Ovato Limited

ABN 39 050 148 644

Preliminary final report of Ovato Limited

for the year ended 30 June 2020

This preliminary final report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A.

Current reporting period:	Financial year ended 30 June 2020
Previous corresponding period:	Financial year ended 30 June 2019

Contents | Page

The information contained in this report is to be read in conjunction with the last annual report and any announcements made to the market by Ovato Limited during the year.

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www.ovato.com.au

Ovato Limited
ABN 39 050 148 644
Preliminary final report
for the year ending 30 June 2020

Results for announcement to the market

Extracts from this report for announcement to the market.

Revenue, EBITDA and net loss

		Percentage Change %		Amount $'000
Sales revenue	up/(down)	(19.4%)	to	539,270
Revenue	up/(down)	(17.2%)	to	563,230
EBITDA (including significant items) [1]	up/(down)	(23.8%)	to	(39,740)
EBITDA (excluding significant items)	up/(down)	5.1%	to	32,427
Net loss after income tax for the year	up/(down)	(29.1%)	to	(108,750)

1 Refer to Note 2b for details of significant items.

Dividends (Distributions)

No dividend was declared or paid during the year ended 30 June 2020.

Brief explanation of financial results

This is the first set of full year Group financial statements where AASB 16 Leases ("AASB16") 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 for the full year ended 30 June 2020 adjustments have been made, where appropriate to exclude the impact of AASB 16.

A statutory net loss after tax of $108.8M was recorded for the 2020 year up $24.5M on prior period, including a net benefit of AASB 16 of $2.5M. Statutory EBITDA before significant items at $32.4M was up $1.6M on the previous corresponding period ("pcp") after a favourable impact of $23.2M from AASB 16. EBITDA pre AASB 16 and significant items was $9.2M, down 70.0% on pcp.

For the year ended 30 June 2020, Ovato's sales at $539.3M were down $130.0M or 19.4% after a $105.7M sales reduction at Ovato Australia with Print and residential distribution revenues down $97.1M due to substantially lower revenues in the second half mainly from weak retail markets and the onset of COVID-19. In the last 4 months of the year, sales were down $87.2M or 41.3%. EBITDA (before AASB 16 and significant items) at $9.2M is a 70.0% decline year on year. While both Ovato Australia and Ovato NZ benefited from wage subsidies and very tight cost controls they were unable to offset the adverse impact from lower revenues.

Ovato Australia sales at $449.3M were down $105.7M or 19% on the pcp mostly from $77.2M lower print sales, with $48.8M reductions in print catalogues and $28.4M in print magazines & newspapers. While tier 1 food & beverage catalogue sales were consistent pcp in H1 of FY20, sales in H2 fell 21% pcp, however the bigger decline was in non food and beverage catalogues down 43% in H2 pcp. Residential Distribution sales fell 24.8% or $19.9M on lower existing customer volumes as a result of very slow COVID-19 retail conditions.

Ovato Australia statutory EBITDA (before significant items) was $31.2M. EBITDA pre AASB16 and before significant items at $11.5M was down 56.2% or $14.8M due mostly to lower print and residential distribution revenues from weak retail markets and COVID-19 which were partially offset by NSW site consolidation savings, tight cost controls and wage subsidies.

Ovato NZ sales at $90.0M were down $24.3M or 21.3%, with $18.8M lower print sales. Statutory EBITDA (before significant items) at $1.2M was down 73.1%, mostly due to lower print revenues which offset tight cost controls and wage subsidies. EBITDA pre AASB 16 and before significant items was a loss of $2.3M, down $6.9M on pcp.

Statutory cashflow from operations in FY20 was $8.1M post AASB 16. Pre AASB 16 it was negative $8.4M, which is $10.9M better then pcp as favourable working capital offset lower EBITDA. Net debt to EBITDA (before significant items) was up from 1.4x to 7.9x (pre AASB 16). Net debt at June 2020 of $72.9M is $18.0M lower than December 2019 and up $28.2M vs June 2019.
The company entered into a $50.0M Receivables Financing Facility ("RFF") with Asset Secure in November 2019 (which reduced to $39.5M during the year) to replace the ANZ RFF facility. During the year, various waivers were sought and granted from financiers in response to the financial condition of the business. On 31st July 2020, Asset Secure's RFF was replaced by a 3 year $50M RFF facility with Scottish Pacific. ANZ facility expires on 30th September 2020.

Refer to ASX announcements for further explanation of the Group's results.

Net tangible assets per security	2020 $	2019 $
Net tangible assets (including Right-Of-Use Assets) per security	0.02	0.14

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.

Information on audit

This report is based upon accounts that are in the process of being audited.

There are no likely disputes or qualifications to the accounts.

Statement of profit or loss and other comprehensive income

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 [1] $'000	2019 $'000
Continuing operations			
Sales revenue	2(a), 9	**539,270**	669,236
Other revenue and income	2(a), 9	**23,960**	10,754
Raw materials and consumables used		**(210,568)**	(257,788)
Cost of finished goods sold		**(5,125)**	(1,475)
Employee expenses		**(230,592)**	(275,669)
Outside production services		**(12,241)**	(13,417)
Freight		**(59,666)**	(68,807)
Repairs and maintenance		**(12,863)**	(15,203)
Occupancy costs		**(7,770)**	(39,953)
Other expenses		**(64,145)**	(39,788)
Depreciation and amortisation	2(e), 9	**(36,966)**	(28,635)
Finance costs	3	**(18,660)**	(9,046)
Loss before income tax		**(95,366)**	(69,791)
Income tax expense:			
Current tax benefit in respect of the current period		**20,039**	15,810
Deferred tax expense in respect of the current period		**(33,423)**	(30,270)
Income tax expense	4	**(13,384)**	(14,460)
Net loss after income tax		**(108,750)**	(84,251)
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to profit or loss:			
Defined benefit plan actuarial losses		**(447)**	(642)
Income tax relating to items that will not be reclassified subsequently		**134**	193
		(313)	(449)
Items that may be reclassified subsequently to profit or loss:			
Exchange (losses)/gains arising on translation of foreign operations		**(435)**	1,654
Loss on cash flow hedges taken to equity		**(275)**	(181)
Income tax relating to items that may be reclassified subsequently		**83**	51
		(627)	1,524
Other comprehensive (expense)/income for the period (net of tax)		**(940)**	1,075
Total comprehensive loss for the year		**(109,690)**	(83,176)
Basic earnings per share (cents)	10	**(15.0)**	(16.0)
Diluted earnings per share (cents)	10	**(15.0)**	(16.0)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share ('000)	10(a)	**732,004**	526,955
Total significant items	2(b)	**(72,488)**	(63,588)
EBITDA excluding significant items	9(a)	**32,427**	30,847

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.

Statement of financial position

Ovato Limited and its controlled entities
ABN 39 050 148 644

		Ovato Group	
AS AT 30 JUNE 2020	**NOTES**	**2020 $'000**	2019 $'000
Current assets			
Cash and cash equivalents	11(b)	**16,200**	38,701
Receivables		**50,654**	81,783
Inventories		**87,871**	102,692
Financial assets		**80**	1,205
Other		**6,278**	4,739
Total current assets		**161,083**	229,120
Non-current assets			
Property, plant and equipment		**105,952**	113,410
Right-of-use assets [1]		**58,341**	-
Deferred tax assets		**41,559**	48,812
Goodwill and intangible assets		**1,410**	39,117
Financial assets		**-**	1,207
Other		**13,082**	2,011
Total non-current assets		**220,344**	204,557
Total assets		**381,427**	433,677
Current liabilities			
Payables		**131,394**	143,875
Interest bearing liabilities	5(a)	**37,192**	39,735
Lease liabilities [1]		**23,878**	-
Income tax payable		**8**	8
Financial liabilities		**110**	144
Provisions		**29,804**	43,172
Total current liabilities		**222,386**	226,934
Non-current liabilities			
Interest bearing liabilities	5(b)	**48,829**	43,243
Lease Liabilities [1]		**83,776**	-
Provisions		**8,678**	21,627
Total non-current liabilities		**141,283**	64,870
Total liabilities		**363,669**	291,804
Net assets		**17,758**	141,873
Equity			
Contributed equity	6	**497,523**	497,523
Reserves	7	**11,076**	11,703
Accumulated losses		**(490,841)**	(367,353)
Total equity		**17,758**	141,873

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.

Statement of cash flows

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		**1,001,886**	1,185,560
Payments to suppliers and employees		**(986,241)**	(1,195,496)
Government grants received		**9,013**	-
Fee paid for early termination of corporate bond	2(b), 3	**-**	(400)
Interest received		**631**	488
Dividends received		**276**	-
Interest and other costs of finance paid		**(9,033)**	(9,330)
AASB 16 lease interest payments [1]		**(8,386)**	-
Income tax paid		**(57)**	(45)
Net cash flow provided by/(used in) operating activities	11(a)	**8,089**	(19,223)
Cash flows from investing activities			
Payments for property, plant and equipment		**(20,151)**	(7,796)
Payments for development and licence costs		**(393)**	(607)
Proceeds from sale of property, plant and equipment		**1,124**	95
Receipts from subleases, excluding the financing component		**1,243**	-
Net cash flow (used in) investing activities		**(18,177)**	(8,308)
Cash flows from financing activities			
AASB 16 lease principal payments [1]		**(17,698)**	-
Repayment of corporate bond	5(d)	**-**	(40,000)
Proceeds from corporate bond	5(d)	**-**	40,000
Proceeds from close out of cross currency swap		**1,866**	-
Repayments of borrowings		**(17,506)**	(15,260)
Proceeds from borrowings		**21,197**	11,451
Proceeds from issue of shares	6	**-**	15,090
Net cash flow (used in)/provided by financing activities		**(12,141)**	11,281
Net decrease in cash held		**(22,229)**	(16,250)
Cash at the beginning of the financial year		**38,701**	54,418
Effects of exchange rate changes on cash		**(272)**	533
Cash and cash equivalents at the end of the financial year	11(b)	**16,200**	38,701

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 financial 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.

Statement of changes in equity

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2020

	Attributable to equity holders of Ovato Limited					
	Contributed equity $'000	Accumulated losses $'000	Foreign currency translation reserve $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Total equity $'000
Ovato Group						
At 1 July 2018	482,433	(282,427)	9,877	257	302	210,442
Change in accounting policy (net of tax) [1]	-	(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 [2]	15,090	-	-	-	-	15,090
Share-based payments	-	272	-	(257)	-	15
At 30 June 2019	497,523	(367,353)	11,531	-	172	141,873
At 1 July 2019	497,523	(367,353)	11,531	-	172	141,873
Change in accounting policy (net of tax) [3]	-	(14,425)	-	-	-	(14,425)
Restated total equity at the beginning of the financial year	497,523	(381,778)	11,531	-	172	127,448
Currency translation differences	-	-	(435)	-	-	(435)
Cash flow hedges (net of tax)	-	-	-	-	(192)	(192)
Defined benefit plan (net of tax)	-	(313)	-	-	-	(313)
Total (expense)/income recognised directly in equity	-	(313)	(435)	-	(192)	(940)
Loss for the year	-	(108,750)	-	-	-	(108,750)
Total comprehensive (expense)/income for the year	-	(109,063)	(435)	-	(192)	(109,690)
At 30 June 2020	**497,523**	**(490,841)**	**11,096**	**-**	**(20)**	**17,758**

The above table represents the Ovato Group position.

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

2 During the 2019 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.

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

Notes to the financial statements

1 Summary of significant accounting policies

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A.

The financial report does not include all notes of the type normally included within the annual financial report. As a result it should be read in conjunction with the 30 June 2020 annual financial report of Ovato Limited together with any public announcements made by Ovato Limited during the financial year ended 30 June 2020.

Statement of compliance

Compliance with IFRS
The financial statements are presented in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards ("IFRS").

Basis of preparation

During the financial year the Group's financial performance has been adversely impacted by lower than expected revenue from its printing operations in Australia and New Zealand. This has been further exacerbated in the last quarter of the financial year by the impacts of the COVID-19 global pandemic whereby a number of the Group's customers have temporarily ceased the printing or reduced the volume of catalogues printed. In Australia and New Zealand, revenue for the period 1 April 2020 to 30 June 2020 was 48% less than the same period in 2019.

These factors, combined with the expenditure associated with the NSW site consolidation at the end of calendar year 2019, have resulted in tighter liquidity, higher borrowings and reduced headroom under the Group's financial covenants.

The preliminary financial report has 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.

In February 2020, the Group appointed financial advisors to evaluate alternatives targeted at improving its financial and operational position, including deleveraging its balance sheet. Such alternatives could include a combination of asset sales, raising new equity, refinancing debt and strategic cost containment initiatives. Due to the impact on the economic environment of the COVID-19 global pandemic in the last quarter of the financial year, some of these alternatives have not yet been implemented but continue to be evaluated.

Following the onset of COVID-19 global pandemic the Group has taken a number of temporary actions to manage cash flow to offset lower sales revenues and protect liquidity. These include accessing the Australian and New Zealand Government wage subsidies, agreeing new terms with key suppliers including the ATO, rent concessions and standing down staff to lower hours in line with lower revenues.

In light of the uncertainties surrounding the duration and severity of the economic consequences arising from the COVID-19 global pandemic, it is difficult to forecast cashflows for the next 12 months. Notwithstanding these difficulties, management continues to monitor cashflow very closely with a 12-month cash flow forecast and daily cash flow reporting in place. These currently highlight tight liquidity for the foreseeable future resulting in uncertainty as to whether the Group is likely to comply with its lending covenant ratios over the next 12 months. The cash flow forecast includes expected receipt of the Australian Government wage subsidy up until 31 December 2020 and operational and strategic initiatives, which include cost containment initiatives, asset sales and equity raises over the next 12 months. Should a combination of these not be successful in generating forecast cash flows, discussions with financiers would be required to seek waivers for debt covenants and confirm their ongoing support.

As a result of the lower revenues through the COVID-19 global pandemic in the last quarter of the financial year and the uncertainty around the timing and extent of the economic recovery, management has accordingly reflected such uncertainty by reducing forecast cash flows in comparison to prior financial periods, in the impairment assessment for the Non-current assets. Refer to the 2020 annual report for disclosure of the key assumptions made in the impairment assessment. As at 30 June 2020 the net assets of the Group is $17.8 million after the recognition of year end impairments of $18.0 million in respect of Goodwill, Property, Plant and Equipment and Deferred Tax Assets. A negative shift in the forecast cash flows, could result in further impairments and place further pressure on liquidity.

1 Summary of significant accounting policies (continued)

Basis of preparation (continued)

As such the Directors continue, with the assistance of financial advisors, to evaluate alternatives to improve forecast cash flows such as strategic cost containment initiatives, asset sales and raising new equity.

The Directors are confident these actions will be successful. However, in the event the Group is unable to achieve sufficient liquidity from operational and strategic initiatives and meet debt covenants with its financiers, or continues to be adversely impacted by the economic downturn resulting from the COVID-19 global pandemic, 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 other than in the ordinary course of business and at amounts different to those stated in the financial report.

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 2020.

- AASB 16 Leases

- AASB 2020 - 4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions.

- AASB Interpretation 23 Uncertainty over Income Tax Treatments

Change 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 the actual lease payments and 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 Summary of significant accounting policies (continued)

Change 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.

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.

1 Summary of significant accounting policies (continued)

Change in accounting policies (continued)

AASB 16 Leases (continued)

iv. Post 1 July 2019 - Leases in which the Group is lessee *(continued)*

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.

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

1 Summary of significant accounting policies (continued)

Change in accounting policies (continued)

AASB 16 Leases (continued)

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

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	14,425

On transition, the Group applied the practical expedient to adjust the carrying value of ROU assets by the amount of any provision for onerous leases recognised under AASB 137, to approximate impairment as at 1 July 2019. This was an alternative to performing an impairment review. 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	(296)
Tax effect	(6,020)
Adjusted accumulated losses as at 1 July 2019	14,425

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)

1 Summary of significant accounting policies (continued)

Change in accounting policies (continued)

AASB 16 Leases *(continued)*

vi. Financial impacts *(continued)*

Set out below, are the carrying amount of the Group's ROU assets, lease liabilities and finance lease receivables as at 30 June 2020 and the movements during the period:

Balance sheet as at 30 June 2020	ROU Assets $000	Lease Liabilities $000	Finance Lease Receivables $000
As at 1 July 2019	78,989	(122,874)	4,123
Additions	1,358	(1,311)	11,772
Lease Modifications and Reassessments	100	(100)	-
Impairment	(250)	-	-
De-recognition of ROU asset on recognition of finance lease receivable	(5,797)	-	-
Depreciation Expense	(15,804)	-	-
Interest Expense	-	(9,841)	-
Interest Income	-	-	618
Payments	-	26,084	-
Receipts	-	-	(1,722)
Net Foreign Currency Translation Difference	(255)	388	-
As at 30 June 2020	58,341	(107,654)	14,791

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

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

	$'000
Income statement for the year ended 30 June 2020	
Operating lease expenses (previous lease accounting)	23,184
Depreciation of ROU assets	(15,804)
Gain on recognition of finance sub-lease receivable	5,976
EBIT	13,356
Net finance costs	(9,841)
EBT	3,515
Income tax expense	(1,052)
Profit for the year	2,463

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 Summary of significant accounting policies (continued)

Critical accounting estimates, assumptions and judgements

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

In accordance with Ovato policy, impairment testing has been undertaken at 30 June 2020 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. The CGUs remain unchanged from prior year.

Fair value less costs of disposal

The recoverable amount of the CGUs, Ovato Australia and Print Maxum– New Zealand 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 and the impact on them for various sensitivities are disclosed in the table below.

Value in use

The recoverable amount of the CGUs, 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 and the impact on them for various sensitivities are disclosed in the table below.

Impairment

Based on testing carried out at 30 June 2020, the Ovato Australia business unit impairment analysis showed a deficit. Plant and equipment of $6 million associated with this cash generating unit was impaired at 30 June 2020. This is in addition to the $35.2 million of goodwill associated with the cash generating unit that was impaired at 31 December 2019.

The impairment analysis for Ovato Residential Distribution (New Zealand) indicated the carrying value of assets exceeded the recoverable amount. The remaining goodwill associated with this cash generating unit of NZ$2.2 million was therefore impaired at 30 June 2020. The remaining assets associated with the cash generating unit are considered recoverable. The impairment of goodwill means the Group's goodwill balance is nil at 30 June 2020.

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:

- Budgeted EBITDA which is internally approved by senior management. This includes changes in volumes, new business assumptions, the impact of COVID-19 and various cost saving initiatives for various CGU's
- Budgeted capital expenditure
- WACC rates
- Working capital movements

Sensitivities

The valuation continues to be highly sensitive to a range of assumptions particularly given the economic impacts of the COVID-19 pandemic. The impact of changes in key assumptions is shown in the table below. Each change has been calculated in isolation from other changes.

Key Assumption	Assumption	Ovato Australia	Print Maxum NZ
EBITDA	(10%)	$15m - $18m impairment	$2m - $3m impairment
EBITDA	(20%)	$36m - $39m impairment	$6m - $7m impairment
WACC	+0.5%	$0m - $1m impairment	$0m - $1m impairment
Cost Savings	50% of year 1 costs savings deferred to year 2	$0m - $1m impairment	$0m - $1m impairment

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.

Refer to the Annual Report of Ovato Limited as at 30 June 2020 for further details of these assumptions.

Notes to the financial statements

1 Summary of significant accounting policies (continued)

Critical accounting estimates, assumptions and judgements (continued)

(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.

The deferred tax assets of $18 million pertaining to the current financial year Australian tax loss and $2.2 million pertaining to the current New Zealand tax loss was not recognised in the financial statements as at 30 June 2020.

The Directors also decided to reduce the deferred tax asset balance relating to Australian tax losses to $5 million, being an impairment of $10 million included in tax expense for the year to 30 June 2020. 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 $5 million and the New Zealand deferred tax asset of $859,000 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.

Despite the non-recognition of these losses, 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 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 12.

(iv) 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.

Notes to the financial statements

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
2a Revenue and other income			
External sales		**515,172**	635,789
Freight		**24,098**	33,447
Total sales revenue		**539,270**	669,236
Included in loss before income tax are the following items of other revenue:			
Government grants - wage subsidy		**12,172**	-
Recoveries from the manufacturing process		**3,867**	10,159
Dividends		**276**	-
Gain on de-recognition of ROU asset and recognition of finance lease receivable		**5,976**	-
Other income - external		**336**	44
Net gain on disposal of plant and equipment		**501**	-
Rental income		**63**	64
Interest income	3	**151**	487
Unwind of discount on finance lease receivables	3	**618**	-
Total other revenue		**23,960**	10,754
Total revenue and income	9	**563,230**	679,990

		2020 $'000	2019 $'000
2b Significant items			
Included in net loss after income tax are the following significant items of income and expense:			
Net (gain)/loss on disposal of plant and equipment		**(347)**	749
Gain on de-recognition of ROU asset and recognition of finance lease receivable		**(5,976)**	-
Sales rebate		**1,000**	-
Restructure initiatives and other one-off costs including Moorebank site closure		**25,441**	24,689
Onerous leases and make good provisions		**1,326**	14,483
Relocation of presses		**4,219**	5,019
Impairment of goodwill	2(c), 9(b)	**37,244**	-
Impairment of plant and equipment due to restructure initiatives	2(c), 9(b)	**6,670**	18,017
Impairment of inventory		**2,590**	-
Loss on cross currency swap realised	3	**133**	-
Fee for corporate bond covenant waivers	3	**188**	-
Fee paid for early termination of corporate bond	3	**-**	400
Write off of prepaid financing costs	3	**-**	231
Aggregate significant items (included in loss before interest and tax)		**72,488**	63,588
Tax benefit associated with significant items		**10,550**	18,733
Adjustment of prior year losses not recognised to actual		**120**	(270)
Tax losses not brought to account		**(20,239)**	(14,912)
Impairment of deferred tax asset		**(10,000)**	(19,821)
Tax expense		**(19,569)**	(16,270)

Significant items have been included in the Statement of profit or loss and other comprehensive income within the following categories:

		2020	2019
External sales	- Sales rebate	**1,000**	-
Other revenue	- Net gain on sale of equipment	**(347)**	-
	- Net gain on de-recognition of ROU asset and recognition of finance lease receivable	**(5,976)**	-
Raw materials and consumables used		**1,486**	782
Cost of finished goods sold		**2,590**	-
Employee expenses		**20,289**	20,540
Freight		**571**	447
Repairs and maintenance		**136**	186
Occupancy costs		**1,326**	14,483
Other expenses	- Impairment	**43,914**	18,017
	- Legal and professional fees	**2,773**	2,291
	- Relocation of presses	**4,219**	5,019
	- Net loss on disposal of plant and equipment	**-**	749
	- Other expenses	**186**	443
Finance costs		**321**	631
		72,488	63,588

Notes to the financial statements

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
2c Loss before income tax			
Loss before income tax is arrived at after charging/(crediting) the following items:			
Lease rental expenses - operating leases		**8,184**	44,070
Share-based payment plans	7	**-**	15
Net (gain)/loss on disposal of plant and equipment		**(501)**	775
Impairment of plant and equipment	2(b)	**6,670**	18,017
Impairment of goodwill	2(b)	**37,244**	-
Net remeasurement of expected credit loss allowance		**1,734**	89

		2020 $	2019 $
2d Auditors' remuneration			
Auditing the accounts			
Chief entity auditors:	Deloitte Touche Tohmatsu	**554,785**	514,129
Other services			
Deloitte Touche Tohmatsu:	Taxation and related compliance services	**199,752**	204,960
Deloitte Touche Tohmatsu:	Corporate advisory services	**237,115**	-
Total auditors' remuneration		**991,652**	719,089

	2020 $'000	2019 $'000
2e Depreciation and amortisation		
Depreciation		
Leasehold improvements	**1,153**	1,165
Plant and equipment	**19,204**	26,945
Right-of-use assets	**15,804**	-
Total depreciation	**36,161**	28,110
Amortisation		
Development and licence costs	**805**	525
Total amortisation	**805**	525
Total depreciation and amortisation	**36,966**	28,635

		2020 $'000	2019 $'000
3 Finance costs			
Interest expense			
Bank loans and overdraft		**8,369**	7,179
Unwind of discount on long term onerous lease and make good provisions		**129**	1,236
Interest on lease liabilities		**9,841**	-
Total interest expense		**18,339**	8,415
Loss on cross currency swap realised	2(b)	**133**	-
Fee for corporate bond covenant waivers	2(b)	**188**	-
Fee paid for early termination of corporate bond	2(b)	**-**	400
Write off of prepaid financing costs	2(b)	**-**	231
Total finance costs		**18,660**	9,046
Interest income	2(a)	**(151)**	(487)
Unwind of discount on finance lease receivables	2(a)	**(618)**	-
Net finance costs		**17,891**	8,559

YEAR ENDED 30 JUNE 2020	Ovato Group 2020 $'000	2019 $'000
4 Income tax		
(a) Reconciliation of income tax expense		
Loss before income tax	**(95,366)**	(69,791)
Prima facie income tax benefit thereon at 30% (2019: 30%)	**(28,610)**	(20,937)
Tax effect of non-temporary and other differences:		
Effect of differences in overseas tax rate	**185**	235
Income tax under/(over) provided in previous year	**75**	(251)
Non-deductible items for tax purposes	**11,495**	680
Benefit of tax losses not brought to account	**20,239**	14,912
Impairment of deferred tax asset	**10,000**	19,821
Income tax expense attributable to loss	**13,384**	14,460
Major component of income tax expense:		
Current tax benefit	**(20,039)**	(15,810)
Deferred tax expense	**33,423**	30,270
Income tax expense attributable to loss	**13,384**	14,460

(b) Deferred tax assets and deferred tax liabilities

At 30 June 2020 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 (2019: $nil).

(c) Franking credits	2020 $'000	2019 $'000
The amount of franking credits available:		
Franking account balance as at the end of the financial year at 30% (2019: 30%)	**62,559**	62,529

(d) 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 NZ 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.

(e) Tax losses not brought to account	$'000 Gross Current Year	Tax effected
Revenue losses	451,449	135,435
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 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. 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).

YEAR ENDED 30 JUNE 2020		Ovato Group 2020 $'000	2019 $'000
5 Interest bearing liabilities			
(a) Current interest bearing liabilities			
Secured			
Overdraft:	Australian dollars	**4,280**	-
Export Financing:	Euros*	**4,887**	3,230
Export Financing:	Australian dollars	**4,229**	-
Equipment Financing:	Australian dollars	**-**	1,409
Receivables Financing:	Australian dollars	**21,401**	34,556
Corporate bond:	Australian dollars	**3,750**	-
Other			
Other:	Australian dollars	**-**	1,314
Prepaid finance costs		**(1,355)**	(774)
Total current interest bearing liabilities		**37,192**	39,735
(b) Non-current interest bearing liabilities			
Secured			
Export Financing:	Euros*	**1,628**	4,846
Export Financing:	Australian dollars	**12,688**	-
Corporate bond:	Australian dollars	**36,250**	40,000
Other			
Prepaid finance costs		**(1,737)**	(1,603)
Total non-current interest bearing liabilities		**48,829**	43,243

* Represents Euro denominated export financing facility of 4.0 million (2019: Euro 5.0 million) measured at the exchange rate prevailing at balance date.

(c) Interest bearing liabilities - facility details

Facility details:	Facility $'000s	Drawn $'000s	Available $'000s
2020			
Secured			
Overdraft facility	**10,000**	**4,280**	**5,720**
Euro Export Finance Facility *	**6,515**	**6,515**	**-**
Export Finance Facility	**16,917**	**16,917**	**-**
Receivables Financing Facility #	**39,500**	**21,401**	**18,099**
Corporate Bond	**40,000**	**40,000**	**-**
Total facilities	**112,932**	**89,113**	**23,819**
2019			
Secured			
Overdraft facility	9,788	-	9,788
Euro 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	1,314	1,314	-
Total facilities	100,587	85,355	15,232

* Represents the export finance facility measured at the exchange rate prevailing at balance date.

The drawn amount represents the amount lent against the relevant receivables that were available to be sold into the facility as per the terms and conditions of the facility at each reporting date.

5 Interest bearing liabilities (continued)

(d) Terms and conditions

The overdraft facilities that were previously provided by ANZ Banking Group were repaid in full on 17 December 2019. In January 2020, a new A$10 million overdraft facility was provided by ANZ Banking Group Ltd with a maturity date of 30 September 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 effected Debt/EBITDA ratio and a minimum Debt Service Ratio. For June 2020, the requirement to test the covenants was waived by the lender. The facilities are also subject to the warranties and conditions of the agreement.

Ovato issued a secured $40 million corporate bond on 22 November 2018 replacing the previous unsecured $40 million corporate 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. For June 2020, the requirement to test the covenants was waived by the Bond Holders. 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 30 June 2020, 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 a A$50 million Receivables Financing Facility in November 2019 with Asset Secure, replacing the previous A$40 million facility from ANZ. During the year, this facility reduced to $39.5 million. As at 30 June 2020, this loan was drawn to A$21.4 million. The requirement to test the covenants at 30 June 2020 was waived by Asset Secure. Subsequent to year end, this facility was fully repaid and replaced with a new $50 million Receivables Financing Facility with Scottish Pacific. Refer to the subsequent event note for further details.

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 2020, 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.

(e) Net debt

	Ovato Group	
	2020	2019
	$'000	$'000
Cash	**(16,200)**	(38,701)
Overdraft	**4,280**	-
Corporate Bond: Australian dollars	**40,000**	40,000
Export Financing repayable in: Euros measured at the exchange rate prevailing at balance date	**6,515**	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	**21,401**	34,556
Other loan: Australian dollars	**-**	1,314
Net debt	**72,913**	44,681
Lease Liabilities [1]	**107,654**	-
Net lease adjusted debt	**180,567**	44,681

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

2 During the financial 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.

5 Interest bearing liabilities (continued)

(f) Reconciliation of liabilities arising from financing activities

				Non-cash changes			
	NOTES	2019 $000	Cash flows $000	Other $000	Foreign Exchange Movement $000	Fair Value Changes $000	2020 $000
Overdraft	5(a)	**-**	**4,280**	**-**	**-**	**-**	**4,280**
Corporate Bond	5(a) & 5(b)	**40,000**	**-**	**-**	**-**	**-**	**40,000**
Export Financing - EUR	5(a) & 5(b)	**8,076**	**(1,628)**	**-**	**67**	**-**	**6,515**
Equipment Financing	5(a)	**1,409**	**(1,409)**	**-**	**-**	**-**	**-**
Export Financing	5(a) & 5(b)	**-**	**16,917**	**-**	**-**	**-**	**16,917**
Receivables Financing	5(a)	**34,556**	**(13,155)**	**-**	**-**	**-**	**21,401**
Other	5(a)	**1,314**	**(1,314)**	**-**	**-**	**-**	**-**
Total current & non-current interest bearing liabilities #		**85,355**	**3,691**	**-**	**67**	**-**	**89,113**
Lease Liabilities [1]		**-**	**(26,084)**	**134,126**	**(388)**	**-**	**107,654**
Asset held to hedge long-term borrowings ##	12	**(1,899)**	**1,866**	**-**	**-**	**33**	**-**
Total liabilities from financing activities		**83,456**	**(20,527)**	**134,126**	**(321)**	**33**	**196,767**

A reconciliation between the opening and closing balances arising from financing activities. This includes changes from cash flows (refer to 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 $17.7 million is reclassified in the statement of cash flows from operating to financing activities. The interest component of $8.4 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 financial year.

6 Contributed equity

Issued and paid up capital

Movements in ordinary share capital:	2020 Number '000	2019 Number '000	Ovato Group 2020 $'000	2019 $'000
Balance as at 1 July - ordinary shares	**732,004**	510,184	**497,523**	482,433
Share movements in respect of:				
- Share issue	**-**	221,820	**-**	15,090
Balance at 30 June - ordinary shares	**732,004**	732,004	**497,523**	497,523

During the 2019 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.

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

7 Reserves

	NOTES	Ovato Group 2020 $'000	2019 $'000
Foreign currency translation reserve			
Opening balance		**11,531**	9,877
Movement in reserve relating to:			
- Exchange fluctuation on translation of overseas controlled entities		**(435)**	1,654
Total foreign currency translation reserve		**11,096**	11,531
Share-based payment reserve			
Opening balance		**-**	257
Movement in reserve relating to:			
- Share-based payment expense	2(c)	**-**	15
- Transfer to retained earnings		**-**	(272)
Total share-based payment reserve		**-**	-
Cash flow hedge reserve			
Opening balance		**172**	302
Movement in reserve relating to:			
- Cash flow hedge		**(275)**	(181)
- Tax effect of cash flow hedge		**83**	51
Total cash flow hedge reserve		**(20)**	172
Total reserves		**11,076**	11,703

8 Dividends

No dividends were declared or paid during the year ended 30 June 2020 (2019: Nil).

9 Segmental information

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.

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.

The operational segment and the geographic segment are the same. Therefore the geographical segment 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**	
	2020 $'000	2019 [1] $'000	**2020 $'000**	2019 [1] $'000	**2020 $'000**	2019 [1] $'000
Revenue						
External sales	**433,626**	529,913	**82,546**	105,876	**516,172**	635,789
External sales significant items	**(1,000)**	-	**-**	-	**(1,000)**	-
Freight	**16,645**	25,015	**7,453**	8,432	**24,098**	33,447
Other revenue	**16,539**	9,420	**1,098**	1,334	**17,637**	10,754
Other revenue significant items	**6,323**	-	**-**	-	**6,323**	-
Total revenue	**472,133**	564,348	**91,097**	115,642	**563,230**	679,990
EBITDA~ before significant items	**31,202**	26,286	**1,225**	4,561	**32,427**	30,847
Depreciation and amortisation	**(31,069)**	(24,338)	**(5,897)**	(4,297)	**(36,966)**	(28,635)
EBIT^ before significant items	**133**	1,948	**(4,672)**	264	**(4,539)**	2,212
Significant items before income tax	**(68,960)**	(51,001)	**(3,207)**	(11,956)	**(72,167)**	(62,957)
Segment EBIT after significant items	**(68,827)**	(49,053)	**(7,879)**	(11,692)	**(76,706)**	(60,745)
Significant items - Finance costs					**(321)**	(631)
Finance costs					**(18,339)**	(8,415)
Consolidated entity loss before income tax					**(95,366)**	(69,791)
Income tax expense					**(13,384)**	(14,460)
Net loss after income tax					**(108,750)**	(84,251)

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

YEAR ENDED 30 JUNE 2020

9 Segmental information (continued)

(b) Significant items by Operational and Geographical segments

	Ovato Australia Group		Ovato New Zealand Group		Consolidated	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Significant items of revenue						
Sales rebate	**(1,000)**	-	**-**	-	**(1,000)**	-
Net gain on disposal of plant and equipment	**347**	-	**-**	-	**347**	-
Gain on de-recognition of ROU asset and recognition of finance lease receivable	**5,976**	-	**-**	-	**5,976**	-
Total segment significant items of revenue	**5,323**	-	**-**	-	**5,323**	-
Net loss on disposal of plant and equipment	**-**	(688)	**-**	(61)	**-**	(749)
Restructure initiatives and other one-off costs including Moorebank site closure	**(24,723)**	(23,083)	**(718)**	(1,606)	**(25,441)**	(24,689)
Onerous leases and make good provisions	**(1,326)**	(13,697)	**-**	(786)	**(1,326)**	(14,483)
Relocation of presses	**(4,219)**	(5,019)	**-**	-	**(4,219)**	(5,019)
Impairment of goodwill	**(35,203)**	-	**(2,041)**	-	**(37,244)**	-
Impairment of plant and equipment due to restructure initiatives	**(6,670)**	(8,514)	**-**	(9,503)	**(6,670)**	(18,017)
Impairment of inventory	**(2,142)**	-	**(448)**	-	**(2,590)**	-
Total segment significant items of expense	**(74,283)**	(51,001)	**(3,207)**	(11,956)	**(77,490)**	(62,957)
Total segment significant items before income tax	**(68,960)**	(51,001)	**(3,207)**	(11,956)	**(72,167)**	(62,957)
Significant items - finance costs						
Loss on cross currency swap realised	**(133)**	-	**-**	-	**(133)**	-
Fee for corporate bond covenant waivers	**(188)**	-	**-**	-	**(188)**	-
Fee paid for early termination of corporate bond	**-**	(400)	**-**	-	**-**	(400)
Write off of prepaid financing costs	**-**	(231)	**-**	-	**-**	(231)
Total segment significant items - finance costs	**(321)**	(631)	**-**	-	**(321)**	(631)

10 Earnings per share

	2020 Number '000	2019 Number '000
(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	**732,004**	526,955

(b) Earnings

	2020 $'000	2019 $'000
Net loss after income tax	**(108,750)**	(84,251)
Loss used in calculating basic and diluted earnings per share	**(108,750)**	(84,251)

Notes to the financial statements

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2020		NOTES	Ovato Group 2020 $'000	2019 $'000
11 Cash flow statement notes				
(a) Reconciliation of cash flow from operating activities to operating loss after income tax				
Operating loss after income tax			**(108,750)**	(84,251)
Adjustments for non-cash items:				
Depreciation		2(e)	**36,161**	28,110
Amortisation		2(e)	**805**	525
Impairment of plant and equipment		2(b), 2(c)	**6,670**	18,017
Impairment of goodwill		2(b), 2(c)	**37,244**	-
Provision/(Credit) for doubtful debts/bad debts written off			**986**	(69)
Movement in provision for tax			**-**	3
Net (gain)/loss on disposal of plant and equipment		2(a), 2(c)	**(501)**	775
Share-based payment plans		2(c)	**-**	15
Gain on de-recognition of ROU asset and recognition of finance lease receivable		2(a), 2(b)	**(5,976)**	-
Non-cash superannuation expense			**142**	117
Other non-cash items			**10**	(761)
Change in assets and liabilities:				
Accounts receivable	Decrease		**30,142**	10,211
Inventories	Decrease		**14,821**	2,323
Liabilities	(Decrease)		**(19,693)**	(9,217)
Non-current assets	Decrease		**13,344**	14,151
Provision for employee benefits	Increase/(Decrease)		**1,008**	(582)
Prepayments	Decrease		**1,676**	1,410
Net cash flow provided by/(used in) from operating activities			**8,089**	(19,223)

(b) Reconciliation of cash and cash equivalents

For the purpose of the Statement of cash flows, cash and cash equivalents comprise the following:

	Ovato Group 2020 $'000	2019 $'000
Cash and cash equivalents	**16,200**	38,701
Total cash and cash equivalents	**16,200**	38,701

Notes to the financial statements

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2020

12 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 2020.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition of fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 quoted prices (unadjusted) in active markets for 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 (as prices) or indirectly (derived from prices); and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 30 June 2020			
	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	**-**	**(99)**	**-**	**(99)**
Financial derivatives not hedge accounted				
Forward Foreign Exchange Contracts	**-**	**69**	**-**	**69**
Total financial derivatives	**-**	**(30)**	**-**	**(30)**

	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	-	361	-	361
Cross Currency Swaps	-	1,899	-	1,899
Financial derivatives not hedge accounted				
Forward Foreign Exchange Contracts	-	8	-	8
Total financial derivatives	-	2,268	-	2,268

YEAR ENDED 30 JUNE 2020

13 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 Instrument 2016/785 issued by the Australian Securities and Investments Commission, which provides relief from the requirement to prepare, audit and lodge statutory financial statements.

Related bodies corporate:

- Ovato has guaranteed the borrowings of Ovato Finance Pty Ltd, Ovato NZ Limited, Ovato Print Pty Ltd 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.

14 Subsequent events

Other than the refinancing arrangements as set out below and in Note 5 (d), 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.

Subsequent to year end, Ovato entered into a new A$50 million Receivables Financing Facility in August 2020 with Scottish Pacific replacing the previous A$39.5 million facility with Asset Secure. The maturity date of this new facility is August 2023. Security pledged involves a equal first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and New Zealand. The facility is subject to the warranties and conditions of the agreement during the term of it.

On 2 August 2020, the Victorian Government, in response to the increase in COVID-19 infections, declared a state of emergency and imposed stage 4 restrictions in Melbourne and stage 3 in regional Victoria. The business has been given permission by the Victorian Government to continue to operate under these restrictions. However, with restrictions on the operations of our Victorian retail and publishing clients there is uncertainty regarding the related impact on the Group's Victorian operations but at this stage the impact has not been material. In this environment it is too early to predict what our “new normal” will look like. Any impact will be reflected in the Group's 2021 half and full year results.