Appendix 4D (rule 4.2A.3)

HALF-YEAR FINANCIAL STATEMENTS
31 December 2019

Results for announcement to the market

Extracts from this report for announcement to the market.

Revenue and net profit

		Percentage Change %		Amount $'000
Sales revenue	up/(down)	(9.4%)	to	328,917
Total revenue	up/(down)	(9.0%)	to	335,458
EBITDA (excluding significant items)	up/(down)	34.3%	to	25,013
EBITDA (including significant items)	up/(down)	-	to	(29,131)
Net loss for the period	up/(down)	-	to	(58,303)

Dividends

No dividend was declared or paid during the half-year ended 31 December 2019.

Brief explanation of results

This is the first set of the Group's financial statements where *AASB 16 Leases* ('AASB 16') has been applied. The modified retrospective approach has been adopted and comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in accumulated losses at 1 July 2019. To enable comparison when providing an explanation of the results for the half-year ended 31 December 2019 adjustments have been made, where appropriate, to exclude the impact of AASB 16.

A statutory net loss of $58.3 million was recorded in the first half of fiscal 2020 up $47.4 million on last year including a net benefit of $0.7 million from adoption of AASB 16. Statutory EBITDA before significant items of $25.0 million is up $6.4 million on the previous corresponding period ('pcp') after an $11.6 million favourable impact from AASB 16.

Group sales in H1 FY20 at $328.9 million was down $34.1 million or 9.4% mainly due to $28.8 million drop in sales at Ovato Australia. EBITDA before significant items and pre AASB 16 was $13.4 million down $5.2 million or 27.9% pcp mostly due to $2.5 million lower earnings at Ovato NZ and $2.7 million reduction at Ovato Australia with lower outcomes at Print and Residential Distribution. Marketing Services and Retail Distribution profits were broadly in line versus last year.

Sales at Ovato Australia at $271.7 million, was $28.8 million or 9.6% lower due to lower Print Australia and Residential Distribution sales.

Ovato Australia EBITDA post AASB 16 was $22.3 million. EBITDA pre AASB 16 and before significant items was $12.4 million down $2.7 million or 18.0% from lower results at Print and Residential Distribution. Marketing Services and Retail Distribution were broadly in line versus last year.

Ovato New Zealand sales at $57.2 million was down $5.3 million or 8.5% on 14.2% lower printing tonnes. EBITDA post AASB 16 and before significant items was $2.8 million. EBITDA pre AASB 16 and before significant items at $1.0 million was down $2.5 million or 70.7% mainly from lower heatset revenues and sheetfed revenues. Higher paper costs were offset by favourable price/mix.

Statutory Cashflow from Operations for H1 FY20 was negative $18.4 million post AASB 16. Pre AASB 16 it was negative $28.0 million with $20.6 million of significant items and higher working capital/onerous lease variances year on year. Net cashflow was negative $46.3 million (including AASB 16 lease principal payments of $9.9 million) with capex at $19.1 million (new press and NSW site consolidation).

Net debt post AASB 16 is $204.6 million. Pre AASB 16, net debt is $90.9 million. Net debt to EBITDA pre AASB 16 and significant items rose from 1.1x to 3.5x.

In H1 FY20 the new Commerzbank A$16.9 million loan was drawn down for the new 80 page press at Warwick Farm. A new A$50 million three year Receivables Financing Facility ("RFF") from Asset Secure replaced the ANZ RFF.

Refer to ASX announcement for further explanation of the group's results.

Net tangible assets per security	December 2019 $	December 2018 $
Net tangible assets per security	0.09	0.31

Details of entities over which control has been gained or lost

There are no entities within the consolidated group over which control has been gained or lost during the period.

Ovato Limited

ABN 39 050 148 644

WE TURN AUDIENCES INTO CUSTOMERS

HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

Ovato Limited

ABN 39 050 148 644

HALF-YEAR FINANCIAL STATEMENTS
31 December 2019

Contents

Directors' Report

For the half-year ended 31 December 2019.

The Board of Directors of Ovato Limited ("Ovato") submit their report including the condensed consolidated statement of financial position of the economic entity ("Group") at 31 December 2019, and related statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the half-year ("the period") then ended and report as follows:

DIRECTORS

The following persons were Directors of Ovato during the half-year and up to the date of this report:

Kevin Slaven

Michael Hannan (appointed Chairman on 19 November 2019)

Dhun Karai

Andrew McMaster

Matthew Bickford-Smith (resigned 19 November 2019)

Terry Sinclair (resigned 19 November 2019)

Wai Tang (resigned 10 September 2019)

REVIEW OF OPERATIONS

This is the first set of the Group's financial statements where *AASB 16 Leases* ('AASB 16') has been applied. The modified retrospective approach has been adopted and comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in accumulated losses at 1 July 2019. To enable comparison when providing an explanation of the results for the half-year ended 31 December 2019 adjustments have been made, where appropriate, to exclude the impact of AASB 16.

Group sales in H1 FY20 at $328.9 million was down $34.1 million or 9.4% mainly due to $28.8 million drop in sales at Ovato Australia. Statutory EBITDA before significant items of $25.0 million is up $6.4 million on the previous corresponding period ('pcp') after an $11.6 million favourable impact from AASB 16. EBITDA before significant items and pre AASB 16 was $13.4 million down $5.2 million or 27.9% pcp mostly due to $2.5 million lower earnings at Ovato NZ and $2.7 million reduction at Ovato Australia with lower outcomes at Print and Residential Distribution. Marketing Services and Retail Distribution profits were broadly in line vs last year.

A statutory net loss of $58.3 million was recorded in the first half of fiscal 2020 up $47.4 million on last year including a net benefit of $0.7 million from adoption of AASB 16.

Sales at Ovato Australia at $271.7 million was $28.8 million or 9.6% lower from lower sales at Print Australia and Residential Distribution. Ovato Australia EBITDA post AASB 16 was $22.3 million. EBITDA pre AASB 16 and before significant items was $12.4 million down $2.7 million or 18.0%.

Ovato New Zealand sales at $57.2 million was down $5.3 million or 8.5% on 14.2% lower printing tonnes. EBITDA post AASB 16 and before significant items was $2.8 million. EBITDA pre AASB 16 and before significant items at $1.0 million was down $2.5 million or 70.7% mainly from lower heatset revenues and sheetfed revenues. Higher paper costs were offset by favourable price/mix.

While volumes for all tier one food & beverage catalogue customers have remained strong year on year, the first half of FY20 has been negatively impacted by greater than expected volume reductions in newspapers and non-food & beverage retail catalogues aligned to subdued retail conditions. The competitive landscape has also been challenging with pricing pressure being experienced in recent tender activity and the incurrence of greater than expected disruption costs associated with the NSW site consolidation to ensure all client demands were met. Similar market conditions were experienced in New Zealand with both volume and price reductions impacting on H1 FY20 results.

The current market conditions confirm the need for our strategy aligned to client focus and operational efficiency. We remain committed to the continual evaluation of the most effective and efficient footprint for our manufacturing operations and in executing the next phase of our strategic priorities of enhancing our capabilities in data and returning to positive cashflow.

Directors' Report (continued)

REVIEW OF OPERATIONS (continued)

The NSW site consolidation progressed well with commissioning of the new 80 page manroland press at Warwick Farm on schedule in November 2019. Moorebank site closed in November 2019 after a number of presses were transferred to Warwick Farm. The cash costs of the project are now projected to be circa $60 million (up $10 million) due to a number of one off operational issues during the press relocations from Moorebank to Warwick Farm and commissioning of the new press that resulted in higher site operational costs mainly around labour. Annualised savings by FY21 are expected to exceed $20 million.

Significant items at $54.3 million is up $46.3 million on last year. It mainly consisted of $35.2 million non-cash impairment of IPMG merger related goodwill, restructure initiatives and other one off costs associated with NSW site consolidation, press relocations from Moorebank to Warwick Farm partially offset by the gain from de-recognition of ROU assets and recognition of finance lease receivable.

Statutory Cashflow from Operations for H1 FY20 was negative $18.4 million post AASB 16. Pre AASB 16 it was negative $28.0 million with $20.6 million of significant items and higher working capital/onerous lease variances year on year. Net cashflow was negative $46.3 million (including AASB 16 lease principal payments of $9.9 million) with capex at $19.1 million (new press and NSW site consolidation).

Net debt post AASB 16 is $204.6 million. Pre AASB 16, net debt is $90.9 million. Net debt to EBITDA before AASB 16 and significant items rose from 1.1x to 3.5x.

In H1 FY20, the new Commerzbank A$16.9 million loan was drawn down for the new 80 page press at Warwick Farm. A new A$50 million three year Receivables Financing Facility ("RFF") from Asset Secure replaced the ANZ RFF.

Refer to Note 1 for further details on the plans to reduce debt levels.

The adoption of AASB 16 has impacted the financial statements and this is outlined in detail in Note 1. Under the previous standard, operating lease expenses were recognised within EBITDA. Under the new standard, lease expenses are recognised in the income statement as depreciation of ROU assets and interest expenses from lease liabilities. This has resulted in a decrease in operating expenses and increases in depreciation and finance costs. Short term, low value, variable leasing costs and non-lease components associated with property continue to be charged against EBITDA.

SUBSEQUENT EVENTS

Apart from the provision of the ANZ Overdraft Facility set out in Note 7(c), 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 Group, the results of those operations or the state of affairs of the Group in subsequent years.

DIVIDENDS

No dividends were declared or paid during the half-year ended 31 December 2019 (2018: Nil).

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 Auditor's Independence Declaration is included on Page 26.

ROUNDING OF AMOUNTS

Pursuant to instrument 2016/191 made by the Australian Securities and Investments Commission, the Company has rounded amounts in this report and the accompanying financial statements to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Directors made pursuant to s306(3) of the Corporations Act 2001.

Michael Hannan
Director and Chairman

Sydney, 28 February 2020

Condensed consolidated statement of profit or loss and other comprehensive income

HALF-YEAR ENDED 31 DECEMBER 2019	NOTES	CONSOLIDATED Half-Year Ended 31 Dec 2019 [1] $'000	Half-Year Ended 31 Dec 2018 $'000
Continuing operations			
Revenues	2(i), 5	**335,458**	368,690
Expenses	2(ii)	**(383,290)**	(372,127)
Loss before finance costs and income tax		**(47,832)**	(3,437)
Finance costs	2(iv)	**(9,169)**	(4,192)
LOSS BEFORE INCOME TAX EXPENSE		**(57,001)**	(7,629)
Income tax expense	3	**(1,302)**	(3,236)
LOSS FOR THE PERIOD		**(58,303)**	(10,865)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plan actuarial loss		**(117)**	(778)
Income tax relating to this item		**35**	233
		(82)	(545)
Items that may be reclassified subsequently to profit or loss			
Exchange gains arising on translation of foreign operations		**129**	1,557
Loss on cash flow hedges taken to equity		**(538)**	(491)
Income tax relating to these items		**159**	139
		(250)	1,205
Other comprehensive (expense)/income for the period (net of tax)		**(332)**	660
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(58,635)**	(10,205)
Basic earnings per share (cents)		**(8.0)**	(2.1)
Diluted earnings per share (cents)		**(8.0)**	(2.1)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share ('000)		**732,004**	510,184

1 The Group has applied *AASB 16 Leases* from 1 July 2019. The modified retrospective approach has been applied and comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in accumulated losses at 1 July 2019. Refer to Changes in Accounting Policies in Note 1.

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 9 to 24.

OVATO

Condensed consolidated statement of financial position

HALF-YEAR ENDED 31 DECEMBER 2019	NOTES	CONSOLIDATED		
		AS AT 31 DEC 2019	AS AT 30 JUNE 2019	AS AT 31 DEC 2018
		$'000	$'000	$'000
CURRENT ASSETS				
Cash and cash equivalents		**18,238**	38,701	43,547
Receivables		**89,742**	81,783	96,284
Inventories		**98,369**	102,692	104,888
Financial assets		**32**	1,205	1,478
Other		**5,041**	4,739	7,067
TOTAL CURRENT ASSETS		**211,422**	229,120	253,264
NON-CURRENT ASSETS				
Property, plant and equipment		**121,579**	113,410	145,099
Right-of-use assets [1]		**68,485**	-	-
Deferred tax assets		**53,797**	48,812	60,107
Goodwill and intangible assets		**3,783**	39,117	39,099
Financial assets		-	1,207	1,612
Other		**11,083**	2,011	1,976
TOTAL NON-CURRENT ASSETS		**258,727**	204,557	247,893
TOTAL ASSETS		**470,149**	433,677	501,157
CURRENT LIABILITIES				
Payables		**138,838**	143,875	158,422
Interest bearing liabilities	7	**5,710**	39,735	5,571
Lease liabilities [1]		**21,341**	-	-
Income tax payable		**10**	8	11
Financial liabilities		**524**	144	423
Provisions		**34,430**	43,172	40,324
TOTAL CURRENT LIABILITIES		**200,853**	226,934	204,751
NON-CURRENT LIABILITIES				
Interest bearing liabilities	7	**100,242**	43,243	79,278
Lease Liabilities [1]		**92,308**	-	-
Provisions		**7,934**	21,627	17,374
TOTAL NON-CURRENT LIABILITIES		**200,484**	64,870	96,652
TOTAL LIABILITIES		**401,337**	291,804	301,403
NET ASSETS		**68,812**	141,873	199,754
EQUITY				
Contributed equity	6	**497,523**	497,523	482,433
Reserves		**11,453**	11,703	11,384
Accumulated losses		**(440,164)**	(367,353)	(294,063)
TOTAL EQUITY		**68,812**	141,873	199,754

1 Balances arise due to adoption of *AASB 16 Leases* from 1 July 2019. The modified retrospective approach has been applied and comparative information has not been restated.

The cumulative effect of applying AASB 16 is recognised in accumulated losses at 1 July 2019. Refer to Note 1 for further transition details.

The statement of financial position is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 9 to 24.

Condensed consolidated statement of cash flows

HALF-YEAR ENDED 31 DECEMBER 2019	NOTES	CONSOLIDATED Half-Year Ended 2019 $'000	Half-Year Ended 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**575,696**	620,507
Payments to suppliers and employees		**(584,926)**	(618,589)
Fee for early termination of corporate bond		**-**	(400)
Interest received		**380**	373
Interest and other costs of finance paid		**(4,430)**	(5,321)
AASB 16 lease interest payments [1]		**(5,120)**	-
Income taxes paid		**(33)**	(22)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		**(18,433)**	(3,452)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(18,868)**	(4,822)
Proceeds from sale of property, plant and equipment		**817**	-
Payments for development and licence costs		**(245)**	(319)
Receipts from subleases, excluding the financing component		**341**	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(17,955)**	(5,141)
CASH FLOWS FROM FINANCING ACTIVITIES			
AASB 16 lease principal payments [1]		**(9,862)**	-
Repayment of receivables financing facility		**(37,696)**	-
Proceeds from receivables financing facility		**48,669**	-
Repayment of corporate bond		**-**	(40,000)
Proceeds from corporate bond		**-**	40,000
Proceeds from close out of cross currency swap		**1,866**	-
Repayment of borrowings		**(4,023)**	(14,122)
Proceeds from borrowings		**16,917**	11,364
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**15,871**	(2,758)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(20,517)**	(11,351)
Add opening cash and cash equivalents brought forward		**38,701**	54,418
Effects of exchange rate changes on cash and cash equivalents		**54**	480
CLOSING CASH AND CASH EQUIVALENTS		**18,238**	43,547

1 The balances arise due to adoption of the new lease accounting standard from 1 July 2019, refer to Note 1 Changes in Accounting Policies for further transition details. In the previous half-year, lease payments formed part of payments to suppliers and employees within operating activities. Under the new standard lease payments are allocated between interest and principal components and classified within operating and financing activities retrospectively.

The statement of cash flows is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 9 to 24.

OVATO

Condensed consolidated statement of changes in equity

HALF-YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED

31 DECEMBER 2019

	Attributable to owners of the Ovato Group					
	Contributed equity $'000	**Accumulated losses $'000**	**Foreign currency translation reserve $'000**	**Share-based payment reserve $'000**	**Cash flow hedge reserve $'000**	**Total equity $'000**
At 1 July 2019	**497,523**	**(367,353)**	**11,531**	**-**	**172**	**141,873**
Change in accounting policy (net of tax) [1]	**-**	**(14,426)**	**-**	**-**	**-**	**(14,426)**
Restated total equity at the beginning of the financial year	**497,523**	**(381,779)**	**11,531**	**-**	**172**	**127,447**
Currency translation differences	**-**	**-**	**129**	**-**	**-**	**129**
Cash flow hedges (net of tax)	**-**	**-**	**-**	**-**	**(379)**	**(379)**
Defined benefit plan (net of tax)	**-**	**(82)**	**-**	**-**	**-**	**(82)**
Total (expense)/income for the period recognised directly in equity	**-**	**(82)**	**129**	**-**	**(379)**	**(332)**
Loss for the period	**-**	**(58,303)**	**-**	**-**	**-**	**(58,303)**
Total comprehensive loss for the period	**-**	**(58,385)**	**129**	**-**	**(379)**	**(58,635)**
At 31 December 2019	**497,523**	**(440,164)**	**11,660**	**-**	**(207)**	**68,812**

31 DECEMBER 2018

	Attributable to owners of the Ovato Group					
	Contributed equity $'000	Accumulated losses $'000	Foreign currency translation reserve $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Total equity $'000
At 1 July 2018	482,433	(282,427)	9,877	257	302	210,442
Change in accounting policy (net of tax) [2]	-	(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	-	-	1,557	-	-	1,557
Cash flow hedges (net of tax)	-	-	-	-	(352)	(352)
Defined benefit plan (net of tax)	-	(545)	-	-	-	(545)
Total income/(expense) for the period recognised directly in equity	-	(545)	1,557	-	(352)	660
Loss for the period	-	(10,865)	-	-	-	(10,865)
Total comprehensive loss for the period	-	(11,410)	1,557	-	(352)	(10,205)
Share-based payments		272	-	(257)	-	15
At 31 December 2018	482,433	(294,063)	11,434	-	(50)	199,754

1 Cumulative effect of the initial application of *AASB 16 Leases* on 1 July 2019, refer to Note 1 Changes in Accounting Policies.

2 Cumulative effect of the initial application of *AASB 9 Financial Instruments* on 1 July 2018.

The statement of changes in equity is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 9 to 24.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS

Statement of compliance

The half-year financial statements are general-purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including *AASB 134 Interim Financial Reporting* and other mandatory professional reporting requirements.

The half-year financial statements do not include all the notes of the type normally included within the annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements.

The half-year financial statements should be read in conjunction with Ovato Limited's annual financial statements for the year ended 30 June 2019 and any public announcements made by Ovato Limited and its controlled entities during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules.

Basis of preparation

The half-year financial statements have been prepared in accordance with the historical cost convention, except for derivative financial instruments that have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

For the purpose of preparing the half-year financial statements, the half-year has been treated as a discrete reporting period.

The accounting policies applied by the Ovato Group in these half-year financial statements are consistent with those applied by the Ovato Group in the 2019 annual financial statements, except for the impact of those described on the following page.

The half-year financial statements have been prepared on the going concern basis, which assumes that the Group will be able to realise its assets and extinguish its liabilities as and when they fall due in the normal course of business.

The Group has incurred additional cost and temporary disruption with the NSW site consolidation project and its financial position during 2019 has also been impacted by lower than expected revenue from its printing operations in Australia and New Zealand arising from pricing pressure in the market and lower than expected volumes in certain sectors. This has been exacerbated by recent unanticipated weakness in the retail conditions.

These factors have resulted in tighter liquidity, higher borrowings and reduced headroom under the Group’s financial covenants. In light of this, the Group has commenced discussions with financiers to adjust existing quarterly covenants to provide sufficient headroom. Current financial forecasts indicate that the Group is unlikely to satisfy the future testing of its lending covenants ratios as they are currently set. The Directors expect the adjusting of the covenants ratios to be agreed before 31 March 2020, being the next covenant testing date.

In addition, the Group has appointed 333 Capital Pty Limited as financial advisors to assist in reducing debt levels. Initiatives being considered include the sale of non-core assets, raising equity, and other strategic options that arise as a result of ongoing rationalisation in the industry. The Directors are confident that upon the completion of a combination of these initiatives, the Group will substantially reduce its debt levels.

However, if the Group is unable to achieve a successful combination of outcomes in relation to the actions set out above, a material uncertainty would exist that may cast significant doubt on the Group’s ability to continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the ordinary course of business and at amounts different to those stated in the half-year financial report.

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

New accounting standards applied for the half-year

The following new standards, amendments to, or interpretation of standards have been issued which applied for the half-year ended 31 December 2019.

	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

Changes in accounting policies

AASB 16 Leases

The Group implemented *AASB 16 Leases* from 1 July 2019. It replaced *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*.

The standard introduces a new definition of leases and a single, on-balance sheet accounting model for lessees. Under the new standard the Group has recognised a right-of-use ('ROU') asset, representing our right to use the underlying asset and a lease liability representing our obligation to make lease payments for certain assets for which we are lessee. The only recognition exceptions are short-term leases and leases of low-value assets. Depreciation of right-of-use assets and interest on the lease liabilities are recognised in the income statement.

The Group leases property, presses, forklifts, motor vehicles, IT and equipment. Previously these leases were classified as operating leases, in accordance with *AASB 117 Leases*. Operating lease payments were expensed to the income statement on a straight-line basis over the life of the lease, and assets and liabilities were recognised only to the extent that there was a timing difference between actual lease payments and the expense recognised. There were no leases previously recorded as finance leases.

AASB 16 has amended the criteria for classification of sub-leases as finance or operating leases by the intermediate lessor. Sub-leases are classified under AASB 16 with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. The Group has some property sub-leases that have been reassessed as finance leases on transition.

i. Transition

The Group adopted the new standard using the modified retrospective approach. Under this approach the cumulative impact of adopting AASB 16 was recognised as an adjustment to opening retained earnings as at 1 July 2019 as shown in the Consolidated statement of changes in equity. Comparative information was not restated to reflect adoption of AASB 16.

The definition of a lease has changed under AASB 16 compared to that under the previous standards. At 1 July 2019, the Group elected to apply the transitional relief to grandfather the definition of a lease for all contracts entered into before 1 July 2019.

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Changes in accounting policies (continued)

AASB 16 Leases *(continued)*

ii. Transition - Leases in which the Group is lessee

On transition, under the modified retrospective approach, the Group had the choice to measure the ROU asset as equal to the lease liability (adjusted for any prepayments or accruals) or calculated retrospectively as if AASB 16 had always applied from the date of lease commencement, discounted using the Incremental Borrowing Rate ('IBR') at transition. This is applied on a lease-by-lease basis.

The Group's opening ROU asset balance for material property leases was measured as if AASB 16 has always been applied. Committed lease payments since commencement of the lease were discounted utilising the Group's IBR at 1 July 2019 for durations equivalent to the remaining lease term. The balance was then reduced for cumulative straight-line depreciation to the date of transition. This approach resulted in an adjustment to opening accumulated losses. All other ROU assets were measured as being equal to the amount of the lease liability on adoption.

The Group's opening lease liabilities balance was calculated as the present value of future lease payments, discounted using IBRs for terms which approximate the remaining lease terms as at the date of transition.

The weighted average IBR applied to lease liabilities on 1 July 2019, was 9.12%.

Practical expedients available under the standard are applied on a lease-by-lease basis. The practical expedients applied by the Group on transition under the modified retrospective approach for leases previously classified as operating leases were as follows:

- The Group excluded any initial direct costs from the measurement of ROU assets at transition where the ROU asset has been calculated as if AASB 16 has always applied.

- The Group used hindsight when determining the lease term where the agreement contained options to extend the lease, and the ROU asset has been calculated as if AASB 16 has always applied.

- The Group did not bring on to the balance sheet leases with a remaining lease term of 12 months or less at 1 July 2019, including options to extend where it is reasonably certain to be exercised. The payments for these leases will continue to be expensed to the income statement on a straight-line basis.

- The Group adjusted the ROU asset carrying amount by the amount of any existing onerous lease provisions as at 1 July 2019. An impairment review was required to be performed on ROU assets at transition. The Group 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 applied a single discount rate to a portfolio of leases with reasonably similar characteristics (economic environment and lease term).

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

On 1 July 2019, some property sub-leases, where the Group is the intermediate lessor, were reclassified as finance leases, resulting in the de-recognition of the ROU asset from the head lease and the recognition of a finance lease receivable. The difference between the two balances was recorded in opening accumulated losses at 1 July 2019. The head lease liability remained unchanged.

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Changes in accounting policies (continued)

AASB 16 Leases *(continued)*

iv. Post 1 July 2019 - Leases in which the Group is lessee

When a contract is entered into, the Group assesses whether it contains a lease based on the new definition under AASB 16. A lease arises when the Group has the right to direct the use of an identified asset which is not substitutable and to obtain substantially all economic benefits from the use of the asset throughout the period of use.

Lease liabilities are recorded at the present value of future lease payments. Future payments comprise fixed payments, variable lease payments linked to an index or rate, extension options expected to be exercised, amounts payable under residual value guarantees less any incentives receivable.

Unless the interest rate implicit in the lease can be readily determined, payments are discounted using the IBR of the lessee. The Group expects to utilise its IBR in most, if not all lease liability computations. The Group uses an IBR that reflects a combination of jurisdiction and lease term.

An interest expense will be recognised over the life of the lease on the lease liabilities in the income statement. The lease liability is increased by the interest cost and decreased by lease payments made.

The lease liability is remeasured when there are changes in future payments arising from a change in rates, index or lease terms from the likelihood of exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the ROU asset, with any excess recognised in the profit or loss.

The lease liability is separately disclosed on the statement of financial position. The liabilities which will be repaid within 12 months are recognised as current and liabilities which will be repaid in excess of 12 months are recognised as non-current.

The Group determines the lease term as the non-cancellable period of a lease together with periods covered by an option to extend or terminate the lease if it is reasonably certain to exercise that option.

In determining the lease term for contracts which include renewal options, management considers all factors and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term, and lease payments for the extension period are only included in the liability if the Group is reasonably certain that it will exercise the option.

On initial recognition, the ROU asset comprises the initial amount of the lease liability, initial direct costs, any lease payments pre-commencement of the lease, less any incentives received and an estimate of makegood obligations.

The ROU asset is subsequently measured under the cost model adjusted for accumulated depreciation, any impairment losses and certain remeasurements of the lease liability.

The ROU asset is depreciated on a straight-line basis over the shorter of the assets useful life, or life of the lease to the income statement.

The Group will assess ROU assets for impairment under *AASB 136 Impairment of Assets.*

The ROU asset is separately disclosed on the statement of financial position.

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

- The Group does not capitalise leases which have a short-term (less than 12 months from commencement) or are low-value (fair value of less than $10,000 to purchase brand new) as a ROU asset and lease liability. The payments for these leases are expensed to the profit or loss as incurred on a straight-line basis. Low-value leases comprise office plant and equipment.

- For lease agreements relating to properties, the Group excludes the non-lease component (i.e. outgoings) from the calculation of the lease liability, and records them separately in the income statement. The standalone outgoings price is separately identified on the invoice. This expedient is not applied to other classes of assets.

- The Group excludes from the measurement of the ROU asset and lease liability, variable lease payments linked to the future use of the leased item. These payments are expensed to the income statement as incurred.

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Changes in accounting policies (continued)

AASB 16 Leases *(continued)*

v. Post 1 July 2019 - Leases in which the Group is intermediate lessor

The Group has entered into lease agreements as an intermediate lessor with respect to some property subleases. The Group determines whether the lease is an operating or finance lease at the inception of the lease. The lease is a finance lease if it transfers substantially all of the risks and rewards of ownership to the lessee. If not, the lease is classified as an operating lease.

Amounts due from lessees under a finance lease are recognised as receivables. The finance lease receivable is calculated as the discounted payments yet to be received. The interest rate implicit in the lease is used to discount the payments, however, if this is not readily determinable the Group's IBR is used. The ROU asset from the head lease is de-recognised. Any difference between the receivable balance and ROU asset is recorded in the income statement. The lease liability under the head lease remains unchanged. Finance income is recognised over the term of the lease, in the income statement.

The income received from operating leases are recognised on a straight-line basis over the lease term.

vi. Financial impacts

The impact on the financial statements at date of transition is summarised below.

	$'000
Balance sheet as at 1 July 2019	
Right-of-use ('ROU') assets	78,989
Lease liabilities	(122,874)
Increase in deferred tax asset (temporary differences)	6,020
Finance lease receivables	4,123
Increase in accumulated losses	14,426

On transition, an impairment review was performed and the carrying value of ROU assets was adjusted by onerous lease contracts. Some sub-leases were reclassified as finance lease receivables at transition and the ROU asset of the head lease was de-recognised.

	$'000
Reconciliation of ROU assets as at 1 July 2019	
ROU assets	100,895
Adjusted by onerous lease contracts and other	(19,033)
De-recognition on recognition of finance lease receivables	(2,885)
Lease payments made before commencement	12
Adjusted ROU assets	78,989

The difference between the ROU asset and lease liability (net of tax) was recognised in accumulated losses, including other adjustments to the balance sheet such as the reversal of the existing straight-line lease incentive provisions under AASB 117. The difference between the ROU asset derecognised and the finance lease receivable for sub-leases, that were reassessed for classification purposes, were recorded in opening accumulated losses at transition.

	$'000
Reconciliation of accumulated losses as at 1 July 2019	
Gross impact from recognising ROU assets and lease liabilities	21,979
Difference between ROU asset and finance lease receivable	(1,238)
Other adjustments	(295)
Tax effect	(6,020)
Adjusted accumulated losses as at 1 July 2019	14,426

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Changes in accounting policies (continued)

AASB 16 Leases *(continued)*

vi. Financial impacts *(continued)*

A reconciliation of total operating lease commitments as at 30 June 2019 (as disclosed in our 2019 annual financial report) to the opening lease liability is shown below:

	$'000
Reconciliation of lease liability at 1 July 2019	
Operating lease commitments at 30 June 2019 under AASB 117	(130,490)
Less: recognition exemption for low-value leases	130
Less: recognition exemption for short-term leases	3,156
Plus: impact of extension options reasonably certain to be exercised	(18,055)
Less: discounting of payments using the IBR at 1 July 2019	22,385
Lease liabilities recognised as at 1 July 2019	(122,874)

Set out below, are the carrying amount of the Group's ROU assets, lease liabilities and finance lease receivables as at 31 December 2019 and the movements during the period:

Balance sheet as at 31 December 2019	ROU Assets $000	Lease Liabilities $000	Finance Lease Receivables $000
As at 1 July 2019	78,989	(122,874)	4,123
Additions	477	(477)	5,435
Lease Modifications and Reassessments	98	(98)	-
Impairment	(250)	-	-
De-recognition of ROU asset on recognition of finance lease receivable	(2,862)	-	-
Depreciation Expense	(8,004)	-	-
Interest Expense	-	(5,120)	-
Interest Income	-	-	238
Payments	-	14,982	-
Receipts	-	-	(579)
Net Foreign Currency Translation Difference	37	(62)	-
As at 31 December 2019	68,485	(113,649)	9,217

The standard increases the Group's net debt due to lease liabilities. There is no material impact on the Group's debt covenants.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Changes in accounting policies (continued)

AASB 16 Leases *(continued)*

vi. Financial impacts *(continued)*

The Group's income statement for the half-year was impacted as follows:

	$'000
Income statement for the half-year ended 31 December 2019	
Operating lease expenses (previous lease accounting)	11,591
Depreciation of ROU assets	(8,004)
Gain on recognition of finance sub-lease receivable	2,573
EBIT	6,160
Net finance costs	(5,120)
EBT	1,040
Income tax expense	(311)
Benefit for the half-year	729

Under the previous standard, operating lease expenses were recognised within EBITDA. Under the new standard, lease expenses are recognised in the income statement as depreciation of ROU assets and interest expenses from lease liabilities. This has resulted in a decrease in operating expenses and increases in depreciation and finance costs. Short-term, low value, variable leasing costs and non-lease components associated with property continue to be charged against EBITDA.

For cash flow statement disclosure purposes, repayments of lease liabilities are separated into a principal portion and interest portion. The principal component of lease payments is reclassified in the statement of cash flows from operating to financing activities. The interest component is separately identified and presented in operating activities. This has led to an increase in net cash flows from operating activities and an increase in net cash outflows from financing activities. The impact of receipts from subleases is immaterial. The net increase/decrease in cash and cash equivalents remains unchanged.

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Other

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to the Group's accounting policies.

Critical accounting estimates, assumptions and judgements

(i) 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.

The deferred tax assets of $7.5 million pertaining to the current half-year's Australian tax loss was not recognised in the financial statements as at 31 December 2019. The timeframe over which Ovato expects to recoup the Australian deferred tax asset of $15 million is around 5 years (6.6 years as at 30 June 2019). Therefore, the Directors believe that the deferred tax asset value is supportable given the level of forecast future tax profits from the 2022 financial year onwards. This position will be reassessed on an ongoing basis.

The New Zealand deferred tax asset value of $1.4 million attributable to tax losses is at this stage expected to be fully recouped over the maximum 6 - 8 year period. This position will be reassessed on an ongoing basis.

In total, Ovato has $107.3 million of tax effected Australian tax losses (including $20 million of tax effected tax losses transferred from IPMG), which haven't been recognised on the balance sheet (gross $357.6 million). Despite the non-recognition of these losses on the balance sheet, the losses will be 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.

(ii) Goodwill, intangible assets, property, plant and equipment

The Group assesses 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. The recoverable amounts of cash generating units have been determined based on either a value in use model or fair value less costs to sell model. These calculations require the use of a number of assumptions and assesses the impact of possible changes in these assumptions.

Based on testing carried out at 31 December 2109, the Ovato Australia cash generating unit impairment analysis showed a deficit. Goodwill of $35.2 million associated with this cash generating unit was impaired at the 31 December 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 $8 million.

While the Print New Zealand/Maxum cash generating unit impairment analysis shows a surplus, 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 NZ$1 million to NZ$3 million.

While the Residential Distribution New Zealand cash generating unit impairment analysis shows a surplus, 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 by approximately NZ$0.2 million to NZ$0.5 million.

Refer to the annual financial statements of Ovato Limited as at 30 June 2019 for further details of these assumptions.

(iii) AASB 16 Leases

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognised.

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Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2019

	NOTES	CONSOLIDATED 2019 $'000	2018 $'000
2. REVENUES AND EXPENSES			
(i) Revenues			
Sales revenue			
External sales		**313,723**	344,376
Freight		**15,194**	18,600
		328,917	362,976
Other revenue			
Interest	2(iv)	**142**	372
Unwind of discount on finance lease receivables	2(iv)	**238**	-
Rental income		**31**	32
Net gain on disposal of property, plant and equipment		**407**	-
Other		**5,723**	5,310
	5	**335,458**	368,690
(ii) Expenses			
Raw materials and consumables		**(130,616)**	(139,942)
Cost of finished goods sold		**(1,877)**	(788)
Employee expenses		**(132,219)**	(142,785)
Outside production services		**(7,144)**	(7,317)
Freight		**(33,831)**	(36,928)
Repairs and maintenance		**(7,542)**	(7,914)
Occupancy costs		**(3,591)**	(14,014)
(Impairment)/Reversal of plant and equipment	2(iii)	**(670)**	1,498
Impairment of goodwill	2(iii)	**(35,203)**	-
Amortisation of intangibles	5	**(387)**	(246)
Depreciation of property, plant and equipment	5	**(10,310)**	(14,481)
Depreciation of right-of-use assets	5	**(8,004)**	-
Net loss on disposal of property, plant and equipment		**-**	(314)
Net impairment losses on financial assets		**(112)**	(490)
Other expenses		**(11,784)**	(8,406)
		(383,290)	(372,127)

(iii) Significant items

Included in net loss before income tax are the following significant items of income and expense:

	NOTES	2019 $'000	2018 $'000
- Gain/(Loss) on sale of assets		**329**	(291)
- Gain on de-recognition of ROU asset and recognition of finance lease receivable		**2,573**	-
- Restructure initiatives and other one off costs including Moorebank site closure		**(17,035)**	(7,892)
- Relocation of presses		**(3,533)**	(653)
- Impairment of goodwill		**(35,203)**	-
- (Impairment)/Reversal of property, plant and equipment		**(670)**	1,498
- (Impairment) of inventory		**(605)**	-
- Loss on cross currency swap realised		**(133)**	-
- Fee for early termination of corporate bond		**-**	(400)
- Write off of prepaid financing costs		**-**	(231)
Net significant expense items (included in net loss before income tax)		**(54,277)**	(7,969)
Tax benefit associated with significant items		**5,714**	2,371
Tax losses not brought to account	3	**(7,484)**	(5,402)
Tax loss adjustment prior year		**127**	75
Tax expense included in net loss after tax		**(1,643)**	(2,956)

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2019 **CONSOLIDATED**

	2019 $'000	2018 $'000

2. REVENUES AND EXPENSES (continued)

(iii) Significant items (continued)

Significant items have been included in the Condensed Statement of Profit or Loss and Other Comprehensive Income within the following categories:

	2019 $'000	2018 $'000
- Other revenue	**2,902**	-
- Raw materials and consumables used	**(1,437)**	(81)
- Cost of finished goods sold	**(605)**	-
- Employee expenses	**(13,332)**	(5,766)
- Freight	**(561)**	(55)
- Repairs and maintenance	**(45)**	(70)
- Occupancy costs	**(55)**	(861)
- Impairment	**(35,873)**	1,498
- Other expenses	**(5,138)**	(2,003)
- Finance costs	**(133)**	(631)
	(54,277)	(7,969)

(iv) Finance costs

	2019 $'000	2018 $'000
Interest expense		
- Bank loans and overdraft	**(3,889)**	(3,511)
- Unwind of discount on long term provisions	**(27)**	(50)
- Interest on lease liabilities	**(5,120)**	-
Total interest expense	**(9,036)**	(3,561)
- Loss on cross currency swap realised	**(133)**	-
- Fee for early termination of corporate bond	**-**	(400)
- Write off of prepaid financing costs	**-**	(231)
Total finance cost	**(9,169)**	(4,192)
Interest received		
- Other corporations and persons	**142**	372
- Unwind of discount on finance lease receivables	**238**	-
Net finance costs	**(8,789)**	(3,820)

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2019 **CONSOLIDATED**

	2019 $'000	2018 $'000
3. INCOME TAX		
(a) Income tax expense		
Loss before income tax	**(57,001)**	(7,629)
Prima facie income tax thereon at 30%	**(17,100)**	(2,289)
Tax effect of non-temporary and other differences:		
Income tax under / (over) provided in previous year	**141**	(162)
Non-deductible items for tax purposes	**10,752**	290
Effect of differences in overseas tax rate	**25**	(5)
Benefit of tax losses not brought to account	**7,484**	5,402
	1,302	3,236
(b) Major component of income tax expense		
Current tax benefit	**(7,832)**	(5,071)
Deferred tax expense	**9,134**	8,307
	1,302	3,236

(c) Tax losses not brought to account

	Gross $'000	Gross $'000
Revenue losses	**357,580**	251,961
Capital losses	**287,956**	287,093

The benefit of these revenue losses has not been brought to account as realisation is not probable. Refer to Note 1 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.

4. CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities classified in accordance with the party for whom the liability could arise are:

Related bodies corporate

- Ovato Limited has guaranteed the borrowings of Ovato Finance Pty Ltd, Ovato NZ Limited and Hannanprint NSW Pty Limited to facilitate group 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.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2019

5. SEGMENT INFORMATION

Description of segments

Management has determined the operating segments based on the manner 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 groups similar operations or geographic locations.

Ovato Australia Group includes all of the Print businesses in Australia, Ovato Residential Distribution, Ovato Retail Distribution, the digital businesses and corporate. Ovato New Zealand Group segment includes all businesses in New Zealand.

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:

Operating and Geographic segments	**Ovato Australia Group**		**Ovato New Zealand Group**		**Consolidated**	
	2019	2018 [1]	**2019**	2018 [1]	**2019**	2018 [1]
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue						
External sales	**260,996**	286,426	**52,727**	57,950	**313,723**	344,376
Freight	**10,672**	13,994	**4,522**	4,606	**15,194**	18,600
Other revenue	**2,934**	5,053	**705**	661	**3,639**	5,714
Other revenue significant item	**2,902**	-	**-**	-	**2,902**	-
Total revenue	**277,504**	305,473	**57,954**	63,217	**335,458**	368,690
EBITDA ~ before significant items	**22,255**	15,115	**2,758**	3,513	**25,013**	18,628
Depreciation and amortisation	**(15,744)**	(12,481)	**(2,957)**	(2,246)	**(18,701)**	(14,727)
EBIT ^ before significant items	**6,511**	2,634	**(199)**	1,267	**6,312**	3,901
Significant items before income tax	**(53,739)**	(6,362)	**(405)**	(976)	**(54,144)**	(7,338)
Segment EBIT ^ after significant items	**(47,228)**	(3,728)	**(604)**	291	**(47,832)**	(3,437)
Significant items - Finance costs					**(133)**	(631)
Finance costs					**(9,036)**	(3,561)
Loss before income tax					**(57,001)**	(7,629)
Income tax expense					**(1,302)**	(3,236)
Net loss after income tax					**(58,303)**	(10,865)

1 :Balances have not been restated upon the initial adoption of AASB 16. The Group has applied *AASB 16 Leases* from 1 July 2019. The cumulative effect of applying AASB 16 is recognised in accumulated losses at 1 July 2019. Refer to Changes in Accounting Policies in Note 1.

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

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

6. CONTRIBUTED EQUITY

	CONSOLIDATED			
	2019 Number '000	2018 Number '000	**2019 $'000**	2018 $'000
Balance as at 1 July	**732,004**	510,184	**497,523**	482,433
Balance as at 31 December	**732,004**	510,184	**497,523**	482,433

7. INTEREST BEARING LIABILITIES

(a) Current interest bearing liabilities	**December 2019 $'000**	June 2019 $'000
Secured		
Bank loans repayable in: Euros #	**3,184**	3,230
Export financing: Australian dollars	**2,115**	-
Equipment financing: Australian dollars	**-**	1,409
Receivables financing: Australian dollars	**-**	34,556
Corporate bond: Australian dollars	**1,250**	-
Other		
Other: Australian dollars	**328**	1,314
Prepaid finance costs	**(1,167)**	(774)
Total current interest bearing liabilities	**5,710**	39,735

(b) Non-current interest bearing liabilities		
Secured		
Bank loans repayable in: Euros #	**3,185**	4,846
Export financing: Australian dollars	**14,802**	-
Receivables financing: Australian dollars	**45,529**	-
Corporate bond: Australian dollars	**38,750**	40,000
Other		
Prepaid finance costs	**(2,024)**	(1,603)
Total non-current interest bearing liabilities	**100,242**	43,243

Represents the Euro denominated loan of 4.0 million at 31 December 2019 measured at the exchange rate prevailing rate at balance date.

7. INTEREST BEARING LIABILITIES (continued)

(c) Terms and conditions

The overdraft facilities that were previously provided by ANZ Banking Group were repaid in full on 17 December 2019. Subsequent to half-year end, a new A$10 million overdraft facility was provided by ANZ Banking Group Ltd with a maturity date of 30 June 2020. A bank guarantee facility continues to be provided in conjunction with the new overdraft facility. Security pledged involves a first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and New Zealand and is further backed by a guarantee from Ovato's major shareholder, the Hannan family. The facilities are subject to a number of financial covenants, including the Ovato Group being measured against a maximum Leased Geared/EBITDA ratio and a minimum Debt Service Ratio. The facilities are also subject to the warranties and conditions of the agreement.

Ovato issued a secured A$40 million corporate bond on 22 November 2018 replacing the previous unsecured A$40 million bond which has been repaid. This 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 loan agreement in February 2013, secured against an offset rotary press. As at 31 December 2019, this loan was fully drawn and after amortisation payments had a balance of Euro 4.0 million. This facility has a maturity date of 30 September 2021 with semi-annual amortisations. The lender is Commerzbank AG. The facility is subject to the warranties and conditions of the agreement during the term of it.

Ovato entered into an Australian Dollar floating rate export financing bank loan agreement in April 2019, secured against an offset rotary press. As at 31 December 2019, this loan was drawn to A$16.9 million. This facility has a maturity date of 7 July 2023 with semi-annual amortisations. The lender is Commerzbank AG. The facility is subject to the warranties and conditions of the agreement during the term of it.

Ovato entered into a A$50 million Receivables Financing Facility in December 2019, replacing the previous A$40 million facility. As at 31 December 2019, this loan was drawn to A$45.5 million. This facility has a maturity date of 16 December 2022. Asset Secure is the lender. Security pledged involves a charge over certain receivables of the Print, Distribution and Marketing Services businesses as well as a first ranking fixed charge over the assets of Ovato. 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. The facility is subject to the warranties and conditions of the agreement during the term of the facility.

(d) Net debt

	December 2019 $'000	June 2019 $'000
Cash	**(18,238)**	(38,701)
Corporate bond: Australian dollars	**40,000**	40,000
Bank Loans repayable in: Euros measured at the exchange rate prevailing at balance date	**6,369**	8,076
Cross currency swap revaluation - adjusted to measure the Euro denominated loan at the hedged fixed rate of the Australian obligation [2]	**-**	(1,973)
Equipment Financing: Australian dollars	**-**	1,409
Export Financing: Australian dollars	**16,917**	-
Receivables Financing: Australian dollars	**45,529**	34,556
Other Loan: Australian dollars	**328**	1,314
Net debt	**90,905**	44,681
Lease Liabilities [1]	**113,649**	-
Net lease adjusted debt	**204,554**	44,681

1 Due to the new lease accounting standard. Refer to Changes in Accounting Policies in Note 1.

2 During the half-year Ovato closed out the cross currency swap which was used to exchange the Euro 4.0 million export financing loan's principal and floating Euro interest payments for an equally valued AUD loan and AUD interest payments.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2019

7. INTEREST BEARING LIABILITIES (continued)

(e) Reconciliation of liabilities arising from financing activities

				Non-cash changes			
	NOTES	**June 2019 $000**	**Cash Flows $000**	**Other $000**	**Foreign Exchange Movement $000**	**Fair Value Changes $000**	**December 2019 $000**
Corporate Bond	7(a) & 7(b)	40,000	**-**	**-**	**-**	**-**	**40,000**
Bank Loans - EUR	7(a) & 7(b)	8,076	**(1,628)**	**-**	**(79)**	**-**	**6,369**
Equipment Financing	7(a)	1,409	**(1,409)**	**-**	**-**	**-**	**-**
Export Financing	7(a) & 7(b)	-	**16,917**	**-**	**-**	**-**	**16,917**
Receivables Financing	7(a) & 7(b)	34,556	**10,973**	**-**	**-**	**-**	**45,529**
Other	7(a)	1,314	**(986)**	**-**	**-**	**-**	**328**
Total current & non-current interest bearing liabilities #		85,355	**23,867**	**-**	**(79)**	**-**	**109,143**
Lease Liabilities [1]		-	**(14,982)**	**128,569**	**62**	**-**	**113,649**
Asset held to hedge long-term borrowings ##		(1,899)	**1,866**	**-**	**-**	**33**	**-**
Total liabilities from financing activities		83,456	**10,751**	**128,569**	**(17)**	**33**	**222,792**

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.

1 Due to the new lease accounting standard. For cash flow statement disclosure purposes repayments of lease liabilities are separated into a principal portion and interest portion. The principal component of lease payments of $9.9 million is reclassified in the statement of cash flows from operating to financing activities. The interest component of $5.1 million is separately identified and presented in operating activities. Refer to Changes in Accounting Policies in Note 1.

[#] 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. This swap was closed out during the half-year.

8. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value measurement principles adopted in this report are consistent with those applied in the Ovato Limited Annual Report for the year ended 30 June 2019.

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level(s) 1 to 3 based on the degree to which the fair value is observable:

- Level 1 quoted prices (unadjusted) in active markets from identical assets or liabilities;
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable for the asset or liability.

	As at 31 December 2019			
	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	**-**	**(492)**	**-**	**(492)**
Total financial derivatives	**-**	**(492)**	**-**	**(492)**

	As at 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

9. SUBSEQUENT EVENTS

Apart from the provision of the ANZ Overdraft Facility set out in Note 7(c), the Directors are not aware of any matters or circumstance arising since 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 Group, the results of those operations or the state of affairs of the Group in subsequent years.

Directors' Declaration

In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors pursuant to s303(5) of the *Corporations Act 2001.*

On behalf of the Board

Michael Hannan
Director and Chairman

Sydney, 28 February 2020

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Ovato Limited
Level 4, 60 Union Street,
Pyrmont NSW 2009

28 February 2020

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 review of the financial statements of Ovato Limited for the half-year ended 31 December 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JLGorton

JL Gorton
Partner
Chartered Accountant

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the Members of Ovato Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Ovato Limited, which comprises the condensed statement of financial position as at 31 December 2019, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 25.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Ovato Limited's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Ovato Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Ovato Limited would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

Conclusion

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

(a) giving a true and fair view of the company's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to the financial report which indicates that for the half-year ended 31 December 2019, the Group incurred a net loss of $58,303,000 and experienced net cash outflows from operating activities of $18,433,000 and investment activities of $17,955,000. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the consolidated entity to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JLGorton

JL Gorton
Partner
Chartered Accountants
Sydney, 28 February 2020