with semi-annual amortisations. The lender is ANZ Banking Group. The facility is also subject to the warranties and conditions of the agreement during the term of it.

Ovato entered into a \$35 million Australia Dollar Receivables Financing Facility in March 2017. The loan facility amount was increased to \$40 million Australian Dollars as at 31 December 2017. As at 30 June 2019, this loan was drawn to \$34.6 million. ANZ Banking Group is the lender. Security pledged involves a charge over certain receivables of the Print and Marketing Services entities. The facility is also subject to the warranties and conditions of the agreement during the term of the facility. Ovato's Receivables Financing Facility matures on 28 February 2020. Ovato is currently well advanced in negotiations on refinancing this facility with a new lender with a longer maturity profile and additional flexibility on funding. Subsequent, to year end ANZ has increased the overdraft facilities from September 2019.

Ovato entered into an Australian Dollar floating rate export financing bank loan agreement in April 2019, secured against an offset rotary press. As at 30 June 2019, this loan was undrawn and the drawings will occur when shipping of the press commences in early July 2019 with gradual drawdowns over a period of approximately 2 months. This facility has a maturity date of 7 July 2023 with semi-annual amortisations. The lender is Commerzbank AG. The facility is also subject to the warranties and conditions of the agreement during the term of it.

YEAR ENDED 30 JUNE 2019

12 Interest bearing liabilities (continued)

(f) Net debt

Ovato has taken out a cross currency swap to exchange the Euro 5.0 million export financing loan's principal and floating Euro interest payments for an equally valued AUD loan and AUD interest payments. This loan has formed part of the overall Ovato Group debt that is hedged to fixed rates. For the purposes of calculating Ovato's net debt, the hedged fixed rate Australian obligation of the Euro loan of \$6.1 million has been used.

		Ovato Group	
YEAR ENDED 30 JUNE 2019		2019 \$'000	2018 \$'000
Cash		(38,701)	(54,418)
Corporate bond:	Australian dollars	40,000	40,000
Bank loans - working capital facility:	Australian dollars	—	10,000
Bank loans - repayable in Euros - measured at the exchange rate prevailing at balance date		8,076	10,982
Cross currency swap revaluation - adjusted to measure the Euro denominated loan at the hedged fixed rate of the Australian obligation		(1,973)	(2,438)
Equipment financing:	Australian dollars	1,409	4,228
Receivables financing:	Australian dollars	34,556	23,233
Other loan:	Australian dollars	1,314	1,186
Net debt		44,681	32,773

(g) Reconciliation of liabilities arising from financing activities

(g) Reconciliation of liabilities arising from financing activities				Non-cash changes			
		2018	Cash Flows	Other	Foreign Exchange Movement	Fair Value Changes	2019
	NOTES	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Corporate bond	12(b)	40,000	—	—	—	—	40,000
Bank loans - working capital	12(a)	10,000	(10,000)	—	—	—	—
Bank loans - EUR	12(a) & 12(b)	10,982	(2,441)	—	(465)	—	8,076
Equipment financing	12(a) & 12(b)	4,228	(2,819)	—	—	—	1,409
Receivables financing	12(a)	23,233	11,323	—	—	—	34,556
Other	12(a)	1,186	128	—	—	—	1,314
Total current & non-current interest bearing liabilities #		89,629	(3,809)	—	(465)	—	85,355
Asset held to hedge long-term borrowings ##	26(i)	(2,252)	—	—	—	353	(1,899)
Total liabilities from financing activities		87,377	(3,809)	—	(465)	353	83,456

A reconciliation between the opening and closing balances arising from financing activities. This includes changes from cash flows (refer to Consolidated statement of cash flows) and non-cash changes.

Excludes prepaid financing costs as does not form part of cash flow from financing activities reconciliation.

The valuation of the cross currency swap includes foreign exchange and an interest rate component.

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YEAR ENDED 30 JUNE 2019

NOTES

Ovato Group

2019
\$'000

2018
\$'000

13 Provisions

(a) Current provisions

Employee entitlements

27,122

28,155

Other

13(c)

16,050

11,674

Total current provisions

43,172

39,829

Non-current provisions

Employee entitlements

1,800

1,944

Other

13(c)

19,827

19,793

Total non-current provisions

21,627

21,737

Total provisions

64,799

61,566

(b) Significant accounting policies

Provisions are recognised when the Ovato Group has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee entitlements

Provision has been made in the financial statements for benefits accruing to employees in relation to sick leave (where mandatory obligation exists), annual leave, long service leave and workers' compensation. All on-costs, including superannuation, payroll tax, workers' compensation premiums and fringe benefits tax are included in the determination of provisions.

Liabilities arising in respect of wages and salaries, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on corporate bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arise in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits are recognised against profits on a net basis in respective categories.

YEAR ENDED 30 JUNE 2019

13 Provisions (continued)

(c) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Restructure	Make good	Onerous leases & contracts	Lease Incentive	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current						
Carrying amount at 1 July 2018	295	2,499	7,983	487	410	11,674
Charged/(credited) to profit or loss						
- additional provisions recognised	—	2,172	6,084	—	579	8,835
- unused amounts reversed	(295)	(122)	(138)	—	(127)	(682)
- discount unwind	—	189	201	—	—	390
Transfer (to)/from current/non-current	—	1,444	4,618	—	—	6,062
Amounts used during the period	—	(1,708)	(7,942)	(120)	(471)	(10,241)
Net foreign currency translation difference	—	—	—	11	1	12
Carrying amount at 30 June 2019	—	4,474	10,806	378	392	16,050
Non-Current						
Carrying amount at 1 July 2018	—	5,205	13,768	820	—	19,793
Charged/(credited) to profit or loss						
- additional provisions recognised	—	373	5,201	—	—	5,574
- unused amounts reversed	—	—	—	—	—	—
- discount unwind	—	363	483	—	—	846
Transfer (to)/from current/non-current	—	(1,444)	(4,618)	—	—	(6,062)
Amounts used during the period	—	—	—	(395)	—	(395)
Net foreign currency translation difference	—	48	—	23	—	71
Carrying amount at 30 June 2019	—	4,545	14,834	448	—	19,827

YEAR ENDED 30 JUNE 2019

NOTES

		Ovato Group	
		2019 \$'000	2018 \$'000
14 Financial assets and financial liabilities			
Current financial assets			
Forward currency contracts	26(e)(iv)	513	986
Cross currency swaps	26(c)(ii)	692	484
Total current financial assets		1,205	1,470
Non-current financial assets			
Cross currency swaps	26(c)(ii)	1,207	1,768
Total non-current financial assets		1,207	1,768
Total financial assets		2,412	3,238
Current financial liabilities			
Forward currency contracts	26(e)(iv)	144	121
Total current financial liabilities		144	121
Total financial liabilities		144	121

All derivatives designated as effective hedging instruments are carried at fair value.

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

	Number		Ovato Group	
	2019 '000	2018 '000	2019 \$'000	2018 \$'000
YEAR ENDED 30 JUNE 2019				
15 Contributed equity				
Issued and paid up capital				
Movements in ordinary share capital:				
Balance as at 1 July - ordinary shares	510,184	508,028	482,433	481,758
Share movements in respect of:				
- Share-based payments	—	2,156	—	675
- Share issue	221,820	—	15,090	—
Balance at 30 June - ordinary shares	732,004	510,184	497,523	482,433

During the financial year the company undertook a 1 for every 2.3 shares held fully underwritten accelerated pro-rata non-renounceable entitlement offer. On 30 May 2019, 156,709,664 shares were issued at \$0.07 per share under the institutional entitlement. On 14 June 2019, 65,110,974 shares were issued at \$0.07 per share under the retail entitlement.

Transaction costs arising from the institutional and retail entitlement of \$437,000 were accounted for as a deduction from equity during the financial period.

As at 1 December 2017 with the retirement of Mr George, the former MD and CEO, and in accordance with the terms of the Ovato Long Term Incentive Plan and his Employee Service Agreement an early vesting event occurred and 1,456,650 TSR rights vested. The vested rights were settled by the issue of 1,456,650 fully paid ordinary shares.

On 29 August 2017, Ovato issued 699,204 fully paid ordinary shares pursuant to Ovato's Long Term Incentive Plan following the vesting of performance rights to the eligible executives of Ovato.

Ordinary shares have no par value. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

16 Dividends

No dividends were declared or paid during the year ended 30 June 2019 (2018: Nil).

Significant accounting policies

Provision is made for the amount of any dividend declared, being properly authorised and no longer at the discretion of the entity, on or prior to the financial year end but not distributed at balance date.

Due to the statutory loss Ovato has not declared a dividend for the 2019 year (nor paid any interim dividends).

The dividend reserve of Ovato Limited has a balance of \$33.0 million. Refer to Note 29.

YEAR ENDED 30 JUNE 2019

NOTES

Ovato Group

2019
\$'000

2018
\$'000

17 Reserves

Foreign currency translation reserve

Opening balance

9,877

11,150

Movement in reserve relating to:

- Exchange fluctuation on translation of overseas controlled entities

1,654

(1,273)

Total foreign currency translation reserve

11,531

9,877

Share-based payment reserve

Opening balance

257

849

Movement in reserve relating to:

- Share-based payment expense

2(c)

15

83

- Transfer to retained earnings

(272)

—

- Issue of shares on exercise

—

(675)

Total share-based payment reserve

—

257

Cash flow hedge reserve

Opening balance

302

23

Movement in reserve relating to:

- Cash flow hedge

(181)

391

- Tax effect of cash flow hedge

51

(112)

Total cash flow hedge reserve

172

302

Total reserves

11,703

10,436

Nature and purpose of reserves

i. Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

ii. Share-based payment reserve

The share-based payment reserve comprises the fair value of share-based payment plans recognised as an expense in the Consolidated statement of profit or loss. Shares issued in Ovato Limited are charged against the reserve.

iii. Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred. The cumulative deferred net change is recognised in the Consolidated statement of profit or loss when the hedged transaction affects profit or loss or included in the initial cost or other carrying amount of a non-financial asset when the hedged asset is received.

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Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

18 Commitments

The following commitments are not reflected in the balance sheet and are payable as follows:

(a) Capital expenditure (i):

- not later than one year

- later than one year but not later than five years

Total capital expenditure

20,485

—

20,485

4,631

9,166

13,797

(b) Operating lease rentals - Group as lessee (ii):

- not later than one year

- later than one year but not later than five years

- later than five years

Total operating lease rentals

33,206

96,311

973

130,490

38,171

129,224

18,624

186,019

(c) Operating lease rentals - Group as lessor (iii):

- not later than one year

- later than one year but not later than five years

Total operating lease rentals

(2,041)

(9,791)

(11,832)

(2,510)

(2,802)

(5,312)

Total net commitments for expenditure

139,143

194,504

(i) At 30 June 2019 the Group capital expenditure commitments relate to the acquisition of new plant and equipment.

(ii) Operating leases are entered into in the normal course for land and buildings, motor vehicles, computer equipment and plant and machinery. Rental payments are generally fixed, however some agreements contain inflation escalation clauses. No operating leases contain restrictions on financing or other leasing activities.

Includes operating lease commitments for onerous lease contracts recognised in the Consolidated Statement of Financial Position.

The 2018 lease rental commitments include outgoings, whereas the 2019 lease rental commitments exclude outgoings due to a change in accounting policy.

(iii) Operating leases are entered into to sub-lease surplus office space. Rentals include fixed and inflation escalation clauses.

(iv) The company has a number of bank guarantees in place that support various property leases in the name of either Ovato Limited or its subsidiaries.

As at 30 June 2019 the value of bank guarantees was \$16.3 million (2018: \$16.3 million). The company has received guarantees for properties which it sub-leases of \$0.9 million (2018: \$0.1 million).

YEAR ENDED 30 JUNE 2019

19 Controlled entities (d)

	Country of Incorporation	NOTES	Interest held	
			2019 %	2018 %
Pacific Publications Holdings Pty Limited	Australia	(a)	100	100
Attic Futura Pty Limited	Australia	(a)	100	100
Pacific O'Brien Publications Pty Limited	Australia	(a)	100	100
Total Sampling Pty Limited	Australia	(a)	100	100
PMP Publishing Pty Ltd	Australia	(a)	100	100
Ovato Print Pty Ltd (formerly PMP Print Pty Ltd)	Australia	(a)	100	100
PMP Property Pty Limited	Australia	(a)	100	100
PT Pac-Rim Kwartanusa Printing	Indonesia		95	95
PMP Advertising Solutions Pty Limited	Australia	(a)	100	100
PMP Home Media Pty Limited	Australia	(a)	100	100
Shomega Pty Limited	Australia	(a)	100	100
Show-Ads Pty Ltd	Australia	(a)	100	100
Linq Plus Pty Limited	Australia	(a)	100	100
PMP Wholesale Pty Ltd	Australia	(a)	100	100
Ovato Creative Services Clayton Pty Ltd (formerly PMP Digital Pty. Ltd.)	Australia	(a)	100	100
Pacific Intermedia Pty Ltd	Australia	(a)	100	100
The Argus & Australasian Pty Limited	Australia	(a)	100	100
Ovato Retail Distribution Pty Ltd (formerly Gordon and Gotch Australia Pty Limited)	Australia	(a)	100	100
A.C.N. 128 266 268 Pty Limited	Australia	(b)	100	100
Scribo Holdings Pty Ltd	Australia	(b)	100	100
The Scribo Group Pty Ltd	Australia	(b)	100	100
Tower Books Pty Limited	Australia	(b)	100	100
Gary Allen Pty Ltd	Australia	(b)	100	100
ilovemagazines.com.au Pty Ltd	Australia	(a)	100	100
PMP Directories Pty Limited	Australia	(a)	100	100
Argyle Print Pty Ltd	Australia	(b)	100	100
Red PPR Holdings Pty Ltd	Australia	(a)	100	100
Ovato Finance Pty Ltd (formerly PMP Finance Pty Limited)	Australia	(a)	100	100
PMP Share Plans Pty Limited	Australia		100	100
Manningtree Investments Pty Limited	Australia	(a)	100	100
Canberra Press Pty Limited	Australia	(a)	100	100
Ovato NZ Limited (formerly PMP (NZ) Limited)	New Zealand		100	100
Ovato Print NZ Limited (formerly PMP Print Limited)	New Zealand		100	100
PMP Maxum Limited	New Zealand		100	100
Ovato Residential Distribution NZ Limited (formerly PMP Distribution Limited)	New Zealand		100	100
Ovato Retail Distribution NZ Limited (formerly Gordon and Gotch (NZ) Limited)	New Zealand		100	100
PMP Digital Limited	New Zealand		100	100

Footnotes refer to all of Note 19.

- (a) These companies entered into a Deed of Cross Guarantee dated 27 June 2008 with Ovato Limited (formerly PMP Limited) which replaced the previous deed dated 10 June 1992. The deed provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding up of that company. As a result of a Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission, those companies are relieved from the requirement to prepare financial statements.
- (b) On 11 June 2009 these companies were joined as parties to the Deed of Cross Guarantee referred above.
- (c) These Companies were acquired by Ovato (formerly PMP) on 1 March 2017 and were joined on 6 June 2017 as parties to the Deed of Cross Guarantee referred above.
- (d) Notes on the closed group:
 - Ovato Limited is the ultimate parent company of the Ovato Group.
 - All companies have ordinary share capital.

Financial statements

Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

19 Controlled entities (continued)

	Country of Incorporation	NOTES	Interest held	
			2019 %	2018 %
IPMG Holdco Pty Ltd	Australia	(c)	100	100
IPMG Subco Pty Ltd	Australia	(c)	100	100
Propsea Pty Limited	Australia	(c)	100	100
MJV Pty Limited	Australia	(c)	100	100
Tigerstone Pty Limited	Australia	(c)	100	100
KTAR Pty Limited	Australia	(c)	100	100
PMP Subco No.6 Pty Limited	Australia	(c)	100	100
D. Livingstone Pty. Limited	Australia	(c)	100	100
PMP Subco No.2 Pty Limited	Australia	(c)	100	100
PMP Subco No.3 Pty Limited	Australia	(c)	100	100
PMP Subco No.4 Pty Limited	Australia	(c)	100	100
IPMG Pty Limited	Australia	(c)	100	100
Hannan Finance Corporation Pty Limited	Australia	(c)	100	100
IPMG Administration Pty Limited	Australia	(c)	100	100
NDD Distribution Pty Ltd	Australia	(c)	100	100
Southern Independent Publishers Pty Limited	Australia	(c)	100	100
The Federal Publishing Co Pty Ltd	Australia	(c)	100	100
PMP Subco No.1 Pty Limited	Australia	(c)	100	100
IPMG Management (No.2) Pty Ltd	Australia	(c)	100	100
IPMG Digital Pty Ltd	Australia	(c)	100	100
Forty Two International Pty Limited	Australia	(c)	100	100
Holler Australia Pty Ltd	Australia	(c)	100	100
Holler Administration Pty Ltd	Australia	(c)	100	100
IPMG Consulting Pty Limited	Australia	(c)	100	100
Massmedia Studios Pty Ltd	Australia	(c)	100	100
Max Australia Pty Ltd	Australia	(c)	100	100
Ovato Creative Services Pty Ltd (formerly Sinnott Bros Pty Ltd)	Australia	(c)	100	100
Ovato Communications Pty Ltd (formerly Spectrum Communications Group Pty Limited)	Australia	(c)	100	100
Ovato Communications Singapore Pte Ltd (formerly IPMG Singapore Pte Limited)	Singapore		100	100
Spin Comm. Syd. Pty. Ltd	Australia	(c)	100	100
The Gang of 4 Pty Limited	Australia	(c)	100	100
Ovato Technology Pty Ltd (formerly Traction Digital Pty Ltd)	Australia	(c)	100	100
Ovato Technology London Limited (formerly Traction Digital Limited)	United Kingdom		100	100
Ovato Technology Chennai Private Limited (formerly Traction Digital Private Limited)	India		100	100
The Independent Print Media Group Pty Limited	Australia	(c)	100	100
PMP Subco No.5 Pty Limited	Australia	(c)	100	100
Offset Alpine Printing Group Pty Limited	Australia	(c)	100	100
Kierle Investments Pty Ltd	Australia	(c)	100	100
Offset Alpine Printing Pty Limited	Australia	(c)	100	100
Craft Printing Pty Ltd	Australia	(c)	100	100
Hannanprint NSW Pty Limited	Australia	(c)	100	100
Hannanprint Victoria Pty Limited	Australia	(c)	100	100
SYNC Communications Management Pty Limited	Australia	(c)	100	100
Warwick Farm Business Park Pty Ltd	Australia	(c)	100	100
Woodox Pty Ltd	Australia	(c)	100	100
Inprint Pty Limited	Australia	(c)	100	100
Ovato Print Cairns Pty Ltd (formerly Bolton Print Pty Ltd)	Australia	(c)	100	100
Ovato Packaging Pty Ltd (formerly Inpack Pty. Ltd.)	Australia	(c)	100	100
Ovato Creative Services Geebung Pty Ltd (PEP Central Pty Ltd)	Australia	(c)	100	100

YEAR ENDED 30 JUNE 2019

19 Controlled entities (continued)

The aggregate assets, liabilities and net result after income tax of the companies which are parties to the Deed of Cross Guarantees are as follows:

Statement of profit or loss and other comprehensive income of the closed group	Closed Group	
	2019 \$'000	2018 \$'000
Sales revenue	553,272	611,976
Other revenue	14,202	11,216
Revenue	567,474	623,192
Raw materials and consumables used	(209,287)	(226,839)
Cost of finished goods sold	(1,458)	(493)
Employee expenses	(230,425)	(258,097)
Outside production services	(12,462)	(13,445)
Freight	(58,411)	(67,149)
Repairs and maintenance	(12,681)	(16,159)
Occupancy costs	(35,439)	(31,883)
Other expenses	(39,152)	(16,459)
Loss before depreciation, amortisation, finance costs and income tax	(31,841)	(7,332)
Depreciation and amortisation	(24,328)	(25,924)
Loss before finance costs and income tax	(56,169)	(33,256)
Finance costs	(8,964)	(7,295)
Loss before income tax	(65,133)	(40,551)
Income tax expense	(17,685)	(5,051)
Net loss attributable to members of the closed group	(82,818)	(45,602)

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		Closed Group	
		2019 \$'000	2018 \$'000
YEAR ENDED 30 JUNE 2019			
19 Controlled entities (continued)			
Statement of financial position of the closed group			
Current assets			
Cash and cash equivalents		27,324	41,945
Receivables		68,760	78,270
Inventories		84,555	90,863
Financial assets		1,160	1,277
Other		4,285	5,527
Total current assets		186,084	217,882
Non-current assets			
Property, plant and equipment		101,399	130,183
Deferred tax assets		43,553	60,830
Goodwill and intangible assets		37,019	35,698
Financial assets		1,207	1,768
Other		30,318	43,085
Total non-current assets		213,496	271,564
Total assets		399,580	489,446
Current liabilities			
Payables		115,909	133,767
Interest bearing liabilities		39,735	39,899
Financial liabilities		30	97
Provisions		40,204	37,133
Total current liabilities		195,878	210,896
Non-current liabilities			
Interest bearing liabilities		43,243	48,787
Provisions		19,421	20,063
Total non-current liabilities		62,664	68,850
Total liabilities		258,542	279,746
Net assets		141,038	209,700
Equity			
Contributed equity		497,523	482,433
Reserves		181	441
Accumulated losses		(356,666)	(273,174)
Total equity		141,038	209,700

YEAR ENDED 30 JUNE 2019

20 Segmental information

Description of segments

Management has determined the operating segments based on the manner in which the Group is structured and managed by the Executive Management Team ("EMT"). All reports regularly reviewed by the Chief Executive Officer and the EMT are presented on this basis which group similar operations or geographic locations.

The Group adjusted its segment reporting in the year under review due to changes to the way it sells to its customers and a revised management structure. This has resulted in a change to how the group defines its segments. Refer to comments on 'Change in segment reporting' contained in Note 1: Summary of significant accounting policies. The 2018 comparatives have been adjusted to reflect the changes.

Ovato Australia Group includes all of the Print businesses in Australia, Ovato Residential Distribution, Ovato Retail Distribution (formerly Gordon & Gotch Australia), the digital businesses and corporate. Ovato New Zealand Group segment includes all businesses in New Zealand.

Due to the change in segments the operational segment now agrees to the geographic segment and therefore is not shown separately.

Transactions between segments are carried out at arm's length and are eliminated on consolidation.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment for the periods presented:

(a) Operational and Geographic Segments	Ovato Australia Group		Ovato New Zealand Group		Consolidated	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Revenue						
External sales	529,913	585,264	105,876	110,953	635,789	696,217
Freight	25,015	28,615	8,432	9,136	33,447	37,751
Other revenue	9,420	9,300	1,334	1,323	10,754	10,623
Other revenue significant items	—	1,915	—	(11)	—	1,904
Total revenue	564,348	625,094	115,642	121,401	679,990	746,495
EBITDA – before significant items	26,286	30,026	4,561	10,600	30,847	40,626
Depreciation and amortisation	(24,338)	(25,944)	(4,297)	(5,332)	(28,635)	(31,276)
EBIT [^] before significant items	1,948	4,082	264	5,268	2,212	9,350
Significant items before income tax	(51,001)	(38,602)	(11,956)	(757)	(62,957)	(39,359)
Segment EBIT after significant items	(49,053)	(34,520)	(11,692)	4,511	(60,745)	(30,009)
Significant items - Finance costs					(631)	—
Finance costs					(8,415)	(7,449)
Consolidated entity loss before income tax					(69,791)	(37,458)
Income tax expense					(14,460)	(6,337)
Net loss after income tax					(84,251)	(43,795)

~ EBITDA - Profit/(loss) before depreciation, amortisation, finance costs and income tax

[^] EBIT - Profit/(loss) before finance costs and income tax

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20 Segmental information (continued)

	Ovato Australia Group		Ovato New Zealand Group		Consolidated	
(b) Significant items by operating and geographical segments	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Significant items of revenue						
Net gain/(loss) on disposal of plant and equipment	—	1,915	—	(11)	—	1,904
Total segment significant items of revenue	—	1,915	—	(11)	—	1,904
Significant items of expense						
Net loss on disposal of plant and equipment	(688)	—	(61)	—	(749)	—
Restructure initiatives and other one-off costs	(23,083)	(26,341)	(1,606)	(674)	(24,689)	(27,015)
Onerous leases and make good provisions	(13,697)	(9,614)	(786)	—	(14,483)	(9,614)
Relocation of presses	(5,019)	(5,430)	—	(72)	(5,019)	(5,502)
(Impairment)/reversal of plant and equipment due to restructure initiatives	(8,514)	868	(9,503)	—	(18,017)	868
Total segment significant items of expense	(51,001)	(40,517)	(11,956)	(746)	(62,957)	(41,263)
Total segment significant items before income tax	(51,001)	(38,602)	(11,956)	(757)	(62,957)	(39,359)
Significant items - finance costs						
Fee paid for early termination of corporate bond	(400)	—	—	—	(400)	—
Write off of prepaid finance costs	(231)	—	—	—	(231)	—
Total segment significant items - finance costs	(631)	—	—	—	(631)	—

(c) Other segment information

i. Disaggregation of revenue by major product and service offerings

The Group derives revenue at a point in time and over time. Set out below is the disaggregation of the Group's revenue from contracts with customers by operating segment.

	Ovato Australia Group		Ovato New Zealand Group		Consolidated	
Segment Revenue	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Commercial printing, marketing services and residential distribution	446,773	501,431	95,043	98,702	541,816	600,133
Book printing	28,843	27,912	—	—	28,843	27,912
Magazine distribution	54,297	55,921	10,833	12,251	65,130	68,172
Freight	25,015	28,615	8,432	9,136	33,447	37,751
Total sales revenue	554,928	613,879	114,308	120,089	669,236	733,968

ii. Major customers

Included in the Ovato Australia Group and the Ovato New Zealand Group segments are sales revenue of approximately \$133.5 million (13% of Group gross sales) which arose from sales to the Group's largest customer (2018: The sales revenue from this customer was \$155.2 million, 13% of the Group's gross sales).

20 Segmental information (continued)

(d) Significant accounting policies

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. Segment information is presented on the same basis as that used for internal reporting purposes.

21 Pension plans

The Ovato Group contributes to a defined benefit fund and accumulation plans as a consequence of legislation or Trust Deeds. Legal enforceability is dependent upon the terms of the legislation and the Trust Deeds.

Accumulation and defined benefit member accounts are held within the PEP Superannuation Plan which is a sub-plan of the AMP SuperSignature Plan.

Ovato manages superannuation commitments through a Superannuation Policy Committee in conjunction with the trustees of the AMP Superannuation Savings Trust, within which is the AMP SuperSignature Plan. This master trust provides defined benefits based on years of membership and final average salary and accumulation benefits (defined contribution fund). Employees contribute to the plan at various percentages of their wages and salaries.

Employer contributions to superannuation plans in the year ended 30 June 2019 totalled \$11,606,070 (2018: \$12,194,907).

Accumulation funds

Contribution obligations in respect of each accumulation fund for the year to 30 June 2019 was 9.5% (2018: 9.5%) of members' wages or as defined by the Trust Deed.

Defined benefit funds

i. Nature of the benefits provided

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits.

ii. Regulatory framework

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

iii. Governance of the Plan

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The trustee has the following roles:

- administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- management and investment of the Plan assets; and
- compliance with superannuation laws and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licences and supervises regulated superannuation plans.

iv. Risks

There are a number of risks to which the Plan exposes the Company. The more significant risks relating to the defined benefits are:

- **Investment risk** - the risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.
- **Salary growth risk** - the risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk** - the risk is that legislation changes could be made which increase the cost of providing the defined benefits.

The defined benefit assets are invested in the Future Directions Balanced investment option. The assets are diversified within this investment option and therefore the Plan has no significant concentration of investment risk.

v. Description of significant events

There were no Plan amendments affecting the defined benefits payable, curtailments or settlements during the year.

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for the year ended 30 June 2019

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NOTES

Ovato Group

2019
\$'000

2018
\$'000

21 Pension plans (continued)

(a) Statement of financial position impact

Defined benefit obligation		(10,022)	(9,967)
Less: fair value of plan assets		11,549	12,089
Net defined benefit plan asset	7	1,527	2,122

(b) Movement in net defined benefit plan asset

Net defined benefit plan asset at start of year		2,122	1,945
Defined benefit plan cost		(117)	(147)
Remeasurements recognised in other comprehensive income		(642)	145
Employer contributions		164	179
Net defined benefit plan asset	7	1,527	2,122

(c) Reconciliation of the net defined benefit plan asset

Net defined benefit plan asset at start of year		2,122	1,945
Current service cost		(185)	(209)
Net interest		68	62
Actual return on plan assets less interest income		255	516
Actuarial (losses)/gains arising from changes in financial assumptions		(268)	24
Actuarial (losses) arising from liability experience		(629)	(395)
Employer contributions		164	179
Net defined benefit plan asset at end of year	7	1,527	2,122

If a surplus exists in the plan, Ovato Limited expect to be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan's actuary.

Ovato Limited may at any time by notice to the Trustee terminate its contributions. Ovato Limited has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for it to pay any further contributions, irrespective of the financial condition of the plan.

(d) Significant accounting policies

An asset or liability in respect of the defined benefit fund is recognised in the Consolidated statement of financial position, and is measured as the present value of the defined benefit obligation plus unrecognised actuarial gains/losses less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit fund has been determined using the projected unit credit actuarial valuation method. Various assumptions are required when determining the Group's benefit obligation.

Contributions to the defined contribution fund are recognised as an expense as they become payable.

(e) Actuarial assumptions

The principal actuarial assumptions used in determining Ovato's pension obligations are as follows:

Ovato Group

2019
%

2018
%

Discount rate	2.50	3.60
Expected salary increase rate	1.25	1.25

YEAR ENDED 30 JUNE 2019

22 Share-based payment plans

(a) Employee long term incentive plan

Share-based payment transactions are provided to employees via the Ovato employee long term incentive plan ("LTI").

Ordinary shares up to 5.0% (2018: 5.0%) of the total number of ordinary shares on issue may be allotted under the Ovato long term incentive plan.

Total number of employee options/performance rights issued since commencement: 79,363,811

Total number of employee performance rights issued as at balance date: —

Rights on issue (as a percentage of total shares on issue) as at 30 June 2019: 0.00%

Total number of employee performance rights issued during the year: —

Total number of employee performance rights issued post balance date: —

Performance rights

Allotment Date	1/6/2016 (i)	Total Number
On issue at beginning of year	1,815,232	1,815,232
Issued during the year	—	—
Exercised during the year	—	—
Lapsed during the year	(1,815,232)	(1,815,232)
On issue at end of year	—	—
Lapsed subsequent to balance date	—	—
Outstanding at date of Directors' report	—	—
Number of participants (at balance date)	—	
Vesting date (Following the announcement of the)	FY18 results	
Fair value per right - TSR hurdle (ii)	\$0.30	
Fair value per right - EBITDA hurdle (ii)	\$0.48	

- (i) In June 2016, rights to the value of between 15% - 50% of each executive participant's total employment cost were granted to executives. The number of rights granted was determined based on the weighted average share price for the one week period up to grant date (\$0.55).

Performance rights entitle participants to receive Ovato shares at nil cost after vesting. Rights will only vest if relevant performance hurdles are achieved across the following three years FY16, FY17 and FY18 as follows:

- Ovato's Total Shareholder Return ("TSR") over the three year performance period comprising FY16, FY17 and FY18 is measured against a comparator group of ASX listed companies ranked between S&P/ASX 200 to 300 entities. 50% of rights granted are subject to the TSR hurdle. If a rank of less than the 51st percentile is achieved nil vest, if a rank of between the 51st and 75th percentile is achieved 50-100% of rights vest and if a rank of greater than 75th percentile is achieved 100% vest.
- Ovato's Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") over the three year period comprising FY16, FY17 and FY18 is measured against a target for the Ovato Group. 50% of rights granted are subject to an EBITDA hurdle. The number of rights to vest are pro-rated based on a target EBITDA range.

These performance rights lapsed on 30 August 2018, following the announcement of the results for the year ended 30 June 2018. Neither the TSR nor the EBITDA hurdles were met over the three year performance period.

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22 Share-based payment plans (continued)

(a) Employee long term incentive plan (continued)

- (ii) Rights subject to the TSR hurdle have been independently valued using a Monte Carlo simulation and the Black Scholes model has been used to value the rights with a EBITDA performance condition.

The following table lists the inputs to the models used to value the rights granted:

	1/6/2016 - Executives
Dividend yield	6.00%
Expected volatility	40%
Risk-free interest rate	1.60%
Correlation	Historical share prices used to calculate the correlation of returns of Ovato and the constituents of the peer group.
Share price at grant date	\$0.54

The fair value does not contain any discount for forfeiture due to employees leaving before vesting.

(b) Significant accounting policies

The fair value of rights is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the rights. The fair value is determined by an external valuer taking into account the terms and conditions upon which the instruments were granted.

The fair value of the rights excludes the impact of any non-market based vesting conditions. Non-market based vesting conditions are included in assumptions about the number of rights that are expected to ultimately vest. At each balance sheet date, the Ovato Group revises its estimate of the number of rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

No expense is recognised for rights that do not ultimately vest, except for rights where vesting is conditional upon a market condition.

23 Related parties

(a) Key Management Personnel

Details of Key Management Personnel, including remuneration, are included in the section titled "Remuneration Report" included in the Directors' Report.

No Key Management Personnel received or is entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments. Any transactions with Key Management Personnel are made on normal commercial terms and conditions.

(b) Compensation of Key Management Personnel

The aggregate compensation made to Directors and other members of Key Management Personnel of the company and the Group is set out below:

	Ovato Group	
	2019 \$	2018 \$
Short-term employee benefits	2,059,746	2,885,046
Other long-term employee benefits	12,091	301,988
Post employment benefits	109,264	132,750
Termination payments ⁽¹⁾	—	600,000
Share-based payment ⁽²⁾	3,701	60,271
Total compensation	2,184,802	3,980,055

(1) Mr George retired as Managing Director and Chief Executive Officer of Ovato (formerly PMP) on 30/11/17.

(2) This is based on the accrued accounting value in accordance with AASB 2 Share-based payments. All rights valued in accordance with AASB 2 have been independently valued. In accordance with AASB 2 the non-market conditions associated with these rights were not taken into account when estimating the fair value at grant date. Instead, the number of rights expected to eventually vest is re-assessed at the end of each reporting period.

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23 Related parties (continued)

(c) Key Management Personnel shareholdings

This information is disclosed within the "Remuneration Report" included in the Directors' Report.

(d) Transactions with Key Management Personnel and their related parties

A number of Key Management Personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies.

The aggregate value of transactions and outstanding balances related to Key Management Personnel and entities over which they have control or significant influence were as follows:

Director/Executive	Transaction	Payments/(receipts) transaction value for the year ended 30 June		Payable/(receivable) balance outstanding as at 30 June	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
M Hannan	Property leases (i)	9,429 *	10,682 *	—	—
A O'Connor	Property leases (i)	—	10,682 *	—	—
M Hannan	Interest on corporate bond (ii)	248	—	45	—
T Sinclair	Waste removal services (iii)	539	294	42	27
W Tang	Creative services, catalogue printing and distribution (iv)	(4,931)	(8,255)	(242)	(717)
D Karai	Whistleblower reporting service (v)	7	7	—	—

* The 2018 lease expenses include outgoings, whereas the 2019 lease expenses exclude outgoings as a result of a change in accounting policy.

- (i) Mr Hannan is a Non-Executive Director of Ovato Limited and a beneficiary of Rathdrum Property Trust ("RPT"). Mr O'Connor was a Key Management Person during the year ended 30 June 2018. He is also a beneficiary of RPT. Mr O'Connor was not considered a Key Management Person for 2019 due to a change in the internal management reporting structure. Subsidiary companies of Ovato Limited lease some properties from RPT. All leases expire on 30 June 2024. Properties leased are Geebung QLD (Inprint and Ovato Creative Services Geebung), Noble Park VIC (Hannan Print Victoria), Warwick Farm NSW (Hannan Print NSW) and Lidcombe NSW (Offset Alpine). Ovato Group assumed responsibility for these leases when it acquired IPMG on 1 March 2017.
- (ii) Ovato issued a secured \$40 million corporate bond on 22 November 2018. The bond has a fixed coupon of 8.25% per annum and a four year term. Mr Hannan is a Non-Executive Director of Ovato Limited and holds \$5 million of the corporate bond.
- (iii) Mr Sinclair is a Non-Executive Director of Cleanaway Waste Management Limited. He was appointed a Non-Executive Director of Ovato Limited on 10 October 2017. Cleanaway Waste Management Limited provides waste removal services to companies within the Ovato Group. Amounts were billed at normal market rates for such services and payable under normal payment terms. The transaction value disclosed for the year ended 30 June 2018 is from the date of Mr Sinclair's appointment to 30 June 2018.
- (iv) Ms Tang is a Non-Executive Director of JB Hi-Fi Limited. She was appointed a Non-Executive Director of Ovato Limited on 10 October 2017. Ovato Group distributes catalogues for JB Hi-Fi in Australia and prints and distributes catalogues for JB Hi-Fi Ltd in NZ. The Ovato Group provides digital creative services, prints and distributes catalogues for The Good Guys, a subsidiary of JB Hi-Fi Limited. Amounts were charged at normal market rates for such services and receivable under normal credit terms. The transaction value disclosed for the year ended 30 June 2018 is from the date of Ms Tang's appointment to 30 June 2018.
- (v) Ms Karai is a Partner at Grant Thornton Australia. Grant Thornton provides a whistleblower reporting service to Ovato Limited. Amounts were billed at normal market rates for such services and payable under normal payment terms.

During the financial year the following subsidiary companies of Ovato Limited incurred lease expenses in relation to RPT lease commitments.

	2019* \$'000	2018* \$'000
Offset Alpine Printing Pty Limited	2,821	3,194
Hannanprint NSW Pty Limited	3,413	3,946
Hannanprint Victoria Pty Limited	1,008	1,127
Inprint Pty Limited	2,125	2,347
Ovato Creative Services Geebung Pty Ltd (formerly PEP Central Pty Ltd)	62	68
	9,429	10,682

* The 2018 lease expenses include outgoings, whereas the 2019 lease expenses exclude outgoings as a result of a change in accounting policy.

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23 Related parties (continued)

(d) Transactions with Key Management Personnel and their related parties (continued)

The maturity profile of total lease commitments to RPT to 30 June 2024 is as follows:

	2019* \$'000	2018* \$'000
- not later than one year	10,875	10,994
- later than one year but not later than five years	36,547	47,373
- later than five years	—	12,744
	47,422	71,111

* The 2018 lease commitments include outgoings, whereas the 2019 lease commitments exclude outgoings due to a change in accounting policy.

(e) Transactions with related parties in the wholly owned group

Details of controlled entities are set out in Note 19. The entities and Ovato conduct business transactions between themselves. Such transactions include the purchase and sale of goods, services, plant and equipment and the receipt and payment of management fees, dividends and interest. All such transactions are conducted on the basis of normal commercial terms and conditions, have been eliminated on consolidation and are not disclosed in this note.

(f) Transactions with other related parties

There were no transactions with any other related parties of the Ovato Group.

24 Earnings per share

(a) Weighted average number of ordinary shares

Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share

2019 Number '000	2018 Number '000
526,955	509,460

(b) Earnings

Net loss after income tax

Loss used in calculating basic and diluted earnings per share

2019 \$'000	2018 \$'000
(84,251)	(43,795)
(84,251)	(43,795)

		Ovato Group	
		2019	2018
YEAR ENDED 30 JUNE 2019		\$'000	\$'000
NOTES			
25 Cash flow statement notes			
(a) Reconciliation of cash flow from operating activities to operating loss after income tax			
Operating loss after income tax		(84,251)	(43,795)
Adjustments for non-cash items:			
Depreciation	2(e)	28,110	30,696
Amortisation	2(e)	525	580
Impairment/(reversal) of plant and equipment	2(b),2(c)	18,017	(868)
(Credit)/provision for doubtful debts/bad debts written off		(69)	(44)
Movement in provision for tax		3	(24)
Net loss/(gain) on disposal of plant and equipment	2(c)	775	(1,961)
Share-based payment plans	2(c), 17	15	83
Non-cash superannuation expense	21(b)	117	147
Other non-cash items		(761)	(879)
Change in assets and liabilities:			
Accounts receivable	Decrease	10,211	25,400
Inventories	Decrease	2,323	1,815
Liabilities	(Decrease)	(9,217)	(19,760)
Non-current assets	Decrease	14,151	4,304
Provision for employee benefits	(Decrease)	(582)	(2,195)
Prepayments	Decrease	1,410	416
Net cash (used in)/provided by operating activities		(19,223)	(6,085)
		Ovato Group	
		2019	2018
		\$'000	\$'000
(b) Reconciliation of cash and cash equivalents			
NOTES			
Cash and cash equivalents		38,701	54,418
Total cash and cash equivalents		38,701	54,418

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26 Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group.

Categories of financial instrument:

The Group holds the following categories of financial instruments:

		Ovato Group	
	NOTES	2019 \$'000	2018 \$'000
Financial assets			
Cash and cash equivalents	25(b)	38,701	54,418
Trade and other receivables	5	81,783	91,924
Derivative financial instruments	14	2,412	3,238
		122,896	149,580
Financial liabilities			
Trade and other payables	11	143,875	157,502
Interest bearing liabilities	12(a), 12(b)	82,978	88,686
Derivative financial instruments	14	144	121
		226,997	246,309

(a) Significant accounting policies

The Ovato Group trades internationally and uses derivative financial instruments such as forward exchange contracts, interest rate swaps and cross currency swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Derivative financial instruments are initially recognised at cost on the date a derivative contract is entered into and are subsequently re-measured to their fair value.

The fair value of forward exchange contracts is calculated by reference to current forward contracts with similar maturity profiles. The fair value of interest rate swap and cross currency swap contracts are determined by reference to market values for similar instruments.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedge relationship. The Ovato Group policy is to undertake hedging in respect of certain recognised assets or liabilities or a firm commitment (fair value hedge relationships); and for highly probable forecast sales or purchases (cash flow hedge relationships).

The Ovato Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Ovato Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging relationship have been and will continue to be highly effective in offsetting changes in fair values and cash flows of hedged items.

i. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated statement of profit or loss and other comprehensive income.

Amounts accumulated in equity are recycled in the Consolidated statement of profit or loss and other comprehensive income in the periods when the hedged item will affect the profit and loss. However, when the forecast purchase or sale transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included as a basis adjustment to the initial cost or carrying amount of the asset.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

ii. Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Consolidated statement of profit or loss and other comprehensive income.

YEAR ENDED 30 JUNE 2019

26 Financial instruments (continued)

(b) Hedging policy - overview

The economic entity has adopted certain principles in relation to derivative financial instruments:

- a) It does not trade in derivatives that are not used in hedging the underlying business exposure of the economic entity; and
- b) All hedging is undertaken through the Group's central treasury operation and is in accordance with Board approved policies.

(c) Interest Rate Management

The Group enters into fixed rate instruments to manage the cash flow risks associated with the interest rates on borrowings that are floating. Interest rate instruments allow the Group to swap floating rate borrowings into fixed rate borrowings in accordance with the Ovato Group policy. These activities are regularly evaluated to ensure that the Group is not exposed to interest rate movements that could adversely impact its ability to meet financial obligations and to ensure compliance with borrowing covenants.

i. Interest rate risk exposure

The following table sets out the amount of cash, variable rate borrowings, fixed rate borrowings and interest rate contracts outstanding.

	30 June 2019		30 June 2018	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans - AUD floating rate	3.9%	(35,965)	4.7%	(37,461)
Bank loans - AUD fixed rate	7.5%	(1,314)	8.4%	(1,186)
Bank loans - EUR floating rate	2.0%	(8,076)	2.0%	(10,982)
Corporate Bond	8.3%	(40,000)	6.4%	(40,000)
Cross Currency Interest Rate Swaps				
- receive EUR floating rate	1.8%	8,076	1.7%	10,982
- pay AUD floating rate	5.9%	(6,103)	6.1%	(8,544)
Year end borrowing cost (excl. cash, fees & charges)	6.2%	(83,382)	5.7%	(87,191)
Cash and cash equivalents	1.3%	38,701	1.6%	54,418

As at balance date, the Group maintained floating rate borrowings of \$42.1 million (2018: \$46.0 million), that were not hedged by interest rate swaps. The associated interest rate risk is partially mitigated by expected free cash flow and intra-period movements in cash requirements. In 2019, the average borrowing rate excluding capitalised fees and charges was 6.0% (2018: 5.6%).

Ovato Limited's receivables and payables are non-interest bearing. Cash and overdraft amounts are at the floating interest rate applicable to the Ovato Group.

ii. Fair value of cross currency swaps

	NOTES	Ovato Group	
		2019 \$'000	2018 \$'000
Australian Dollar / Euro cross currency interest rate swaps		1,899	2,252
Total fair value of cross currency swaps	14	1,899	2,252

The cross currency swaps convert the Euro denominated floating debt to Australian dollar floating debt and have been designated as cash flow hedges.

At 30 June 2019, a \$6,643 gain has been recorded in the Consolidated statement of profit or loss and other comprehensive income (2018: \$6,061 gain).

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26 Financial instruments (continued)

(d) Liquidity risk management

Liquidity risk is the risk that funds may be insufficient to settle a transaction on the due date, and the Group may be forced to sell financial assets at a value which is below what they are worth.

Ovato manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continually monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

The table below shows the Group's financial liabilities and derivative instruments in relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts shown in the table are the contractual, undiscounted cash flows and include both principal and interest.

30 June 2019		Ovato Group					
		Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years
Interest bearing liabilities		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Corporate Bond	- Australian dollars	40,000	50,622	3,300	6,972	40,350	—
Bank Loans	- Australian dollars	37,279	38,433	38,433	—	—	—
Bank Loans	- Euros	8,076	8,322	3,378	3,312	1,632	—
Cross Currency Swaps - AUD/EURO ⁽¹⁾		(1,899)	(1,688)				
- inflows				(3,356)	(3,296)	(1,629)	—
- outflows				2,746	2,595	1,252	—
Forward FX Contracts							
- inflows		(8)	(809) ⁽²⁾	(809)	—	—	—
- outflows		(361)	56,690 ⁽²⁾	56,690	—	—	—
Prepaid finance costs		(2,377)	—	—	—	—	—
Payables		143,875	143,875	143,875	—	—	—
Total		224,585	295,445	244,257	9,583	41,605	—
30 June 2018		Ovato Group					
		Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years
Interest bearing liabilities		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Corporate Bond	- Australian dollars	40,000	43,858	2,572	41,286	—	—
Bank Loans	- Australian dollars	38,647	39,975	38,500	1,475	—	—
Bank Loans	- Euros	10,982	11,438	3,345	3,281	4,812	—
Cross Currency Swaps - AUD/EURO ⁽¹⁾		(2,252)	(1,785)				
- inflows				(3,318)	(3,270)	(4,812)	—
- outflows				2,930	2,786	3,899	—
Forward FX Contracts							
- inflows		(1)	(673) ⁽²⁾	(673)	—	—	—
- outflows		(864)	35,506 ⁽²⁾	35,506	—	—	—
Prepaid finance costs		(943)	—	—	—	—	—
Payables		157,502	157,502	157,502	—	—	—
Total		243,071	285,821	236,364	45,558	3,899	—

(1) This represents the Australian Dollar equivalents of the interest and principal payments due on the cross currency swap. For the carrying amount, it represents the fair value amount as shown in note 26(c)(ii).

(2) This represents the Australian Dollar equivalents of the foreign currency payment/receipt leg of the forward foreign exchange contracts.

26 Financial instruments (continued)

(e) Foreign exchange management

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's foreign currency exchange risk arises primarily from where the Group has firm commitments or highly probable forecast transactions for receipts and payments that are to be settled in foreign currencies, or where the price is dependant on foreign currencies and also the risk that arises on translation of net investments in foreign operations.

The Group is exposed to foreign exchange risk from various currency exposures, primarily with respect to the New Zealand Dollar, the US Dollar, the Euro and the Great British Pound.

Foreign exchange risk that arises from firm commitments or highly probable transactions are managed primarily through the use of forward foreign currency derivatives. A portion of these transactions are hedged (such as the purchase of paper and ink from various foreign suppliers) in each currency in accordance with the Group's risk management policy.

Foreign exchange risk arises from foreign denominated borrowings. These borrowings are hedged back into the local currency via the use of hedging instruments. This is to ensure that the risk from movements in exchange rates and foreign interest rates are eliminated.

Foreign currency risk also arises on translation of the net assets of Ovato's non-Australian controlled entities which have a different functional currency. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve on translation to Australian Dollars on consolidation.

Where a subsidiary hedges foreign exchange transactions it designates hedging instruments as cash flow hedges as appropriate.

i. Foreign currency borrowings

		Liabilities		Assets	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Euro borrowings		8,076	10,982	—	—
Cross Currency Swap		(8,076)	(10,982)	—	—
		—	—	—	—

ii. Australian entity contracts to exchange foreign currency - relating to receipts and payments

			Average exchange rate		Ovato Group	
			2019 \$	2018 \$	2019 \$'000	2018 \$'000
United States Dollars	- less than one year		0.706	0.792	5,822	9,490
UK Pounds	- less than one year		—	0.561	—	24
UK Pounds receivables	- less than one year		0.546	0.560	(809)	(673)
Euro	- less than one year		0.620	0.631	41,691	19,909
					46,704	28,750

iii. New Zealand entity contracts to exchange foreign currency - relating to payments

			Average exchange rate		NZ Dollars		AUD \$ Equivalent Ovato Group	
			2019 \$	2018 \$	2019 NZD \$'000	2018 NZD \$'000	2019 \$'000	2018 \$'000
United States Dollars	- less than one year		0.671	0.716	5,009	3,197	4,797	2,936
Euro	- less than one year		0.578	0.578	4,575	3,288	4,381	3,019
					9,584	6,485	9,178	5,955

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26 Financial instruments (continued)

(e) Foreign exchange management (continued)

iv. Fair value of forward exchange contracts

	NOTES	Ovato Group	
		2019 \$'000	2018 \$'000
Australian entity - foreign exchange contracts relating to receipts		8	1
Australian entity - foreign exchange contracts relating to payments		430	695
New Zealand entity - foreign exchange contracts relating to payments		(69)	169
Total fair value of forward exchange contracts		369	865
Comprised of:			
Financial assets - current	14	513	986
Financial liabilities - current	14	(144)	(121)
Total fair value of forward exchange contracts		369	865

At 30 June 2019, a \$95,000 debit (2018: \$27,000 debit) has been recognised within the Consolidated statement of profit or loss and other comprehensive income and a \$0.3 million credit, excluding tax effect (2018: \$0.6 million credit) is included within the cash flow hedge reserve in equity. \$43,000 credit was transferred to inventory during the financial year ended 30 June 2019 (2018: \$0.2 million credit).

v. Foreign currency sensitivity risk

The following table shows the effect on equity excluding tax effect as at 30 June from a 10 percent adverse / favourable movement in exchange rates at that date on a total portfolio basis with all other variables held constant, taking into account all underlying exposures and related hedges.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in the Group's foreign currency risk exposure and a worsening in financial position. A favourable movement in exchange rates implies a reduction in foreign currency risk exposure and an improvement in financial position.

A sensitivity of 10 percent has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movement. Comparing the Australian dollar exchange rate against the United States dollar and the Euro and the New Zealand dollar against the United States dollar year end rates would give the following adverse and favourable rates:

	Year end rate	10% rate increase	10% rate decrease
Australia dollar to:			
United States dollar	0.701	0.771	0.637
Euro	0.616	0.677	0.560
New Zealand dollar to:			
United States dollar	0.671	0.738	0.610
Euro	0.590	0.649	0.536

The net gain/(loss) in the cash flow hedge reserve reflects the result of exchange rate movements on the derivatives held in cash flow hedges which will be released to the Consolidated statement of profit or loss and other comprehensive income in the future as the underlying hedged item affects profit.

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26 Financial instruments (continued)

(e) Foreign exchange management (continued)

v. Foreign currency sensitivity risk (continued)

	Ovato Group (cash flow hedge reserve) Equity at 30 June	
	2019 \$000	2018 \$000
If there was a 10% increase in exchange rates with all other variables held constant - (decrease)	(3,560)	(1,562)
If there was a 10% decrease in exchange rates with all other variables held constant - increase	5,100	3,330

The impact on the parent, Ovato Limited, would be \$nil as the entity does not hold forward exchange contracts.

For the Ovato Group, foreign currency translation risk associated with Ovato's foreign investments results in some volatility to the foreign currency translation reserve. The impact on the foreign currency translation reserve relates to the translation of the net assets of foreign currency controlled entities on consolidation.

(f) Credit Risk

Credit risk is the risk that a counterparty will default on their financial obligations resulting in financial loss to the Group. Credit risk exists from cash and cash equivalents, trade and other receivables and derivative financial instruments. The Group's exposure to credit risk arises from the potential default of the counter party, with a maximum exposure equal to the carrying value of these assets net of any provision for doubtful debts (refer to Note 5).

The credit risk on cash and cash equivalents and financial instruments is limited as the counterparties are financial institutions with credit ratings of A- or higher. Also, Ovato has policies that limit the amount of credit exposure to any one financial institution.

Ovato has an approved Credit Policy Manual which provides guidelines for the management of credit risk. This provides guidance for the way in which the credit risk of customers is assessed, and the use of credit risk rating and other information in order to set appropriate trading limits with customers.

In some instances security may be required to be supplied to Ovato from customers to minimise risk. The security is either in the form of Director guarantees for their business which is secured over a residential property or may be an upfront payment of between 75% - 50% of the trade before executing the sale.

(g) Capital management

Ovato Limited's capital management plan over the medium term is to achieve a target capital structure and to optimise financial returns to investors based on the following considerations:

- The capability to service debt and meet financial covenant constraints;
- Delivering a capital structure which meets the Group's cash flow requirements;
- Listed comparables and market expectations; and
- Retaining flexibility for Ovato to pursue attractive investment opportunities including organic growth, acquisitions and shareholder returns.

The group has target gearing levels in the range of:

- Net debt to EBITDA (before significant items) below 1.5 times, and at 30 June 2019 was at 1.4 times
- EBITDA (before significant items) to borrowing costs of greater than 4.0 times, and at 30 June 2019 was at 4.3 times

The company currently seeks to retain flexibility through maintaining a gearing ratio that is either within the lower end or below the range taking into account the earnings of the business over the next 12-24 months. Due to the level of EBITDA and the industry Ovato operates in, we believe that the investors expect Ovato to maintain a lower level of gearing.

(h) Fair values

The fair value of all financial assets and liabilities equates to the carrying value.

Financial statements

Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

26 Financial instruments (continued)

(i) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value.

Ovato Group - 30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	—	369	—	369
Cross Currency Swaps	—	1,899	—	1,899
Total financial derivatives	—	2,268	—	2,268
Ovato Group - 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	—	865	—	865
Cross Currency Swaps	—	2,252	—	2,252
Total financial derivatives	—	3,117	—	3,117

The fair value of financial instruments that are not traded in an active market (for example, derivatives used for hedging) is determined using valuation techniques. Cross currency swaps and forward foreign exchange contracts are valued using a discounted cash flow approach. Future cash flows are estimated based on market forward interest rates (and foreign exchange rates for cross currency swaps and forward foreign exchange contracts) as at the end of the reporting period and the contract rates, discounted at a rate that reflects the credit risk of the various respective counterparties. These instruments are included in Level 2.

(j) Hedge Reserve Reconciliation

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges.

The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

Cash flow hedge reserve Ovato Group - 30 June 2019	Total \$'000	Cross Currency Swaps \$'000	Forward Exchange Contracts \$'000
Opening balance	302	(149)	451
Gain/(Loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:			
Movement			
- Foreign currency basis	(4)	(4)	—
- Other	159	(193)	352
- Tax effect	(50)	59	(109)
Transfer out			
- Foreign currency basis	72	72	—
- Other	(408)	236	(644)
- Tax effect	101	(92)	193
Total cash flow hedge reserve	172	(71)	243

YEAR ENDED 30 JUNE 2019

26 Financial instruments (continued)

(k) Disclosure of amounts related to designated hedging instruments

This table lists the nominal amount, the net carrying amount and hedging effectiveness of the hedging instrument.

	Nominal amount of the Hedging Instrument	Net carrying amount of the Hedging Instrument		Changes in value of Hedging Instrument used for calculating hedge effectiveness
	(\$'000)	Assets (\$'000)	Liabilities (\$'000)	(\$'000)
Cash Flow Hedges				Gain / (Loss)
Foreign Exchange Risk - Committed foreign currency expenditure	55,882	369	—	(496)
Foreign Exchange Risk - Cross Currency Interest Rate Swaps (hedging of foreign currency debt)	8,076	1,899	—	(353)

(l) Disclosure of amounts related to designated hedged items, hedge reserve and hedge ineffectiveness

	Changes in value of hedged item used for calculating hedge effectiveness for 30 June 2019	Cash Flow Hedge Reserve (continuing hedges) at 30 June 2019	Hedge ineffectiveness recognised in profit or loss
Cash Flow Hedges			
Foreign Exchange Risk - Cross Currency Interest Rate Swaps (hedging of foreign currency debt)	1,899	(71)	—

Financial statements

Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

26 Financial instruments (continued)

(m) Amount and timing of future cash flows

	Notional Amounts of the Hedging Instruments (\$'000)				
	0-6 months	7-12 months	1-2 years	2-5 years	Over 5 years
Foreign Exchange Risk (AUD/USD)					
- FX Forwards (hedge committed foreign exchange expenditure)					
Average contracted FX rate	0.7068	0.7045	—	—	—
Notional Amount (A\$'000 Equivalent)	4,899	923	—	—	—
Fair Value (A\$'000 Equivalent)	36	(0.3)	—	—	—
Foreign Exchange Risk (AUD/EUR)					
- FX Forwards (hedge committed foreign exchange expenditure)					
Average contracted FX rate	0.6203	—	—	—	—
Notional Amount (A\$'000 Equivalent)	41,691	—	—	—	—
Fair Value (A\$'000 Equivalent)	394	—	—	—	—
Foreign Exchange Risk (NZD/USD)					
- FX Forwards (hedge committed foreign exchange expenditure)					
Average contracted FX rate	0.6698	0.6740	—	—	—
Notional Amount (A\$'000 Equivalent)	3,660	1,137	—	—	—
Fair Value (A\$'000 Equivalent)	(11)	1	—	—	—
Foreign Exchange Risk (NZD/EUR)					
- FX Forwards (hedge committed foreign exchange expenditure)					
Average contracted FX rate	0.5789	0.5757	—	—	—
Notional Amount (A\$'000 Equivalent)	3,383	998	—	—	—
Fair Value (A\$'000 Equivalent)	(52)	(8)	—	—	—
- Cross Currency interest rate swap (hedging foreign currency debt)					
Average contracted fixed rate	2.0%	2.0%	2.0%	2.0%	—
Notional Amount (A\$'000 Equivalent)	6	5	2	1	—

YEAR ENDED 30 JUNE 2019

27 Contingent liabilities

Contingent liabilities classified in accordance with the party for whom the liability could arise are:

The Company:

- Ovato has guaranteed the debts of certain wholly owned Australian controlled entities in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission, which provides relief from the requirements to prepare, audit and lodge financial statements (refer to Note 19).

Related bodies corporate:

- Ovato has guaranteed the borrowings of Ovato Finance Pty Ltd, Ovato NZ Limited and Hannanprint NSW Pty Limited to facilitate banking arrangements.
- Wholly owned entities in the Ovato Group have provided guarantees to banks, in respect of debt and foreign currency management.
- Entities in the Ovato Group contribute to a number of defined benefit superannuation funds and have undertaken to contribute annually such amounts as the actuaries consider necessary to secure the rights of members.

28 Subsequent events

Other than the refinancing arrangements as set out in Note 12 (e), the Directors are not aware of any matters or circumstance arising since balance date not otherwise dealt with in this report or the financial statements, that has significantly affected or may significantly affect the operations of the Ovato Group, the results of those operations or the state of affairs of the Ovato Group in subsequent years.

29 Parent

As at, and throughout the 2019 financial year, the parent company of Ovato Group was Ovato Limited.

	NOTES	Ovato Limited	
		2019 \$'000	2018 \$'000
Financial performance of the parent			
Loss after tax		(121,732)	(51,565)
Other comprehensive (expense)/income		(449)	101
Total comprehensive loss		(122,181)	(51,464)
Financial position of the parent at year end			
Current assets		57,692	65,879
Non-current assets		105,679	206,859
Total assets		163,371	272,738
Current liabilities		125,872	127,160
Non-current liabilities		244	1,248
Total liabilities		126,116	128,408
Net assets		37,255	144,330
Total equity of the parent comprising of:			
Contributed equity		497,523	482,433
Accumulated losses		(493,256)	(371,348)
Share-based payment reserve		-	257
Dividend reserve *		32,988	32,988
Total equity		37,255	144,330

* During the 2015 financial year, the Directors resolved to create a separate dividend reserve account.

Financial statements

Notes to and forming part of the Financial Statements
for the year ended 30 June 2019

YEAR ENDED 30 JUNE 2019

29 Parent (continued)

	Ovato Limited	
	2019 \$'000	2018 \$'000
Parent capital commitments for acquisition of property, plant and equipment		
Capital expenditure:		
- not later than one year	—	—
Total capital expenditure	—	—
Parent operating commitments for lease rental		
Operating lease rentals – parent as lessee:*		
- not later than one year	2,129	1,814
- later than one year but not later than five years	2,952	2,357
- later than five years	—	—
Total operating lease rentals (lessee)	5,081	4,171
Operating lease rentals – parent as lessor:		
- not later than one year	—	—
- later than one year but not later than five years	—	—
Total operating lease rentals (lessor)	—	—

* The 2018 lease rental commitments include outgoings, whereas the 2019 lease rental commitments exclude outgoings due to a change in accounting policy.

Investment in controlled entities

Ovato Limited has impaired its investment in controlled entities during the year ended 30 June 2019 by \$79.9 million (2018: \$59.8 million).

Parent capital guarantees in respect of debts of certain subsidiaries

The parent has entered into a Deed of Guarantee with subsidiaries whereby in the event of windup of a subsidiary, the parent guarantees debts of that subsidiary. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note 19.

Parent contingent liabilities

There were no contingent liabilities for the year ended 30 June 2019 (2018: \$nil).

Directors' Declaration

for the year ended 30 June 2019



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In accordance with a resolution of the Directors of Ovato Limited, we state that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements are in compliance with the Financial Reporting Standards, as stated in Note 1 to the financial statements;
- (c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001

At the date of this declaration, the company is within the class of companies affected by ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion there are reasonable grounds to believe that the company and the companies to which the ASIC Instrument applies, as detailed in Note 19 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become liable, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors

Matthew Bickford-Smith
Chairman

Kevin Slaven
Chief Executive Officer and Managing Director

Sydney, 13th September 2019



Independent Auditor's Report

For the year ended 30 June 2019

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Independent Auditor's Report to the Members of Ovato Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ovato Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying value of property, plant and equipment and intangible assets including goodwill As disclosed in Notes 8 and 9, at 30 June 2019 the consolidated statement of financial position includes property, plant and equipment of \$113.4 million and goodwill and other intangible assets of \$39.1 million, after recording an impairment loss of \$18.0 million. The evaluation of the recoverable amount of these assets requires significant judgement in respect of the key assumptions such as the 5-year cash flow forecasts, long term growth rate and discount rate.	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none">• evaluating the appropriateness of management's process over the evaluation of the carrying value of property, plant and equipment and intangible assets including goodwill to determine any asset impairments;• assessing the identification of cash generating units, including the allocation of goodwill;• agreeing relevant data to board approved budgets and latest forecasts;• challenging the forecasts by reference to the historical forecasting accuracy of management;• in conjunction with our valuation specialists we assessed and challenged:<ul style="list-style-type: none">◦ the key assumptions for long term growth in the forecast cash flows by comparing them to historical results and industry forecasts;◦ the discount rate applied by comparing to an independently determined discount rate;• performing sensitivity analysis in relation to key assumptions including cash flow forecasts and discount rate;• testing, on a sample basis, the mathematical accuracy of the cash flow models; and• assessing the appropriateness of the disclosures included in Notes 8 and 9 to the financial statements.
Recoverability of Deferred Tax Assets relating to carry forward losses As disclosed in Note 10, at 30 June 2019 the Group has recorded a deferred tax asset of \$15.9 million in relation to carry forward tax losses incurred by the Group, after recording an impairment loss of \$19.8 million. Significant judgement is required to assess whether there will be sufficient future taxable profits to utilise the recognised deferred tax assets.	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none">• assessing and challenging management's judgements relating to the recoupment of Australian tax losses and the forecasts of future taxable profit and evaluating the reasonableness of the assumptions underlying the preparation of the taxable income forecasts;



Independent Auditor's Report

For the year ended 30 June 2019

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- assessing that the forecasts used are consistent, to the extent relevant, with those used in the impairment models;
- evaluating whether all losses will remain available indefinitely for offset, subject to continuing to meet the statutory tax tests of continuity of ownership or, failing that the same business test; and
- assessing the appropriateness of the disclosures in Note 10 to the financial statements.

Refinancing interest bearing liabilities

As disclosed in Note 12 the Group has total interest bearing liabilities of \$83.0m, of which \$39.7m is current.

Included in current interest bearing liabilities is a Receivables Financing facility of \$34.6m, due to mature on 28 February 2020.

Subsequent to 30 June 2019, the Group has negotiated an increase to the ANZ overdraft facility of \$8m. As disclosed in Note 12(e), the Group is in advanced negotiations on refinancing the Receivables Financing facility.

The Group is reliant upon these financing facilities to meet its estimated on-going liabilities and obligations. There is significant judgement in management's estimation of cash flow forecasts for FY20.

Our procedures included, but were not limited to:

- reviewing key terms of the increased ANZ overdraft facility and agreeing to financier documentation;
- assessing the status of refinancing arrangements by reviewing correspondence with the proposed financiers of the new Receivables Financing facility;
- evaluating the appropriateness of management's processes over the Group's ability to develop and forecast its short-term cash requirements and the financing required to meet these;
- agreeing relevant cash flow forecast data to Board approved budgets and forecasts;
- challenging the cash flow forecasts by reference to the historical forecasting accuracy and testing on a sample basis, the mathematical accuracy of the cash flow forecast models; and
- assessing the appropriateness of the disclosures in Note 12 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Company Profile, Chief Executive Officer's (CEO) Review and Directors' Report, which we obtained prior to the date of this auditor's report. The Chairman's Review will be included in the annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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When we read the Chairman's Review and if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

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 ability of the Group to continue as a going concern, disclosing, as applicable, matters related 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 has 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 judgement and maintain professional scepticism throughout the audit. We also:

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



Independent Auditor's Report

For the year ended 30 June 2019

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 33 to 41 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Ovato Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JL Gorton

JL Gorton
Partner
Chartered Accountants
Sydney, 13 September 2019

Five Year Summary

For the year ended 30 June 2019



		2015 <a>	2016	2017 <d>, <g>	2018 <h>	2019	% change
		(Restated)					
SALES REVENUE							
Ovato Australia	A\$ mill	392.3	—	—	—	—	—
Print Group Australia <e>, <g>	A\$ mill	—	199.7	309.5	—	—	—
Residential Distribution Australia <g>	A\$ mill	—	—	86.8	—	—	—
Distribution & Marketing Services <e>, <g>	A\$ mill	—	134.9	—	—	—	—
Retail Distribution Australia <g>	A\$ mill	268.5	345.8	—	—	—	—
Marketing Services Australia <g>	A\$ mill	—	—	76.7	—	—	—
Ovato Australia Group	A\$ mill	—	—	—	613.9	554.9	(9.6)
Ovato New Zealand Group	A\$ mill	150.9	135.6	128.8	120.1	114.3	(4.8)
Total Sales Revenue	A\$ mill	811.7	816.0	601.9	734.0	669.2	(8.8)
PROFITABILITY							
Ovato Australia	A\$ mill	41.3	—	—	—	—	—
Print Group Australia <e>, <g>	A\$ mill	—	26.4	16.9	—	—	—
Residential Distribution Australia <g>	A\$ mill	—	—	3.0	—	—	—
Distribution & Marketing Services <e>, <g>	A\$ mill	—	10.6	—	—	—	—
Retail Distribution Australia <g>	A\$ mill	3.5	2.9	—	—	—	—
Marketing Services Australia <g>	A\$ mill	—	—	3.6	—	—	—
Ovato Australia Group	A\$ mill	—	—	—	30.0	26.3	(12.5)
Ovato New Zealand Group	A\$ mill	18.6	15.0	12.4	10.6	4.6	(57.0)
Corporate	A\$ mill	(5.3)	(3.7)	(3.8)	—	—	—
Total EBITDA (before significant items)	A\$ mill	58.1	51.2	32.2	40.6	30.8	(24.1)
Total EBIT (before significant items)	A\$ mill	26.4	23.3	3.7	9.4	2.2	(76.3)
NPAT post significant items	A\$ mill	8.0	0.2	(126.4)	(43.8)	(84.3)	—
Ovato Australia EBITDA*/sales	%	10.5	—	—	—	—	—
Print Group Australia EBITDA*/sales	%	—	13.2	5.5	—	—	—
Residential Distribution Australia EBITDA*/sales	%	—	—	3.5	—	—	—
Distribution & Marketing Services EBITDA*/sales	%	—	7.9	—	—	—	—
Retail Distribution Australia EBITDA*/sales	%	1.3	0.8	—	—	—	—
Marketing Services Australia EBITDA*/sales	%	—	—	4.7	—	—	—
Ovato Australia Group EBITDA*/sales	%	—	—	—	4.9	4.7	—
Ovato New Zealand Group EBITDA*/sales	%	12.3	11.1	9.6	8.8	4.0	—
Total EBITDA*/sales	%	7.2	6.3	5.4	5.5	4.6	—
OTHER							
Net cash (used in)/provided by operating activities	A\$ mill	33.2	32.0	(12.5)	(6.1)	(19.2)	—
Earnings per ordinary share (basic)	cents	2.5	0.1	(33.3)	(8.6)	(16.0)	—
Earnings per ordinary share (diluted)	cents	2.5	0.1	(32.9)	(8.6)	(16.0)	—
Dividend per share (paid)	cents	—	 3.0	<f> 2.4	—	—	—
Total assets	A\$ mill	469.5	476.9	570.0	518.3	433.7	(16.3)
Total net debt/(net cash)	A\$ mill	16.3	(0.7)	18.5	32.8	44.7	—
Total shareholders equity	A\$ mill	<a> 270.5	259.4	255.1	210.4	141.9	(32.6)
Net debt/Equity Ratio	%	6.0	—	7.3	15.6	31.5	—
Interest Cover <c>	times	6.5	8.5	6.3	6.0	4.3	(28.2)
Depreciation	A\$ mill	31.0	27.1	27.6	30.7	28.1	8.4
Amortisation	A\$ mill	0.8	0.8	0.9	0.6	0.5	9.5
Capital Expenditure	A\$ mill	5.5	4.2	2.0	9.0	7.8	13.7
Employees Full Time	No.	1,260	1,248	1,980	1,806	1,698	(6.0)

Note:

EBITDA - Earnings before depreciation, amortisation, finance costs and income tax.

EBIT - Earnings before finance costs and income tax.

NPAT - Net profit after tax.

* - Before significant items.

- <a> GST asset \$1.5 million from prior period no longer recoverable. This has been taken as an adjustment to accumulated losses and payables. Comparatives have been restated for 2015.
- Final dividend for the year ended 30 June 2015 of 1.8 cents (50% franked) and interim dividend for the year ended 30 June 2016 of 1.2 cents (unfranked).
- <c> EBITDA before significant items / Interest.
- <d> Includes IPMG result for 4 months to 30 June 2017.
- <e> Ovato Australia business segment separated into Print Group Australia and Distribution and Marketing Services businesses in 2017 with comparables shown for 2016.
- <f> Final dividend for the year ended 30 June 2016 of 2.4 cents (0% franked).
- <g> During 2018, Ovato changed its segment reporting structures due to a change in the internal reporting structure after the acquisition of IPMG Holdco Pty Ltd and its subsidiaries. Marketing Services Australia includes Retail Distribution Australia and the digital businesses. Previously Retail Distribution Australia

was a discrete operating segment and Residential Distribution, Ovato Book Printing and the digital businesses were combined as Distribution and Marketing Services in 2017. Residential Distribution is now a discrete operating segment and Print Group Australia includes Ovato Book Printing. There has been no change to the New Zealand operating segment. Comparatives have been restated for 2017. On 1 July 2017, Ovato Limited adopted AASB 15 Revenue from Contracts with Customers, resulting in a change in accounting policy and a restatement of balances for the year ended 30 June 2017.

<h> During 2019, Ovato changed its segment reporting structures due to a number of changes to the way the Group sells to its customers by making bundled offers under a rebranded company and revised management structure. The Group has combined Marketing Services Australia (includes Retail Distribution and the digital businesses), Residential Distribution Australia, Print Group Australia and Corporate into one discrete segment, Ovato Australia Group. There has been no change to the Ovato New Zealand Group segment. The 2018 comparatives have been restated.

Shareholder information



Alistair Clarkson

B Com LLB MBA ACIS GradDipACG

COMPANY SECRETARY

APPOINTED 24 APRIL 2009

The Ovato Limited Annual General Meeting

will be held at 11.00am on
Thursday 21 November 2019 at:

Deloitte Touche Tohmatsu
Level 9 Grosvenor Place,
225 George Street
Sydney 2000

Details of the business of the meeting are contained in the separate Notice of Meeting sent to shareholders.

ASX Code: OVT

Investor Information

Shareholders requiring information should contact the share registry, or:

Geoff Stephenson
Chief Financial Officer

Telephone: 02 9412 6111

Email: geoff.stephenson@ovato.com.au

Shareholder Details

Ovato shareholders who:

- have changed their name or address
- wish to consolidate two or more separate holdings
- wish to lodge their tax file numbers
- do not wish to receive an Annual Report

should advise Ovato's share registry by completing the relevant forms available from www.computershare.com.au or by telephoning 1300 556 161 to request the appropriate forms.

Alternatively, shareholders can visit <http://www.computershare.com.au/easyupdate/ovt> to update their payment details, shareholder communication elections or Tax File Number or exemption details. Shareholders will need to key in their Holder Identification Number (HIN) if their securities are broker-sponsored and held in CHESS, while shareholders with securities held in an issuer-sponsored sub-register will need to key in their Security Reference Number (SRN).

Tax File Numbers: It is important that Australian resident shareholders have their tax file number or exemption details noted by the share registry. While it is not compulsory to provide a tax file number or exemption details, Ovato is required by law to deduct tax at the top marginal rate from the unfranked part of any dividend paid to Australian resident shareholders who have not supplied these details.

Share Registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

Enquiries within Australia: 1300 556 161

Enquiries outside Australia: +61 3 9415 4000

Website: www.computershare.com

Receive Information by Email

Shareholders can receive notifications about Notice of Meeting and Proxy, Statements, and company announcements, annual and periodic reports and other company information by email.

By registering for this service, shareholders can be kept up to date with significant company announcements as they happen.

To Register Electronically:
Visit <http://www.computershare.com.au/easyupdate/ovt> and follow these easy steps:

Click on Register Your Email Address for shareholder information

Then enter your personal security information:

- Holder Identification Number (HIN) or
- Security Reference Number (SRN)
- Postcode
- Read and agree with the Terms and Conditions

Click on "Next" and follow the prompts

Chief Entity Auditors

Deloitte Touche Tohmatsu

Principal Bankers

ANZ Banking Group Limited
Commerzbank AG

Share register information



Substantial Shareholders of Ordinary Shares (as reported to the ASX)

	Number of Shares	% Voting Power
Michael Hannan, Lindsay Hannan, Sayman Pty Ltd, Adrian O'Connor, Richard O'Connor, James Hannan	372,734,555	50.92%
Allan Gray Investment Management	86,257,644	11.78%
Wentworth Williamson Management	49,872,736	6.81%
Fraser and Neave Limited	39,020,117	5.33%

Twenty Largest Shareholders* as at 28 August 2019

	Number of Shares	% of Total Issued
Mr Lindsay Hannan	105,060,694	14.35%
Citicorp Nominees Pty Ltd	83,408,831	11.39%
Sayman Pty Limited <Lindsay Hannan Family A/C>	80,721,823	11.03%
Mr Michael Ashton Hannan	79,138,104	10.81%
Sandhurst Trustees Ltd <Wentworth Williamson A/C>	53,570,084	7.32%
Mr Adrian Thomas O'Connor	45,991,559	6.28%
Mr Richard Ashton Charles O'Connor	45,991,559	6.28%
J P Morgan Nominees Australia Pty Ltd	24,278,698	3.32%
HSBC Custody Nominees (Australia) Limited	23,507,827	3.21%
Mr James Michael Hannan	15,830,816	2.16%
National Nominees Limited	13,194,102	1.80%
Horrie Pty Ltd <Horrie Superannuation A/C>	10,000,000	1.37%
Hillmorton Custodians Pty Ltd <The Lennox Unit A/C>	5,100,000	0.70%
Mr Gavin Martin Hancock + Mrs Judith Ann Hancock <Hancock Super Fund A/C>	4,796,641	0.66%
Grandlodge Pty Ltd <Arney & Anastasiou Fam A/C>	3,802,891	0.52%
Mr Luke Groves	3,527,190	0.48%
Mr Peter George	2,393,037	0.33%
Kelpador Pty Ltd <Superannuation Fund A/C>	2,357,000	0.32%
Erskine Import Pty Ltd	2,350,000	0.32%
Mr Kenneth Edward Biddick + Mrs Catherine Ann Biddick <Conquest Sports PL S/F A/C>	2,152,174	0.29%
Totals : Top 20 Holders of Fully paid Ordinary Shares	607,173,030	82.95%
Total Remaining Holders Balance	124,831,287	17.05%

*Ungrouped

Distribution of Shareholders as at 31 July 2019

	Number of Shareholders	Number of Shares	% of Issued Capital
1 - 1,000	643	350,541	0.05%
1,001 - 5,000	1,365	3,804,115	0.52%
5,001 - 10,000	372	2,954,394	0.40%
10,001 - 100,000	977	36,644,176	5.01%
100,001 - 9,999,999,999	263	688,251,091	94.02%
Total Number	3,620	732,004,317	100%
Unmarketable Parcels:	2,218	5,532,730	
Shares on issue			732,004,317

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Pyrmont NSW 2009

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