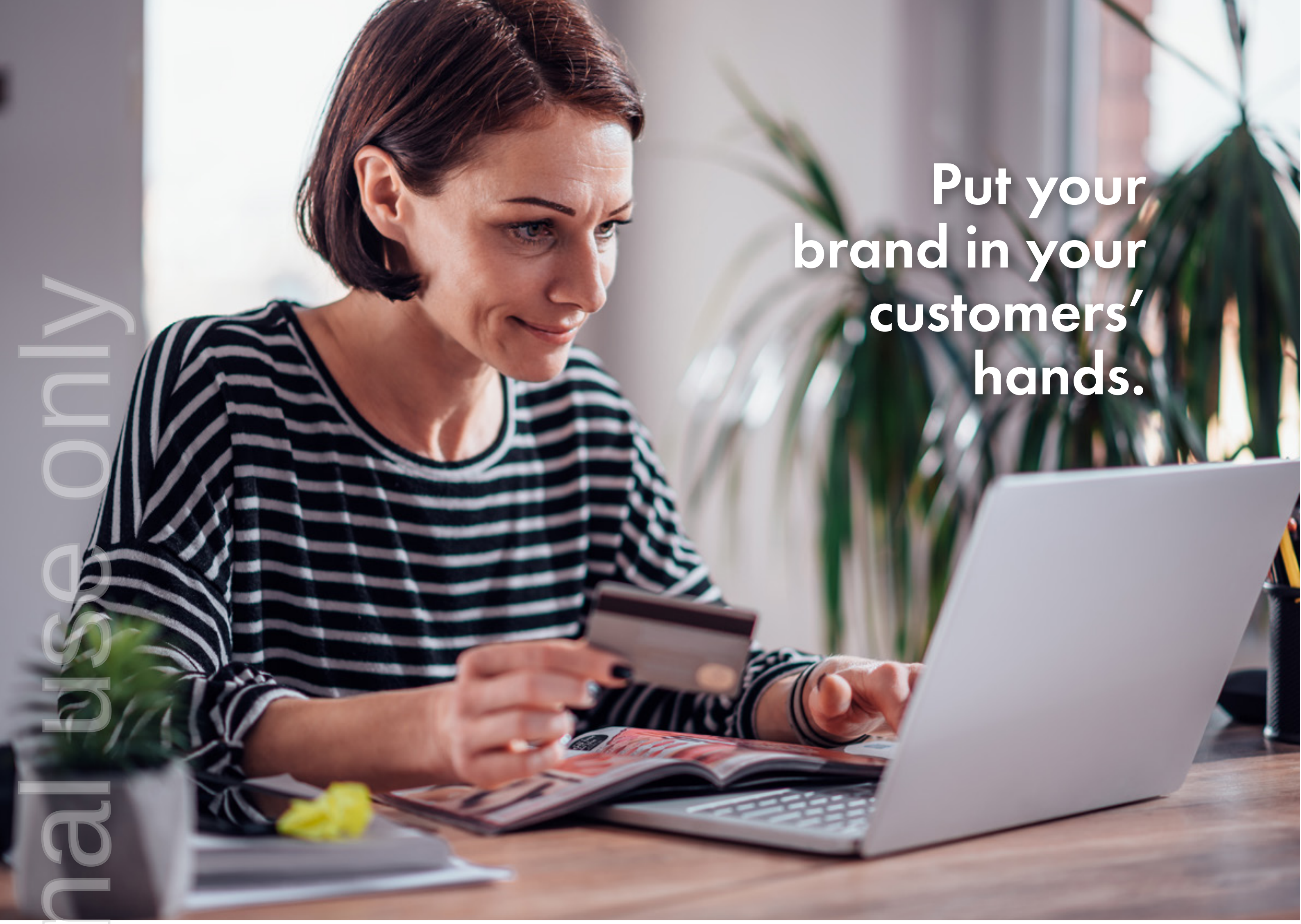
Annual Report 2020

OVATO



The 2020 Annual Report was designed and printed by Ovato.

Paper sourcing

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

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

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

FSC®
www.fsc.org
MIX
Paper from responsible sources
FSC® C009448

Contents

Overview

Financial report

Financial statements

Ovato Limited

ABN 39 050 148 644

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

Annual general meeting

The Ovato Limited annual general meeting (AGM) will be held at 1.00pm on Thursday, 26 November 2020.

The meeting will be held virtually online via the Lumi platform at https://web.lumiagm.com with meeting ID [395-495-309].

Details of how shareholders can access this platform and of the business of the meeting are contained in the separate Notice of Meeting.

Investor information

Shareholders requiring information should contact the share registry or chief financial officer:

Geoff Stephenson
Tel: 02 9412 6000
geoff.stephenson@ovato.com.au

ASX Code: OVT

Share registry

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

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

Board of directors

Chair
Michael Hannan

CEO/Managing Director
Kevin Slaven

Non-Executive Directors
Dhun Karai
Andrew McMaster

Ovato

Ovato gives businesses in Australia and New Zealand the services, platforms and tools they need to reach the right audiences and turn them into customers.

We offer an unmatched breadth of physical and digital marketing solutions, helping your business to understand, reach, inspire and convert the people that matter to you.

While our capabilities are diverse, our focus is single-minded: we deliver business results, using tailored solutions and data-driven strategies.

Let us connect the dots and offer you infinite opportunities.

Our experienced team of specialists work with clients across the media mix and marketing disciplines. Underpinning everything is a deep understanding of data and analytics, allowing us to prove and improve everything we do.

Our vision

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

Our promise

Efficiency

Smart solutions that get you to market faster.

Effectiveness

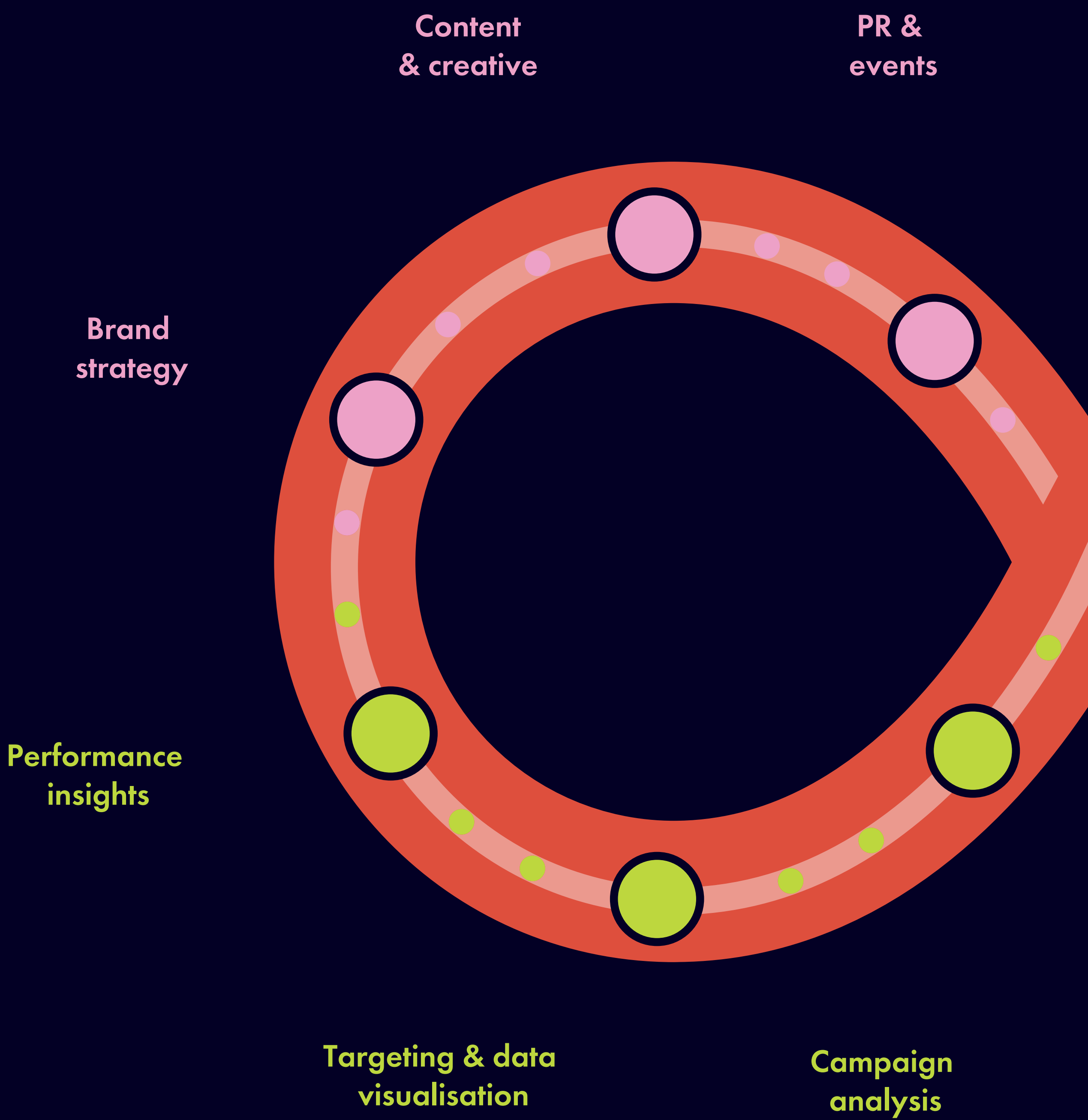
Data-driven insights drive measurable success for every campaign.

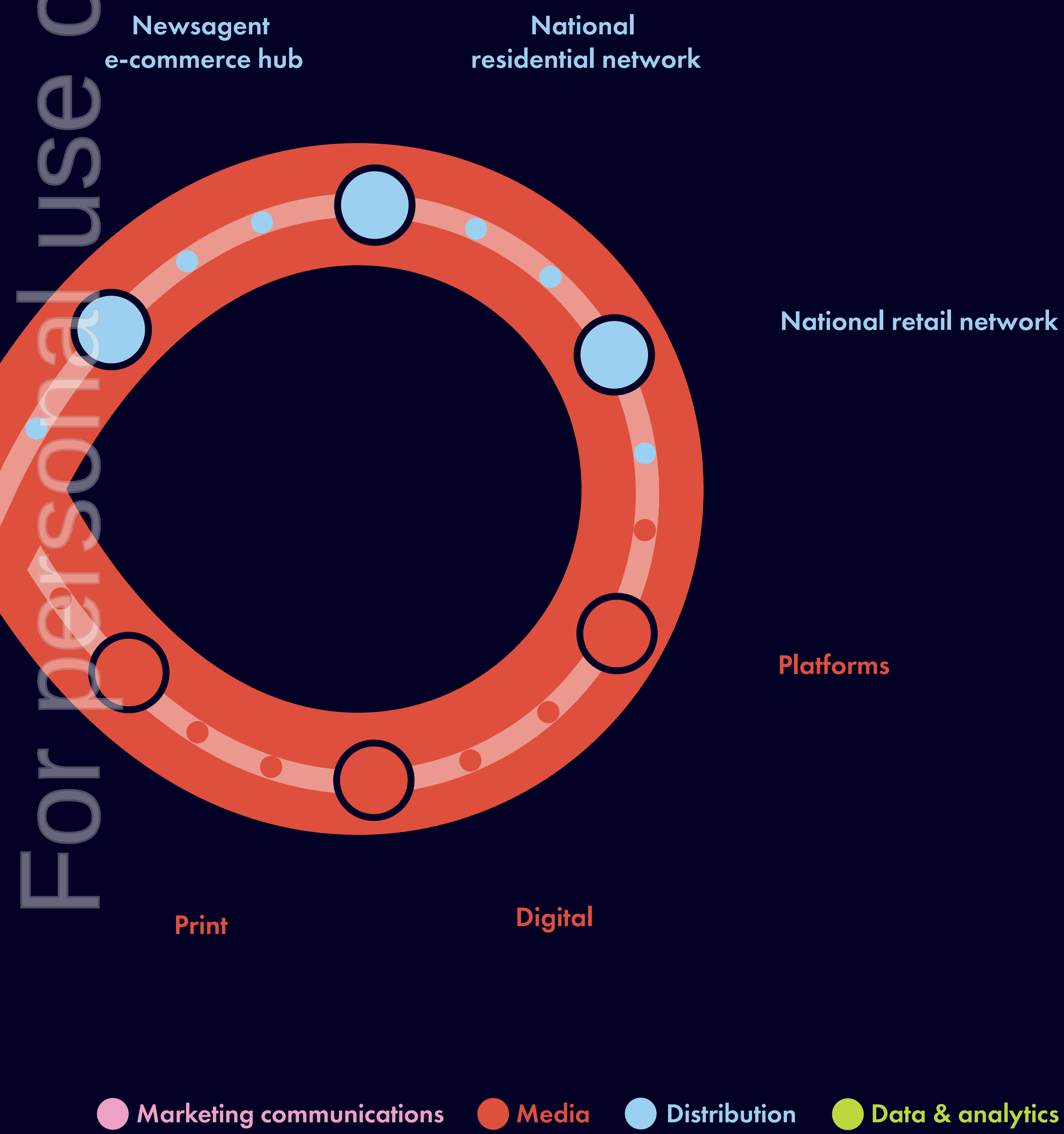
Integration

Maximise impact across marketing activities with integrated solutions.

Our capabilities

Modern businesses invest with partners who can close the loop and build value across the customer journey with craft, intelligence and insight. Ovato's integrated service offering gives clients infinite opportunities for campaign improvement and brand growth.




Newsagent e-commerce hub
National residential network
National retail network
Platforms
Print
Digital
Marketing communications
Media
Distribution
Data & analytics

Marketing communications

Grab (and keep) your audience's attention with strategic communications.

It's more competitive than ever to reach your consumers. They don't use only one media channel – and neither should you.

At Ovato, we offer a full-service suite of marketing and communications solutions so you can produce integrated campaigns that use the right channels to reach the right people.

We work to drive engagement, deliver strong return on investment (ROI) and have measurable impact. With curious minds and brave thinking, we earn our clients an unfair share of attention.

Everything we do starts with strategy. Combining data-driven insight with human truths, we develop strategic plans that are guaranteed to get your brand noticed and deliver results.

Media

Connect with customers across every touchpoint.

From store to smartphone, letterbox to landing page, you need to be there for your customers on every relevant channel. To maximise reach and connect with audiences most effectively, Ovato works with you to develop the right cross-channel approach.

Our print media experts in Australia and New Zealand develop physical media strategies and creative material to connect with customers at home, in store or at events, with smart distribution strategies for maximum impact.

Our digital offering spans consulting, creative, content and an all-in-one marketing platform to drive customers to your website, app or social pages for real business results.

Data & analytics

We apply the right insight to deliver maximum impact.

Data is the lifeblood of successful marketing. After all, good business is about making decisions based on insight – not assumption. But collecting data is only half the battle. You also need to be able to analyse it, understand it and use it to power your decision making.

We have invested in building partnerships to leverage third party data, including an exclusive partnership with Quantium. Our team is curious, rigorous and experienced, using data to recommend constant campaign refinements.

From applying behavioural data to your audience targeting and testing personalised creative, to mapping your most profitable distribution locations, we apply the right insight to deliver maximum impact.

Distribution

Reach your customers at the right time for maximum impact.

Getting your product to market cost-effectively is critical. Our national retail and residential distribution networks, across Australia and New Zealand, help you connect with your customers – wherever they are.

At home or browsing the aisles of the supermarket, local newsagent or service station, we'll reach them at the right time to increase awareness and engagement with your brand.

With exclusive data partnerships and market leading technology, we also map your most profitable distribution areas and audience segments so you can get the most bang for buck and map customer spend back to campaign delivery.

“Working with Ovato, we reached 234,552 more liquor shoppers for the same marketing investment.”

Melissa LoBianco, Marketing Manager – Value & Trade , Dan Murphy’s

Chair's review

Michael Hannan
Chair

Experience is the collection of challenges, lessons and triumphs that you collect over the course of a career. It is a cruel trick that those of us with much experience begin to feel we have seen it all. 2020 has offered a stark reminder that there are still challenges to be met and overcome.

COVID-19 has delivered the most significant disruption of any event I have seen. While I am pleased that quick action has been able to deliver good outcomes from a public health perspective, the economic effects are widespread and will continue to impact Ovato, and the market at large for some time yet.

The actions of governments have been necessary, and ongoing support will be required to ensure that the economic downturn is not allowed to linger.

Promising words of support for, and interest in, a vibrant Australian manufacturing sector have waned as the pandemic has worn on. We are working hard to ensure our business is recognised and valued as a long-term Australian manufacturer.

Despite the scale of the disruption, there are aspects of this change we have seen before. Marketers are reacting to the uncertainty by switching off print media in the short term, which could adversely impact their brand and customer interaction. Consumers are behaving differently too. Some of these changes will be temporary; a function of limited movements, anxiety and more time at home. Others may be with us for longer, as people try new ways of buying and receiving goods at home.

Overview

FY20 Key Financials

$M	FY20	FY20[1]	FY19	% Var
Sales Revenue	539.3	539.3	669.2	(19.4%)
EBITDA (before significant items)	32.4	9.2	30.8	(70.0%)
Depreciation and Amortisation	(21.2)	(21.2)	(28.6)	26.1%
Depreciation - Right-Of-Use Assets	(15.8)	–	–	–
EBIT (before significant items)	(4.5)	(11.9)	2.2	–
Net (Loss) after Tax (before significant items)	(16.7)	(15.0)	(4.4)	–
Significant Items Post Tax[2]	(92.1)	(96.2)	(79.9)	(20.5%)
Net (Loss) after Tax and significant items	(108.8)	(111.2)	(84.3)	(32.0%)
Cash flow from operating activities	8.1	(8.4)	(19.2)	56.5%
Net Cash Flow[3]	(10.1)	(27.8)	(12.4)	–
Net Debt (excluding lease liabilities)	(72.9)	(72.9)	(44.7)	–
EBITDA[4] to Sales Revenue percentage	6.0%	1.7%	4.6%	–

On 1 July 2019 the Group adopted the new lease accounting standard AASB 16. This is the first set of full year Group financial statements where *AASB 16 Leases* 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.

1. Pre AASB 16
2. FY20 includes ($72.5M) of significant items before tax, ($10.0M) impairment of deferred tax assets, ($20.2M) of tax losses not brought to account partially offset by $10.6M of tax benefit on significant items and $0.1M of adjustments to prior year tax losses not recognised.
3. Net Cash Flow equals Cash Flow from Operations and Investing Cash Flows and proceeds from issue of shares.
4. Before Significant items

Our magazine business has been relatively stable in this period, particularly with homemaking and food titles, reflecting the audience spending more time at home. Our books and packaging business have also held up well.

Powerful brands will thrive in this changed environment, and those who keep a connection with their customers through this time are the ones most likely to succeed. While online retailing has benefitted, there are still significant advantages for big brands who have physical stores to serve their existing customers and attract new ones. The death of physical retailing has been prophesied for decades, but I believe the attraction of going out to the shops will continue to be larger than most of the pundits are willing to envisage, and that we will see a refreshed retail environment again.

While much is changing, our clients' central marketing challenges remain. Brands who want to grow will need to reach both existing and new customers at scale in cost-effective ways. Ovato retains a core marketing advantage in the reach we offer through our print and distribution channels and have invested in significant new technologies to help our clients improve their business performance.

"We have the experience and skills required to succeed, we have met challenges before and are doing so again."

New Zealand was first to enter lockdown and impose strict controls on movement and business. While these bought commercial impacts forward for our business, we are beginning to see opportunities return. This augurs well and has validated our expectations for our recovery here in Australia.

We believe much of the work impacted by COVID-19 will return as the impact of the pandemic dissipates. Our marketing services and digital business have been largely unaffected, and continue to grow as a source of opportunity in the future.

Your board has been focused on supporting the health and safety of the Ovato workforce and supporting Kevin and the executive as we navigate this current disruption. Many of the actions ahead of us are critical as we reshape our business and right-size our workforce. We have the experience and skills required to succeed, we have met challenges before and are doing so again.

Michael Hannan
Chair

> "Powerful brands will thrive in this changed environment, and those who keep a connection with their customers through this time are the ones most likely to succeed."

CEO's review

Kevin Slaven
Chief Executive Officer

The impact of COVID-19 on the Ovato business has been significant. Core customers in both retail and publishing have seen significant distortions to their markets as Australians and New Zealanders have been locked down or simply anxious.

Sales fell to $539.3m for the year, with most of the negative impact hitting us as the Pandemic took hold in April and May. Our non-print businesses have fared better, but not well enough to offset the declines.

The support of government has been essential in delivering an effective balance between the immediate priority of public health outcomes and the requirement to maintain the economy. JobKeeper has allowed us to keep a relationship with workers who have been stood down and provided a stabilising effect for the broader business in its role as a wage subsidy. We are actively engaged as a business and industry in voicing the need for continued government support.

The crisis has brought forward many of our challenges. My executive team and I have balanced the requirements of the things that are urgent with the things that are strategic. While the certainty we had in planning actions forward has been shaken, our vision of a smarter and sustainable business that provides increased value for our clients remains valid and we continue to build our capabilities and efforts towards those goals.

Crises require action from us all, and we have made big calls early to ensure positive outcomes for our clients, staff and other stakeholders. At the end of March, when the scale of impact COVID-19 would make was clear we asked all our staff to share the burden and step back to a three day week to manage our cost base and protect as many jobs as possible. As we have moved into the new financial year, all our leadership team and many of our staff remain on reduced wages to support the business through this period of reduced activity. We also shifted as many of our staff as possible to a work from home model to limit exposure to infection at work. This ensured the Ovato team who did have to come into sites, and our core production capabilities were kept intact. Outside of wages, restrictions on business travel and a firm control of our costs has been enacted.

Our core catalogue channel has come under significant attack in the last months of the year, with some retailers pulling back from the channel and others finding themselves in the enviable position of being able to spend less on marketing to deliver larger revenues for their brands. While print catalogues saw a pull back during the COVID-19 crisis, we firmly believe the channel has an important place in the marketing mix for any retailer. Ovato has made investments in digital technology to further enhance the effectiveness of print catalogues and provide our clients with end-to-end marketing solutions.

Over time, we expect clients to use our diverse capabilities in different ways. During the lockdown period, we have helped clients in the charity sector to pivot their outreach away from in-person interactions to a targeted non-contact program through the letterbox. We have new examples of fast-moving consumer goods (FMCG) brands reaching consumers at scale and converting them instore. As online shopping increases, we are seeing interest from online retailers who want to reach audiences at real scale. We are also seeing increases in the custom publishing space, as traditional ad-funded publishers pull back, brands are stepping into the content opportunity and we are well positioned to partner effectively in this space.

"My executive team and I have balanced the requirements of the things that are urgent with the things that are strategic."

What is very clear is we need to deliver a more agile and efficient business, positioned to succeed. To facilitate this, the company has sought to terminate the existing Print Australia Enterprise Bargaining Agreement (EBA) and replace it with more realistic redundancy scales, consistent with industry and community standards. This will enable the company to realign its cost base to ensure a sustainable, long term future for print and attract new equity investment into the business

I also want to formally thank each member of my Ovato team. The last year has asked much of all of us and I have been deeply impressed by the adaptability and resilience you have all shown as the pandemic has required us all to do things differently. Times will be tough for some time yet, but a restructured business, ready to attract new equity and rise to the challenges of an economy regearing itself for growth is our destination.

Kevin Slaven
Chief Executive Officer
and Managing Director

"No other medium gives us the opportunity to share with our community and consumers a tactile, authentic and timeless celebration of story and product."

Mark Muller, Editor-In-Chief and Director
R.M.Williams Publishing Pty Ltd.

Our locations

NEW SOUTH WALES

Pyrmont - HQ
L4, 60 Union Street,
Pyrmont
NSW 2009

Warwick Farm
8 Priddle Street,
Warwick Farm
NSW 2170

Moorebank
31-35 Heathcote Road,
Moorebank
NSW 2170

Frenchs Forest
26 Rodborough Road,
Frenchs Forest
NSW 2086

Silverwater
7/108-120 Silverwater Road,
Silverwater
NSW 2128

VICTORIA

Clayton
37-49 Browns Road,
Clayton
VIC 3168

QUEENSLAND

Geebung
552 Bilsen Road,
Geebung
QLD 4034

Hendra
400 Nudgee Road,
Hendra
QLD 4011

Cairns
246 Hartley Street,
Cairns
QLD 4870

SOUTH AUSTRALIA

Salisbury
168 Cross Keys Road,
Salisbury South
SA 5106

WESTERN AUSTRALIA

Bibra Lake
51 Miguel Road,
Bibra Lake
WA 6163

NEW ZEALAND

Auckland
122 Kerrs Road,
Wiri
Auckland 2241

Christchurch
30 Birmingham Drive,
Middleton
Christchurch 8024

UK

London
133 Whitechapel High Street,
London E1 7QA

INDIA

Chennai
Alexander Square,
L3, C Wing,
No.34, 35 Sardar Patel Road
Chennai 600032

Health and safety

Keeping people safe continues to be a core value at Ovato. The COVID-19 pandemic shifted all focus in the last four months of the year to the immediate health and safety of our personnel and their families.

While our strategic plan was disrupted by this year, Ovato recorded no positive cases in Australia and New Zealand. Sadly, there was one fatality recorded from our team in Chennai.

HSEQ worked with HR to ensure all sites engaged in high levels of communication to ensure controls including personal protective equipment, cleaning and hygiene were implemented. We adopted a cautious approach across our businesses with any potential cases remaining at home until a negative test result was received.

Prior to COVID-19, the Warwick Farm expansion project was completed free of any significant injuries across all employees and contractors. It was great to see a strong emphasis maintained throughout the project towards safety, ensuring induction for all personnel. We also successfully managed the re-induction of all employees who moved from Moorebank to Warwick Farm, risk assessments for new equipment and tasks completed and a review of our emergency response and traffic management plans.

At a group level, Ovato did not achieve its Total Recordable Injury Frequency Rate ("TRIFR") target of 8.56, an ambitious 20% reduction from the previous year (based on a projected reduction in hours of 15%) resulting in an overall result of 13.19. Our result was strongly impacted by the reduction in hours of work and the associated reductions in volume bought on by COVID-19. While the number of injuries increased from 31 to 35, severity did not increase and we retained a very strong emphasis on early intervention and a well-supported return to work.

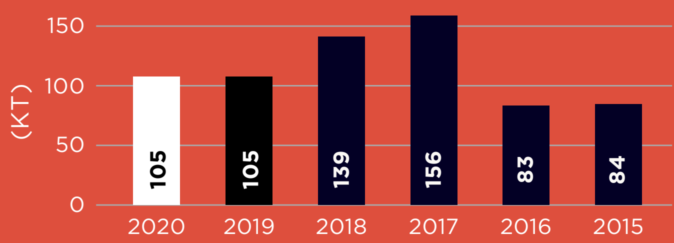
As teams were put under increased stress as a result of the pandemic, Ovato introduced a mental health first aid training program in line to support our "Working Safe, Living Well, It's ALL About ALL of You" campaign. Additional support for the mental health of our personnel was offered by our partnership with Gallagher Bassett. We implemented an interactive on-line course supported by highly qualified personnel and resources. Our next steps in 2021 focus on embedding this program across our 26 qualified team members and creating a forum for sharing and driving ongoing initiatives targeted at supporting the overall psychological wellbeing of our team.

Occupational health and safety

	FY19/20	FY18/19
TRIFR*	13.19	10.09

*Total Recordable Injury Frequency Rate

GHG emissions



“Our commitment to keeping people safe is a core value of Ovato.”

Directors' report

For the year ended 30 June 2020

The Directors of Ovato Limited (referred to as "Ovato" or "Company") submit their report and the Company's consolidated financial report for the year ended 30 June 2020 and the Auditor's report thereon. Throughout the report, the consolidated entity is referred to as the Group.

Michael Hannan

CHAIR
Appointed 19 November 2019

NON-EXECUTIVE DIRECTOR
Appointed 1 March 2017

Mr Hannan has been a Director since 1 March 2017, following the merger of IPMG Group with Ovato (formerly PMP). Mr Hannan was a member of the Appointments and Compensation Committee from 31 May 2017 to 30 May 2019. Mr Hannan was appointed Chair of Ovato from 19 November 2019.

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

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

Kevin Slaven
BCom, CA, GAICD

MD AND CEO
Appointed 27 February 2018

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

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

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

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

Dhun Karai
B Comm, MBA, CA ANZ, MAICD

NON-EXECUTIVE DIRECTOR
Appointed 1 June 2016

Ms Karai has been an independent Non-Executive Director since 1 June 2016. Ms Karai has been a member of the Appointments and Compensation Committee from 31 May 2019 and was appointed Chair of that Committee on 19 November 2019. Ms Karai was appointed a member of the Audit and Risk Management Committee ("ARMC") on 19 November 2019. She was previously a member from 1 June 2016 to 30 May 2019. She was Chair of the ARMC from 26 August 2016 to 30 May 2019.

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

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

1. Directors

The Directors of Ovato during the financial year were:

CHAIR
Michael Hannan (appointed 19 November 2019)

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

NON-EXECUTIVE DIRECTORS
Dhun Karai
Andrew McMaster
Terry Sinclair (resigned 18 November 2019)
Wai Tang (resigned 10 September 2019)
Matthew Bickford-Smith (resigned 18 November 2019)

Andrew McMaster
BCom (Hons), CA

NON-EXECUTIVE DIRECTOR
Appointed 4 October 2018

Mr McMaster joined the Board of Ovato as a Non-Executive Director on 4 October 2018. Mr McMaster was appointed a member of the Audit and Risk Management Committee on 22 February 2019 and Chair from 31 May 2019. Mr McMaster was appointed a member of the Appointments and Compensation Committee on 19 November 2019.

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

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

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

Terry Sinclair
MBA, GradDipMgmt, MAICD

NON-EXECUTIVE DIRECTOR
Appointed 10 October 2017
Resigned 18 November 2019

Mr Sinclair was an independent Non-Executive Director since 10 October 2017. Mr Sinclair was a member of the Audit and Risk Management Committee since 1 December 2017. On 18 November 2019, Mr Sinclair resigned as a Non-Executive Director of Ovato.

Wai Tang
BAppSc, MBA, GAICD

NON-EXECUTIVE DIRECTOR
Appointed 10 October 2017
Resigned 10 September 2019

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

Matthew Bickford-Smith

NON-EXECUTIVE DIRECTOR
Appointed 2 June 2009
Resigned 18 November 2019

Mr Bickford-Smith was an independent Non-Executive Director of Ovato since 2009 and was Chair of the Board of Directors since 2012. He was a member of the Audit and Risk Management Committee since 2010. He was a member of the Appointments and Compensation Committee from 2009 and was Chair of that Committee. On 18 November 2019, Mr Bickford-Smith resigned as Chair of Ovato.

2. Directors' and Executives' Disclosures

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

3. Company Secretary – Qualifications & Experience

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

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

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

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

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

4. Directors' Meetings

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

		Matthew Bickford-Smith <b>	Kevin Slaven	Michael Hannan <c>	Dhun Karai	Terry Sinclair <b>	Wai Tang <d>	Andrew McMaster
Monthly Board of Directors Meetings	Attended	3	11	11	11	3	1	11
	Maximum possible attended	3	11	11	11	3	2	11
Audit & Risk Management ("ARMC") Meetings	Attended	2	<a>	<a>	3	1	<a>	5
	Maximum possible attended	2	<a>	<a>	3*	2	<a>	5
Appointments & Compensation ("ACC") Meetings	Attended	0	<a>	<a>	4	<a>	1	3
	Maximum possible attended	1	<a>	<a>	4	<a>	1	3**
Adhoc Board of Directors Meetings	Attended	3	18	18	19	2	1	19
	Maximum possible attended	3	19	19	19	3	1	19

Table 1. Directors' Meetings.

<a> Directors may attend Committee meetings but where not Committee members, their attendance is not recorded.

<b> Resigned 18/11/19.

<c> Appointed as Chair of the Board on 19/11/19.

<d> Resigned 10/09/19.

* Ms Karai's first meeting as part of the ARMC was 17/12/19.

** Mr McMaster's first meeting as part of the ACC was 17/12/19.

5. Corporate Governance Statement

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

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

Ovato's corporate governance framework is designed and implemented to accord with the best practice recommendations set by the ASX Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles") where practicable. The table on the following page indicates where specific ASX Principles are dealt with within this Statement. Ovato has followed the recommendations other than Mr Hannan is not an independent Chair as he is a substantial shareholder, following the resignation of some Directors' during the financial year the majority of the Board no longer comprises independent Directors, measurable objectives for achieving gender diversity were not set, Mr McMaster being Chair of the Audit and Risk Management Committee is not an independent Director by virtue of being nominated as Director by the Hannan family, the Audit and Risk Management Committee and Appointments and Compensation Committee does not satisfy the minimum number requirement and the majority of members of the committee are not independent.

The Board of Directors approved the Corporate Governance statement on 11 September 2020, with this being the effective date for that statement.

Recommendation

Section Reference

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

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

Recommendation

Section Reference

Principle 8 — Remunerate fairly and responsibly		Location
8.1	The Board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent Directors; and (2) is Chaired by an independent Director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	1 "Directors" 4 "Directors' Meetings" 5.2 "Appointments and Compensation Committee"
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of Non-Executive Directors and the remuneration of Executive Directors and other senior executives.	7.3 "Remuneration structure" 7.5 "CEO" 7.7 "Non-Executive Director Remuneration"
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	5.5 "Trading in Ovato Shares"

5.1 Board of Directors

BOARD

Directors are selected to achieve a broad range of skills, experience and expertise complimentary to the Group's activities. Details of individual Directors are in Section 1.

The current Board comprises four Directors, being: the Non-Executive Chair, the MD / CEO and two other Non-Executive Directors.

With the unexpected resignation of three independent Non-Executive Directors in the last quarter of 2019, the Board recognises the importance of appointing further independent Non-Executive Directors to enable the Board to comprise of a majority of independent Non-Executive Directors. The intention to appoint further independent Non-Executive Directors has been delayed, while amongst other things, the Company refinanced with Scottish Pacific and with the advent of the COVID-19 pandemic.

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

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

BOARD CHARTER

The Company's Board is responsible for:

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

The MD, as CEO, is responsible for:

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

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

The Charter requires that Ovato's Board consist of a majority of independent Non-Executive Directors who have a broad range of commercial expertise and experience and/or appropriate professional qualifications. The Board is currently seeking to appoint further independent Non-Executive Directors at an appropriate time to satisfy the independence criteria. They must also demonstrate a proven ability and capacity to monitor Company performance and participate in strategy development.

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

BOARD COMPOSITION AND MEMBERSHIP

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

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

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

BOARD SKILLS

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

Collectively, the Board has a diverse range of skills and experience relevant and adequate for the efficient and effective management of the business. Board members have a combination of experience in the following areas:

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

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

The Board considers its current membership represents an appropriate mix of skills, experience, expertise and qualifications to enable the Board to effectively advise and set the Company's strategic direction and govern on behalf of shareholders, albeit this mix will be enhanced once further independent Non-Executive Directors are appointed.

DIRECTOR RETIREMENT AND RE-ELECTION

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

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

BOARD PERFORMANCE EVALUATION

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

BOARD INDEPENDENCE

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

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

As noted in 5.1, the Board is seeking to appoint further independent Non-Executive Directors at an appropriate time.

CONFLICTS OF INTEREST

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

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

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

CHAIR

The Chair of the Board is Mr Hannan, a substantial shareholder of the Company. Mr Hannan was appointed following the resignation of Mr Bickford-Smith on 18 November 2019. Mr Hannan is not an independent Director, Mr Hannan is though very experienced in running print, distribution and marketing service companies through his previous experience as Chair of IPMG. The Chair is responsible for leadership and effective performance of the Board and the maintenance of productive relations between the Directors and the management team. The Chair's responsibilities are set out in more detail in the Board Charter.

DIRECTOR APPOINTMENT, TRAINING AND CONTINUING EDUCATION

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

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

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

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

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

BOARD ACCESS TO INFORMATION AND INDEPENDENT ADVICE

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

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

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

BOARD MEETINGS

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

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

Details of Board and Committee meetings held during the 2020 financial year and attendance at those meetings are set out on page 22 of this report.

5.2 Board Committees

ROLE, MEMBERSHIP AND CHARTERS

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

The Board has established standing Committees to assist with the effective discharge of its duties, as follows: Audit and Risk Management Committee; and Appointments and Compensation Committee. The Board during the year has also established ad hoc committees.

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

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

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

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

AUDIT AND RISK MANAGEMENT COMMITTEE

Composition

The charter provides that the Committee must comprise: at least three Non-Executive Directors, a majority of whom are required to be independent; members who are financially literate; at least one member shall have relevant qualifications and experience; some members shall have an understanding of the industry in which Ovato operates; and the Chair must be an independent Non-Executive Director who is not the Chair of the Board. Mr McMaster was appointed Chair of this Committee on 31 May 2019. He was previously a Partner of KPMG with over 30 years audit experience, and is appropriately qualified for this role. He is not an independent Director by virtue of being nominated by the Hannan family. Following the resignation of Mr Sinclair and Mr Bickford-Smith during the financial year, the committee no longer comprises the minimum number required and no longer satisfies the majority independence requirement. At the appropriate time a further independent Non-Executive Director is intended to be appointed to this Committee.

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

Responsibilities

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

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

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

APPOINTMENTS AND COMPENSATION COMMITTEE

Composition

The charter provides that the Committee shall consist of a minimum of two Non-Executive Directors. Following the resignation of Ms Tang and Mr Bickford-Smith during the financial year, Ms Karai was appointed the Chair of the Committee and Mr McMaster was appointed a member of the committee. Under the ASX Principles, the committee no longer satisfies the minimum number required and no longer has a majority of independent directors. This is a reflection of the current composition of the Board and is intended to be addressed at an appropriate time with the intention that the Committee will revert to a minimum of three directors, the majority of which are independent.

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

Responsibilities

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

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

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

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

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

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

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

Under the ASX Principles, the committee no longer satisfies the minimum number required and no longer has a majority of independent directors. This is a reflection of the current composition of the Board and is intended to be addressed at an appropriate time with the intention that the Committee will revert to a minimum of three directors the majority of which are independent.

5.3 Risk Management

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

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

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

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

APPROACH TO RISK MANAGEMENT

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

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

The Risk Management Framework is periodically reviewed by the Audit and Risk Management Committee to provide assurance as to its adequacy and effectiveness, with the last review being undertaken in June 2020.

RISK MANAGEMENT FRAMEWORK

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

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

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

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

MATERIAL ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISKS

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

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

COVID-19 Global Pandemic

The unprecedented global crisis arising from the COVID-19 global pandemic has significantly impacted Ovato's business. The most significant economic risk currently faced by Ovato is the uncertainty relating to the extent, and the continued duration of, the material downturn in the Group's revenues that has occurred in the initial months of the adverse economic conditions caused by the pandemic, and the inability to calculate its full impact with confidence.

To initially mitigate this risk, Ovato has acted swiftly, by implementing Business Continuity procedures, managing reduced production volumes by shutting down capacity whilst retaining flexibility to ramp up or down at short notice, and by cutting costs by moving staff to a shortened working week.

Future mitigation action is underway, through restructuring of the business to reduce operational capacity to reflect reduced forecast revenues.

COVID-19 also poses a significant risk to the health and wellbeing of Ovato employees, customers, suppliers and contractors, and to the availability of employees. To mitigate this risk, Ovato has acted swiftly to implement staff work from home arrangements, a staff travel ban, increased cleaning and disinfection at all production and office sites, a ban on external visitors and site meetings, and completion of daily health check questionnaires by all staff continuing to work at production sites.

Economic Conditions

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

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

The adverse impact of the unprecedented COVID-19 economic conditions has seen activity and demand volumes reduce during the pandemic. This represents a significant acceleration in the anticipated timing of volume declines which were previously forecasted as likely to have occurred, of which the timing and extent of recovery is uncertain.

Action is underway to mitigate these risks and their future impacts through restructuring of the business to reduce operational capacity.

Operations and Service Continuity

There is a risk of:

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

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

Ovato mitigates these risks through:

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

Other Health and Safety

In addition to COVID-19 health risks, there is a risk of a major health and safety incident which could result in a serious injury or fatality at an Ovato workplace. Ovato mitigates this risk by implementing training, policies, procedures and systems to comply with health and safety requirements, which are supported by the Board-approved Group Safety Plan.

Financial Management

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

Regulatory and Legislative Requirements

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

Technology and Cyber Security

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

MANAGEMENT REPRESENTATION

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

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

INTERNAL AUDIT

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

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

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

5.4 Investor Relations

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

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

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

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

5.5 Governance Policies

CODE OF CONDUCT

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

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

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

It stipulates that:

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

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

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

WHISTLE BLOWER POLICY

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

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

TRADING IN OVATO SHARES

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

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

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

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

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

DISCLOSURE

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

DISCLOSURE AND SHAREHOLDER COMMUNICATION POLICY

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

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

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

DIVERSITY POLICY

Diversity Policy Statement

Ovato strives to provide industry leadership for workforce diversity by:

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

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

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

Board of Directors	25%
Ovato Executive Management*	15%
Ovato Group Employees	26%

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

6. Other Matters

6.1 Remuneration Policy

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

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

6.2 Principal Activities

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

6.3 Results

The consolidated result after income tax of the Ovato Group for the financial year ended 30 June 2020 was a $108.8 million loss (2019: $84.3 million loss).

6.4 Dividends

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

6.5 Review of Operations

OVERVIEW

This is the first set of full year Group 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 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 $108.8 million was recorded for the 2020 year up $24.5 million on prior period, including a net benefit upon the adoption of AASB 16 of $2.5 million. EBITDA before significant items at $32.4 million was up $1.6 million on the previous corresponding period ("pcp") after a favourable impact of $23.2 million from AASB 16. FY20 full year EBITDA* was $9.2 million, down 70.0% year on year on 19.4% lower revenues.

While our key tier 1 food and beverage customers continue to use the catalogue channel to promote their products, they are currently at reduced pagination. Our other retail categories have fared even less well with volumes well down on pre COVID-19 levels. The current Phase 4 level shutdown in Melbourne has created additional uncertainty about demand from key catalogue and publishing customers. In this environment it is too early to predict what our "new normal" will look like.

Given a $130.0 million or 19.4% fall in sales in FY20 compared to FY19, it is obvious that our fixed cost base is not aligned to revenues and further restructuring to both our manufacturing and support infrastructures is required.

To facilitate the restructure at an affordable cost, the company has sought to terminate the existing Print Australia Enterprise Bargaining Agreement ("EBA") and replace it with more affordable redundancy scales. This will enable the company to cost effectively realign the fixed cost base, produce operational savings, and assist with being able to attract new equity into the business. Restructuring under the existing Print Australia EBA is prohibitive given the company's current financial position.

Pre AASB 16 results compared to pcp are as follows:

- FY20 sales revenue at $539.3M is $130.0M or 19.4% lower
- FY20 EBITDA* at $9.2M down 70.0% or $21.6M
- Ovato Australia EBITDA* of $11.5M down $14.8M or 56.2%
- Ovato New Zealand EBITDA loss* of $2.3M down $6.9M
- Net debt pre AASB 16 at June 2020 was $72.9M vs December 2019 at $90.9M and June 19 at $44.7M

* Before significant items and AASB 16

FY20 Group sales at $539.3M were down $130.0M or 19.4%, primarily due to $105.7M lower revenues at Ovato Australia. This was mainly from lower Print and Residential Distribution sales in weak retail markets, combined with the unfavourable COVID-19 impact in the second half of the year. Revenues at Ovato New Zealand were $24.3M lower mostly in heatset print after the business was forced to temporarily close by Government directive as that country entered lockdown for several weeks at the onset of COVID-19.

Year to date sales at February 2020 of $415 million were 9% or $43 million lower pcp in tough retail markets. The onset of COVID-19 greatly impacted the Australasian retail sector from March 2020 with sales revenues in the period from March to June 2020 down by 41% or $87 million pcp as major reductions in volumes occurred across all key sectors. Revenues in catalogues for the year were down 21% pcp, with food and beverage catalogues down 10% full year (with first half sales up 1% pcp, while second half sales were down 21% as a result of COVID-19). Non-food & beverage catalogue sales fell by 26% full year (with first half sales down 14% and second half down 43%).

Due to the impact of COVID-19 on the Group, Ovato has received financial support from the Australian Government's JobKeeper wage subsidy scheme, and the New Zealand Government's Wage Subsidy Scheme. Ovato also sought and received the continuing support and understanding of its financiers, suppliers and customers.

The Group sought and obtained rent concessions from some lessors. These included rent-free periods, deferrals or rent reductions. Total deferrals received at 30 June 2020 was $4.1 million. Lessors typically deferred rent for three months during the financial year. Repayment of the deferred amounts vary from 12 months to over the remaining lease term. Rental discounts of $0.2 million were received.

The Group also negotiated an agreement for deferral in respect of employee PAYG-Withholding and GST liabilities for the last quarter of 2020 with the ATO. Whilst all Group past and current employee PAYG-Withholding liabilities are now up to date as at 31 August 2020, the deferred amount of all tax liabilities at 30 June 2020 was $8.0 million. The ATO has agreed to a payment plan in this regard, with $1.7 million of tax debt since repaid by 31 August 2020. The balance of the debt will be paid off by agreed instalments, which the ATO will further review at the end of February 2021 (such that the tax debt has been classified as a current liability at 30 June 2020). All GST due from July 2020 has been paid in full by the due date.

The company's plans to de-leverage the business via possible asset sales and/or equity re-capitalisation (as announced at the half year results in February 2020) have been delayed due to the widespread impact of COVID-19. Such plans continue to be pursued and are expected to progress over coming months subject to market conditions permitting.

OVATO AUSTRALIA

Ovato Australia sales at $449.3 million were down $105.7 million or 19.0% on pcp mostly from $77.2 million lower print sales, with $48.8 million reductions in print catalogues and $28.4 million 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.

While food and beverage catalogue sales were down $49 million pcp only $7 million was to the tier 1 food and beverage category, while the non-food and beverage sector sales fell by $42 million or 26% pcp.

Residential Distribution sales fell 24.8% or $19.9 million on lower existing customer volumes due to very slow COVID-19 retail conditions, which is resulting in a very tight focus on cost controls to support the walker network.

Ovato Australia's EBITDA* at $11.5 million was down $14.8 million or 56.2% due mostly to lower print and residential distribution revenues from weak retail markets and the onset of COVID-19. This was partially offset by NSW site consolidation savings, tight cost controls and government wage subsidies e.g. the JobKeeper scheme.

Subdued consumer confidence saw a continuation of soft retail conditions where the volumes of magazines and real estate dependent publications fell further than that anticipated when the half year results were announced in February. Year-on-year Australian newspaper and magazine print revenues are down 55% and 13% respectively to $12 million and $66 million.

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

OVATO NEW ZEALAND

Ovato New Zealand EBITDA* loss of $2.3 million is down $6.9 million year on year.

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

* Before significant items and AASB 16

OTHER

Full year FY20 statutory loss after tax was $108.8 million vs $84.3 million loss in FY19, up $24.5 million pcp mostly due to lower EBITDA, higher significant items (due to higher non-cash impairments) and higher income tax expense partially offset by lower depreciation expense.

Net cash flow (pre AASB 16) in FY20 of negative $27.8 million was worse by $15.3 million pcp with lower EBITDA, higher capital expenditure (new press) and no equity proceeds in FY20 (vs issue in FY19), partially offset by lower working capital. Net debt (pre AASB 16) at $72.9 million is up $28.2 million from June 2019.

SIGNIFICANT ITEMS

Significant items booked in FY20 were $72.5 million pre-tax up $8.9 million pcp. Cash significant items at $31.8 million in FY20 included employee related costs, press relocation costs and NSW site consolidation related items. Non-cash significant items at $40.7 million were up $21.7 million year on year due to higher impairments of plant and equipment and goodwill.

DEBT

The company has a Net debt position at June 2020 of $72.9 million (excluding lease liabilities from the adoption of AASB 16), which is $18.0 million lower than at December 2019 and $28.2 million higher than June 2019. Following the onset of COVID-19 the Group has taken a number of temporary actions to manage cash flow in order to offset lower sales revenues and protect liquidity. This includes accessing the Australian and New Zealand Government wage support schemes, agreeing new terms with key suppliers including the ATO, rent concessions and standing down staff to lower hours in line with lower revenues.

6.6 Significant Changes in the state of affairs

The consolidation of Ovato's NSW sites was completed during the 2020 financial year with the closure of the Moorebank print site. Some plant, equipment and personnel from the Moorebank site were consolidated at Warwick Farm, Ovato's largest and most modern print facility.

COVID-19 has significantly impacted Ovato's business. In response to the decrease in revenues, from 1 April 2020 the Group's workforce temporarily agreed to a shortened working week. A small number of roles were stood down without pay. Some companies within the Group satisfied the eligibility criteria for a government wage subsidy. The subsidy is supporting the business through the COVID-19 impact.

The Group continues to receive the support from its financers with waivers and covenant relief.

6.7 Risks, likely developments and future prospects

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

As noted under the Material Economic, Environmental and Social Sustainability Risks on page 28, the unprecedented global crisis arising from the COVID-19 global pandemic has significantly impacted Ovato's business. The most significant economic risk currently faced by Ovato is the uncertainty relating to the extent, and the continued duration of, the material downturn in the Group's revenues that has occurred in the initial months of the adverse economic conditions caused by the pandemic, and the inability to calculate its full impact with confidence.

Ovato's management team has acted swiftly by managing capacity by shutting down equipment at all sites whilst retaining the flexibility required to ramp up or down quickly and ensuring that our customers continue to be well served. In response to reduced revenues, the workforce agreed to a shortened working week, while all executives and Directors agreed to an initial 40% pay reduction. The Group continues to receive the support and understanding of its employees, financiers, suppliers, ATO and customers. Ovato remains confident that it will continue in its ability to maintain our service standards with plants operating in all Australian states, albeit at reduced capacity. Further action is underway to mitigate to the fullest extent possible, the adverse impact of the acceleration in the anticipated rate of future activity volume declines, through restructuring of the business to reduce operational capacity to reflect the reduced forecast revenues from these volume declines.

Under normal economic and operating conditions, Ovato believes there are a number of inherent material risks, both specific to the industry in which it operates, and of a general nature, which may impact its ability to achieve its business strategies and objectives.

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

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

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

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

6.8 Environmental regulation performance

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

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

6.9 Share issues

No shares were issued during the financial year, (2019: 222 million shares issued).

6.10 Share rights

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

6.11 Share Buy Back

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

6.12 Non-audit services

The Audit and Risk Management Committee reviewed the non-audit services provided by Deloitte Touche Tohmatsu. These non-audit services include taxation and related compliance services and corporate advisory services. The following non-audit services were provided during the 12 months to 30 June 2020:

Description of non-audit services <a>	Australia	New Zealand
	$	$
Taxation and related compliance services	166,815	32,937
Corporate advisory services	237,115	-
Total non-audit services	**403,930**	**32,937**

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

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

6.13 Auditor's independence declaration

In accordance with the Audit Independence requirements of the Corporations Act 2001, the Directors have received and are satisfied with the Auditor's Independence Declaration provided by the Ovato Group external auditors, Deloitte Touche Tohmatsu. The Independent Auditor's Declaration has been attached to the Directors' Report on page 41.

6.14 Directors' and Officers' liability insurance and indemnity

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

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

6.15 Significant events after balance date

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, other than:

- Subsequent to year end, Ovato entered into a new A$50 million Receivables Financing Facility on 5 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 an equal first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and New Zealand. This is also disclosed in Note 12(e).
- Ovato Print Pty Ltd filed an application in the Fair Work Commission on 29 July 2020 for the termination of the PMP Print, Distribution and Digital Enterprise Agreement 2018, which has a nominal expiry date of 30 June 2020. This application is set down to be heard over 3 days from 30 September 2020.
- 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.

6.16 Proceedings on behalf of the Company

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

6.17 Rounding of amounts

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

Remuneration report

7. Remuneration Report

7.1 Coverage

This remuneration report outlines the Director and executive remuneration arrangements in accordance with the requirements of the Corporations Act 2001 and its Regulations. It covers the Directors of Ovato, the CEO, and other Key Management Personnel (refer Section 7.6) with the authority and responsibility for planning, directing and controlling the activities of Ovato.

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

7.2 Remuneration principles

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

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

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

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

- Executive remuneration packages are appropriately benchmarked against the market for comparative roles in similar sized entities at the time of appointment and upon review to attract and retain critical talent;
- Executive remuneration packages for key middle and senior personnel include an 'at risk' variable component that is developed in line with Ovato's short term incentive program; and
- Variable pay schemes align to key areas of focus for the business.

7.3 Remuneration structure

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

The three tiers of the structure are:

- Fixed remuneration made up of base salary including statutory superannuation as prescribed by appropriate country legislation and other incidental benefits;
- Short term performance incentives ("STI") and other accepted variable pay schemes; and
- Longer term based incentives - were previously through an employee share rights plan ("LTI"). The Board has been considering a replacement cash based long term incentive scheme but any replacement scheme has been deferred due to company performance and the unfavourable global market conditions.

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

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

BASE SALARY

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

SUPERANNUATION

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

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

OTHER BENEFITS

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

VARIABLE REMUNERATION

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

SHORT TERM INCENTIVES ("STI")

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

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

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

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

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

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

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

No senior leaders will be paid an STI under the STI Plan in the 2020 financial year due to business performance. EBITDA (before significant items) of $32.4 million was significantly less than the budgeted EBITDA. The safety target for the Group was a Total Recordable Injury Frequency Rate ("TRIFR") of 8.56 for the year. To achieve this target the Company needed to achieve a 20% reduction (based on a projected reduction in hours of 15%) on the TRIFR for the previous year of 10.09. The Company did not achieve this reduction with a TRIFR for the 2020 financial year of 13.19. Whilst personal objectives were generally achieved, as the EBITDA and safety hurdle was not achieved no payments were made against these personal objectives.

LONG TERM INCENTIVES ("LTI")

Due to the present operating environment the Appointments and Compensation Committee has taken the view that the LTI programme should be set-aside until such time conditions return to some level of normalisation. At the appropriate time, the Appointments and Compensation Committee will endorse a revised scheme, for implementation among senior Executives of the business.

No rights were granted during FY20 and no further performance rights will be granted under the LTI Plan.

LTIs – PERFORMANCE RIGHTS

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

COVID-19

In response to the impact of COVID-19 on the Group's revenues, from 1 April 2020 all staff were shifted to a flexible working week. A small number of employees were stood down without pay. The majority of the employing companies within the Group satisfied the eligibility criteria for the Australian government's JobKeeper wage subsidy and the New Zealand Government's Wage Subsidy Scheme. The schemes are supporting the business and employees through the COVID-19 impact.

Those employees stood down under JobKeeper have progressively returned to work to undertake duties as funded and allowed for, by the subsidy. As a general principle employees have been paid for the hours they have worked, if greater than the JobKeeper subsidy, with these hours determined by customer activity. Work has been conducted both remotely and on site with the introduction of strict hygiene and safe social distancing protocols.

Senior Leaders, including the Executive Team and Board members, have continued to work full time hours but agreed to a temporary wage reduction during this time.

Remuneration realised by the Executive Director and Key Management Personnel for the year ended 30 June 2020

2020		Fixed annual remuneration <a>	Cash STI <b>	Total Remuneration Realised during FY20
		$	$	$
K Slaven	MD and CEO	589,960	—	589,960
S Ellis <c>	MD - Ovato NZ Limited	287,616	—	287,616
P Gardiner <d>	MD - Ovato NZ Limited	143,331	—	143,331
G Stephenson	CFO	431,664	419,583	851,247

Table 2. Remuneration realised by the Executive Director and Key Management Personnel for the year ended 30 June 2020.

The table discloses total remuneration realised during the 2020 financial year. This includes fixed annual remuneration and cash STI.

<a> Fixed annual remuneration based on current gross salary package, which includes base salary, annual leave and superannuation contributions. In response to the financial impact of COVID-19, all KMPs took a 40% reduction in salaries from 1 April 2020 to 30 June 2020.

<b> No STI payable for the 2020 financial year as the EBITDA hurdle was not achieved. Mr Stephenson received a retention payment of $300,833 and a bonus of $118,750 for the successful completion of the bond and rights issues.

<c> Ceased as MD of Ovato (NZ) Limited on 02/02/20 and retired on 31/03/20. New Zealand dollar payment converted into Australian dollars at the average profit and loss exchange rate prevailing during 2020. Remuneration includes housing allowance.

<d> Appointed 03/02/20. New Zealand dollar payment converted into Australian dollars at the average profit and loss exchange rate prevailing during 2020.

7.4 Senior executive performance evaluation

Ovato rewards executives for both Individual and Company performance. At the beginning of the financial year, the CEO sets objectives for each direct report, which are reviewed by the Appointments and Compensation Committee. This includes corporate goals such as EBITDA (before significant items), safety, organisational values and personal objectives, including activities to drive the development of business opportunities across the Group. The CEO reviews performance against objectives during the year and at the financial year end and the outcomes are used to determine overall performance and STI payments. The CEO provides recommendations to the Appointments and Compensation Committee in relation to the STI payments and the performance of the executives, in relation to these payments, for the Committee to ratify.

7.5 CEO

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

EMPLOYMENT CONTRACT

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

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

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

SUMMARY OF REMUNERATION STRUCTURE

Fixed Remuneration:

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

Short Term Incentive ("STI"):

STI of up to 75% of his fixed remuneration ("Maximum STI") FY20, comprising of the following components:

(a) performance against EBITDA target being 70% of Maximum STI ("EBITDA Target"); and

(b) performance against other indicators set by the board being 30% of maximum STI ("Other Indicators").

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

Long Term Incentive ("LTI"):

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

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

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

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

Remuneration summary

The remuneration paid to Mr Slaven for the year ended 30 June 2020 is set out in the table below:

Salary Component	2020
- Base Salary (including superannuation) <a>	$589,960
- Non-Monetary Benefits	—
- LSL	$10,475
- STI: Cash <b>	—
- LTI : Cash <c>	—
Total	$600,435

Table 3. Chief Executive Officer remuneration.

<a> Appointed MD and CEO on 27/02/18. Remuneration for the period 01/07/19 to 30/06/20 was on a base salary including superannuation of $650,000 per annum. In response to the financial impact of COVID-19, Mr Slaven took a 40% reduction in salary from 1 April 2020 to 30 June 2020.

<b> STI of up to a maximum of 75% of annual FY20 remuneration, comprising of an EBITDA target (70%) and other indicators determined by the Board (30%). The Board has the discretion to withhold payment of the EBITDA target component if achievement of at least 90% of the EBITDA target is not achieved. No STI payable for the 2020 financial year as the EBITDA hurdle was not achieved.

<c> A maximum award of $2,437,500 subject to satisfying a 3-year cumulative EBITDA performance target. Where less than 80% of target is achieved no payment is made. Where between 80% and 110% of the target is achieved, a corresponding proportion (i.e. between 50% and 100%) of the maximum award may be paid. The target is tested on 30 June 2021. No amount has been provided as at 30 June 2020 because the EBITDA hurdle is not forecast to be achieved.

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

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

K Slaven	MD and CEO (Refer section 7.5 for remuneration details.)
S Ellis	MD - Ovato NZ Limited (Ceased as MD 02/02/20 and retired 31/03/20)
P Gardiner	MD - Ovato NZ Limited (appointed 03/02/20)
G Stephenson	CFO

Employment contracts

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

Name	Notice Period Ovato	Notice Period Employee	Termination Payments
P Gardiner	6 Months	6 Months	No specific termination payment provided for.
G Stephenson	3 Months	3 Months	No specific termination payment provided for.

Table 4. Executive Employment Contracts.

Remuneration of Key Management Personnel

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

Key Management Personnel (excluding Non-Executive Directors)			Short Term			Long Term			Total Excluding Rights	Equity Rights <f>	Grand Total
			Salary	Non-Monetary benefits	STI	Post Employment Superannuation	LSL	LTI			
			$	$	$	$	$	$	$	$	$
K Slaven		2020	568,957	—	—	21,003	10,475	—	600,435	—	600,435
	<a>	2019	666,969	—	—	20,531	4,588	—	692,088	—	692,088
S Ellis	<b>	2020	279,239	—	—	8,377	—	—	287,616	—	287,616
	<b>	2019	317,851	—	—	9,258	—	—	327,109	—	327,109
P Gardiner	<c>	2020	139,156	—	—	4,175	—	—	143,331	—	143,331
G Stephenson	<d>	2020	410,661	—	419,583	21,003	7,510	—	858,757	—	858,757
		2019	454,469	—	—	20,531	7,503	—	482,503	3,701	486,204
Total Remuneration KMP <e> (excluding Non-Executive Directors)		**2020**	**1,398,013**	**—**	**419,583**	**54,558**	**17,985**	**—**	**1,890,139**	**—**	**1,890,139**
		2019	1,439,289	—	—	50,320	12,091	—	1,501,700	3,701	1,505,401

Table 5. Key Management Personnel (excluding Non-Executive Directors) remuneration of the Company and the Group.

<a> Appointed MD and CEO on 27/02/18. Remuneration for the period 01/07/18 to 16/09/18 was on a base salary including superannuation of $800,000 per annum. Remuneration for the period 17/09/18 to 30/06/19 was on a base salary including superannuation of $650,000 per annum.

<b> Ceased as MD of Ovato (NZ) Limited on 02/02/20 and retired on 31/03/20. New Zealand dollar payment converted into Australian dollars at the average profit and loss exchange rate prevailing during 2020 and 2019. Remuneration includes housing allowance. Mr Ellis continued in a consulting role past 31/03/20. Payments received for this role are not shown in the above table.

<c> Appointed on 03/02/20. New Zealand dollar payment converted into Australian dollars at the average profit and loss exchange rate prevailing during 2020.

<d> Short term incentive includes a retention payment of $300,833 and a bonus of $118,750 for the successful completion of the bond and rights issues.

<e> In response to the financial impact of COVID-19, all KMPs took a 40% reduction in salaries from 1 April 2020 to 30 June 2020.

<f> This is based on the accrued accounting value in accordance with *AASB 2 Share-based Payment*.

Key Management Personnel achievement of performance hurdles

	Fixed Remuneration <a>	At Risk STI <a>	At Risk Cash LTI <a>	At Risk Equity Settled LTI <a>	Annual Remuneration Paid During the Year	Actual STI <b>	Cash LTI <c>	Equity Rights <c>	Actual Reward	Proportion of Remuneration Performance Related <b>
	%	%	%	%	$	$	$	$	$	%
K Slaven	33	25	42	—	589,960	—	—	—	589,960	0%
S Ellis <d>	67	33	—	—	287,616	—	—	—	287,616	0%
P Gardiner <d>	77	23	—	—	143,331	—	—	—	143,331	0%
G Stephenson	67	33	—	—	431,664	419,583	—	—	851,247	14%

Table 6. Key Management Personnel achievement of performance hurdles.

<a> The table above represents the total remuneration mix for KMP in the current year. The at risk STI is disclosed at target levels, the at risk equity settled LTI amount is provided based on the value granted in the current year and the at risk cash LTI is the maximum amount entitled to in the current year.

<b> No STI payable for the 2020 financial year as the EBITDA hurdle was not achieved. Mr Stephenson received a retention payment of $300,833 and a bonus of $118,750 for the successful completion of the bond and rights issues. Percentage for Mr Stephenson of performance related remuneration does not include the retention payment of $300,833.

<c> No equity settled LTIs were granted in FY20. Mr Slaven’s entitlement is based on a cash based LTI scheme which is described under LTIs at 7.5.

<d> Mr Ellis ceased as MD of Ovato (NZ) Limited on 02/02/20 and retired on 31/03/20. Mr P Gardiner appointed as MD of Ovato (NZ) Limited on 03/02/20. Remuneration paid in New Zealand dollars. New Zealand dollar remuneration converted into Australian dollars at the average profit and loss rate prevailing during the year.

Share rights

No Directors were granted or hold rights over shares of Ovato Limited. During and since the end of the financial year none of the Directors and top 5 remunerated officers were granted share rights. No share rights vested to management during the year ended 30 June 2020.

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

	Balance 1 July 2019	Granted as Remuneration	Rights Exercised	Rights Lapsed	Rights Cancelled	Other	Balance 30 June 2020
2020							
K Slaven	—	—	—	—	—	—	—
G Stephenson	—	—	—	—	—	—	—
P Gardiner <a>	—	—	—	—	—	—	—
S Ellis <b>	—	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**—**	**—**	**—**

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

Table 7. Rights holdings Key Management Personnel (excluding Non-Executive Directors).

No rights were granted in FY20

<a> Appointed on 03/02/20.

<b> Retired on 31/03/20.

<c> Lapse of 100% of TSR and EBITDA performance rights issued in June 2016. The rights lapsed as the performance hurdles were not achieved.

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

Shareholdings of Directors and Key Management Personnel

2020	Balance 1 July 2019	On Exercise of Rights	Acquired	Disposed	Other	Balance 30 June 2020
Directors						
M Hannan <a>	372,734,555	—	21,000,000	—	—	393,734,555
K Slaven	386,620	—	—	—	—	386,620
D Karai	121,428	—	100,000	—	—	221,428
A McMaster	—	—	—	—	—	—
M Bickford-Smith <b>	645,653	—	—	—	(645,653)	—
T Sinclair <b>	—	—	—	—	—	—
W Tang <c>	—	—	—	—	—	—
Total	**373,888,256**	**—**	**21,100,000**	**—**	**(645,653)**	**394,342,603**
Executives						
S Ellis <d>	—	—	—	—	—	—
P Gardiner <e>	—	—	—	—	—	—
G Stephenson	780,378	—	—	—	—	780,378
Total	**374,668,634**	**—**	**21,100,000**	**—**	**(645,653)**	**395,122,981**

Table 8. Share holdings of Directors and Key Management Personnel.

<a> Direct shareholding 50,536,320 and indirect shareholding 343,198,235 as at 30 June 2020.

<b> Resigned on 18/11/19.

<c> Resigned on 10/09/19.

<d> Retired on 31/03/20.

<e> Appointed on 03/02/20

7.7 Non-Executive Director Remuneration

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

The maximum allowance for the aggregate amount of fees has remained unchanged since 2004 at $750,000 per annum. In the last financial year, the Board paid $679,401 of this amount for Non-Executive Directors' remuneration - as shown in Table 9.

In response to the financial impact of COVID-19, all Directors took a 40% reduction in salaries and fees from 1 April 2020 to 30 June 2020. Mr Hannan waived his fees during this period and elected to not receive the additional remuneration available for being Chair after his appointment on 19/11/19. In the current financial year, the Board paid Non-Exective Director remuneration of $419,242.

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

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

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

* Inclusive of statutory superannuation of 9.5%.

7.8 Performance assessment

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

7.9 Retirement benefits

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

Specified Director Remuneration

Specified Directors			Salary & Fees $	Non - Monetary Benefits $	Post Employment Superannuation $	Short Term Incentive $	Long Service Leave $	Long Term Incentive $	Equity Rights $	Grand Total $
Total Remuneration: Non-Executive Directors										
M Hannan (Board Chair)	<a>	2020	56,250	—	5,938	—	—	—	—	62,188
		2019	86,869	—	8,253	—	—	—	—	95,122
M Bickford-Smith	<b>	2020	81,896	—	7,780	—	—	—	—	89,676
		2019	196,550	—	18,672	—	—	—	—	215,222
D Karai	<c>	2020	92,704	—	8,807	—	—	—	—	101,511
		2019	99,869	—	9,488	—	—	—	—	109,357
T Sinclair	<d>	2020	36,667	—	3,483	—	—	—	—	40,150
		2019	88,000	—	8,360	—	—	—	—	96,360
W Tang	<e>	2020	17,111	—	1,626	—	—	—	—	18,737
		2019	88,000	—	8,360	—	—	—	—	96,360
A McMaster	<f>	2020	97,699	—	9,281	—	—	—	—	106,980
	<g>	2019	61,169	—	5,811	—	—	—	—	66,980
Total		**2020**	**382,327**	**—**	**36,915**	**—**	**—**	**—**	**—**	**419,242**
		2019	620,457	—	58,944	—	—	—	—	679,401
Total Remuneration: Executive Directors										
K Slaven (CEO)		2020	568,957	—	21,003	—	10,475	—	—	600,435
	<h>	2019	666,969	—	20,531	—	4,588	—	—	692,088
Total		**2020**	**568,957**	**—**	**21,003**	**—**	**10,475**	**—**	**—**	**600,435**
		2019	666,969	—	20,531	—	4,588	—	—	692,088
Total Remuneration: Directors										
	<i>	**2020**	**951,284**	**—**	**57,918**	**—**	**10,475**	**—**	**—**	**1,019,677**
		2019	1,287,426	—	79,475	—	4,588	—	—	1,371,489

Table 9. Specified Director remuneration.

<a> Appointed Board Chair on 19/11/19. Elected to not receive additional remuneration available for being Chair of the Board. In response to the financial impact of COVID-19, waived fees from 1 April 2020 to 30 June 2020.

<b> Resigned as Board Chair on 18/11/19.

<c> Appointed Chair of the Appointments and Compensation Committee on 19/11/19 and member of the Audit and Risk Management Committee on 19/11/19.

<d> Resigned on 18/11/19.

<e> Resigned on 10/09/19.

<f> Appointed member of the Appointments and Compensation Committee on 19/11/19.

<g> Appointed a Non-Executive Director on 04/10/18. A member of the Audit and Risk Management Committee from 22/02/19 to 30/05/19. Appointed Chair of the Audit and Risk Management Committee on 31/05/19.

<h> Appointed MD and CEO on 27/02/18. Remuneration for the period 01/07/18 to 16/09/18 was on a base salary including superannuation of $800,000 per annum.

Remuneration for the period 17/09/18 to 30/06/19 was on a base salary including superannuation of $650,000 per annum.

<i> In response to the financial impact of COVID-19, all Directors took a 40% reduction in salaries from 1 April 2020 to 30 June 2020 with the exception of Mr Hannan. Refer to footnote <a>.

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

Michael Hannan
Chair

Kevin Slaven
Managing Director and Chief Executive Officer

Sydney, 11th September 2020

Deloitte.

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

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

11 September 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 audit of the financial statements of Ovato Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JLGorton

J L Gorton
Partner
Chartered Accountants

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

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

CFO's review 2020

Geoff Stephenson
B.Bus CPA GAICD

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

Sales Revenue

Sales revenue for the year ended 30 June 2020 was $539.3 million down $130.0 million or 19.4%, due mainly to lower sales at Ovato Australia down $105.7 million. At Ovato Australia, sales of $449.3 million were down 19.0% mostly from $77.2 million lower print sales, with $48.8 million reductions in print catalogues and $28.4 million lower print magazine & newspapers. While tier 1 catalogue food & beverage revenues were consistent on the previous corresponding period ("pcp") in H1 of FY20, sales in H2 fell 21% on the pcp but the bigger decline was in non food & beverage catalogues down 43% pcp in H2. Residential Distribution fell 24.8% or $19.9 million on lower existing customer volumes in a very weak market. Ovato New Zealand sales were down $24.3 million or 21.3% mainly due to lower heatset and sheetfed revenues. During the year, Retail Distribution continued to expand their product range into retail outlets to partially offset the impact of lower magazine revenues.

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

On 1 July 2019 the Group adopted *AASB 16 Leases*. 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.

EBITDA including AASB 16 and before significant items was $32.4 million, up $1.6 million pcp after a favourable impact of $23.2 million from AASB 16. The full-year EBITDA (before AASB 16 and significant items) at $9.2 million, was down 70.0% or $21.6 million on the prior year EBITDA (before significant items) of $30.8 million. Ovato Australia EBITDA of $11.5 million (before AASB 16 and significant items) was down $14.8 million or 56.2% as improved profits at Retail Distribution were offset by lower print and residential distribution revenues from weak retail/COVID-19 markets, which were partially offset by NSW site consolidation savings, tight cost controls and wage subsidies. Retail Distribution has reduced costs, higher price/mix and new products which all offset lower volumes. Ovato New Zealand EBITDA (before AASB 16 and significant items) at $2.3 million loss was down $6.9 million year on year mainly due to lower print revenues.

Net Loss After Tax

A statutory net loss after tax of $108.8 million was recorded for FY20 which was $24.5 million higher than the $84.3 million loss in the previous year, mostly due to lower EBITDA, higher significant items and higher income tax expense partially offset by lower depreciation expense. It included a net benefit of $2.5 million from the adoption of AASB 16. EBITDA (before significant items) at $32.4 million was up by $1.6 million on last year after a favourable impact of $23.2 million from AASB 16.

Net Cash Flow [1]

The Group's net cash flow (pre AASB 16) at negative $27.8 million was $15.3 million worse compared to FY19, as lower EBITDA (before significant items and pre AASB 16) and higher capex for the new press were partially offset by lower working capital movements.

Balance Sheet

At year end, net assets for the Group were $17.8 million, down $124.1 million from $141.9 million in the previous year, mainly due to the $108.8 million statutory loss in fiscal year 2020. Current assets at $161.1 million were down by $68.0 million on mainly lower debtor, inventory and cash balances. Current liabilities at $222.4 million were down $4.5 million and includes $23.9 million of lease liabilities.

In fiscal year 2020, the company issued a new A$50 million Receivables Financing Facility ('RFF') with Asset Secure for 3 years to replace the previous ANZ facility. In addition, during the year the company sought and received various waivers from financiers. On 31st July 2020, Asset Secure's RFF was replaced by a 3 year RFF with Scottish Pacific.

1 Net cash flow equals net cash flows from operations less investing cash flows and proceeds from share issue.

Highlights

$M	2020	2020 Pre AASB 16~	2019	% Change Pre AASB 16~
EBITDA (before significant items)	**32.4**	**9.2**	30.8	(70.0%)
Depreciation & amortisation	**(21.2)**	**(21.2)**	(28.6)	26.1%
Depreciation - Right-Of-Use Asset	**(15.8)**	**—**	—	—
EBIT (before significant items)	**(4.5)**	**(11.9)**	2.2	—
Financing costs (before significant items)	**(8.5)**	**(8.5)**	(8.4)	(1.0%)
Financing costs - Lease Liabilities	**(9.8)**	**—**	—	—
Income tax benefit (before significant items)	**6.2**	**5.4**	1.8	—
Net Loss after income tax (before significant items)	**(16.7)**	**(15.0)**	(4.4)	—
Significant items	**(72.5)**	**(78.5)**	(63.6)	(23.4%)
Income tax expense on significant items	**(19.6)**	**(17.8)**	(16.3)	(9.3%)
Net Loss after income tax	**(108.8)**	**(111.2)**	(84.3)	(32.0%)

Segment Revenue

$M	2020	2019	% Change
Sales Revenue			
Ovato Australia Group	**449.3**	554.9	(19.0%)
Ovato New Zealand Group	**90.0**	114.3	(21.3%)
Total	**539.3**	669.2	(19.4%)

Segment EBITDA (before significant items)

$M	2020	2019	% Change
EBITDA (before significant items)			
Ovato Australia Group	**31.2**	26.3	18.7%
Ovato New Zealand Group	**1.2**	4.6	(73.1%)
Total	**32.4**	30.8	5.1%

Segment EBITDA (before significant items) - pre AASB 16~

$M	2020	2019	% Change
EBITDA (before significant items)			
Ovato Australia Group	**11.5**	26.3	(56.2%)
Ovato New Zealand Group	**(2.3)**	4.6	—
Total	**9.2**	30.8	(70.0%)

~ 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.

Cash Flow

$M	2020	2020 Pre AASB 16~	2019
EBITDA (before significant items)	**32.4**	**9.2**	30.8
Borrowing costs	**(8.8)**	**(8.8)**	(9.3)
AASB 16 lease interest payments	**(8.4)**	**—**	—
Income tax payments	**(0.1)**	**(0.1)**	—
Net movement in working capital	**24.1**	**22.5**	(10.6)
Trading cash flow	**39.3**	**22.8**	10.9
Significant items	**(31.2)**	**(31.2)**	(30.1)
Cash flow from operating activities	**8.1**	**(8.4)**	(19.2)
Asset sales	**1.1**	**1.1**	0.1
Capital expenditure	**(20.5)**	**(20.5)**	(8.4)
Receipts from subleases, excluding the financing component	**1.2**	**—**	—
Share issue	**—**	**—**	15.1
Net cash flow	**(10.1)**	**(27.8)**	(12.4)
AASB 16 lease principal payments	**(17.7)**	**—**	—
(Loss)/gain on foreign currency cash & other	**(0.4)**	**(0.4)**	0.5
Reconciliation to net debt movement	**(28.2)**	**(28.2)**	(11.9)

Balance Sheet~

$M	2020	2019
Current assets	**161.1**	229.1
Non-current assets	**220.3**	204.6
Total assets	**381.4**	433.7
Current liabilities	**222.4**	226.9
Non-current liabilities	**141.3**	64.9
Total liabilities	**363.7**	291.8
Net assets	**17.8**	141.9

Consolidated statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000[1]	 2019 $'000
Continuing operations			
Sales revenue	2(a), 20	**539,270**	669,236
Other revenue	2(a), 20	**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)
Impairment of goodwill	9(a)	**(37,244)**	—
Impairment of plant and equipment	8(b)	**(6,670)**	(18,017)
Other expenses		**(20,231)**	(21,771)
Depreciation and amortisation	2(e), 20	**(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)
Total 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	21	**(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)	24	**(15.0)**	(16.0)
Diluted earnings per share (cents)	24	**(15.0)**	(16.0)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share ('000)	24(a)	**732,004**	526,955

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

For personal use only

Consolidated statement of financial position

AS AT 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	25(b)	**16,200**	38,701
Receivables	5	**50,654**	81,783
Inventories	6	**87,871**	102,692
Financial assets	14	**80**	1,205
Other	7	**6,278**	4,739
Total current assets		**161,083**	229,120
Non-current assets			
Property, plant and equipment	8	**105,952**	113,410
Right-of-use assets [1]	30(a)	**58,341**	—
Deferred tax assets	10	**41,559**	48,812
Goodwill and intangible assets	9	**1,410**	39,117
Financial assets	14	**—**	1,207
Other	7	**13,082**	2,011
Total non-current assets		**220,344**	204,557
Total assets		**381,427**	433,677
Current liabilities			
Payables	11	**131,394**	143,875
Interest bearing liabilities	12(a)	**37,192**	39,735
Lease liabilities [1]	30(b)	**23,878**	—
Income tax payable		**8**	8
Financial liabilities	14	**110**	144
Provisions	13	**29,804**	43,172
Total current liabilities		**222,386**	226,934
Non-current liabilities			
Interest bearing liabilities	12(b)	**48,829**	43,243
Lease Liabilities [1]	30(b)	**83,776**	—
Provisions	13	**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	15	**497,523**	497,523
Reserves	17	**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.

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

Consolidated statement of cash flows

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	Ovato Group 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 for early termination of corporate bond		**—**	(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	25(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	12(e)	**—**	(40,000)
Proceeds from corporate bond	12(e)	**—**	40,000
Proceeds from close out of cross currency swap		**1,866**	—
Repayments of borrowings		**(17,506)**	(15,260)
Proceeds from new borrowings		**21,197**	11,451
Proceeds from issue of shares	15	**—**	15,090
Net cash flow (used in)/provided by financing activities		**(12,141)**	11,281
Net decrease in cash and cash equivalents		**(22,229)**	(16,250)
Cash and cash equivalents at the beginning of the financial year		**38,701**	54,418
Effects of exchange rate changes on cash and cash equivalents		**(272)**	533
Cash and cash equivalents at end of the financial year	25(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.

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

Consolidated statement of changes in equity

YEAR ENDED 30 JUNE 2020	Ovato Group ($'000) Attributable to equity holders of Ovato Limited					
	Contributed equity	Accumulated losses	Foreign currency translation reserve	Share-based payment reserve	Cash flow hedge reserve	Total equity
At 1 July 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) recognised directly in equity	—	(313)	(435)	—	(192)	(940)
Loss for the year	—	(108,750)	—	—	—	(108,750)
Total comprehensive (expense) 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.

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

Financial notes

1 Summary of significant accounting policies

Basis of preparation

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

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

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

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 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 cash flows 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 Note 9 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.

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.

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"). The financial statements were authorised for issue by the Directors on 11 September 2020.

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.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
- *AASB 16 Leases.*	1 January 2019	30 June 2020
- *AASB 2020 - 4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions.*	1 June 2020	30 June 2020
- *AASB Interpretation 23 Uncertainty over Income Tax Treatments.*	1 January 2019	30 June 2020

1 Summary of significant accounting policies (continued)

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 the actual lease payments and expense recognised and when considered onerous. 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.

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 has utilised 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.

For personal use only

1 Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

AASB 16 Leases (continued)

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

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 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 difference)	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 as at 1 July 2019	**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 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)

Changes 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 assets on recognition of finance lease receivables	(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.

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

During the year, the Group has also chosen to adopt *AASB 2020 - 4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*. The main impact is that it exempts lessees from the need to account for COVID-19 related rent concessions as a lease modification. If the other terms of the lease agreement remain materially unchanged, then any changes in lease payments resulting from the rent concessions are recorded as a gain in profit or loss.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

The introduction of *AASB Interpretation 23 Uncertainty over Income Tax Treatments* mandates that companies need to report uncertain income tax positions where the company's position differs from the published tax authority's position on the income tax matter. It sets a new criteria for determining the potential tax liability of that position based on a range of outcomes with effect for the June 2020 year. Ovato has no uncertain income tax positions as at 30 June 2020 and therefore no tax liability has arisen.

Basis of consolidation

Subsidiaries

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

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

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

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

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

For personal use only

1 Summary of significant accounting policies (continued)

Foreign currencies

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

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

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

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

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

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

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

Cash and cash equivalents

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

Goods and services tax ("GST")

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

- the GST incurred on purchase of goods and services is not recoverable from the taxation authority, in which case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables are stated with the GST amount included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated statement of financial position.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Critical accounting estimates, assumptions and judgements

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

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

As outlined in Note 1, there has been continued pressure on the industry which has been exacerbated by the COVID-19 pandemic. As such management has specifically assessed the impact of the COVID-19 pandemic on the financial statements. As part of this process management reviewed all financial areas which could potentially be impacted by COVID-19 and considered areas of judgement and if additional disclosures are required. Where there are specific impacts from the COVID-19 pandemic, disclosures have been made in the relevant note.

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

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

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

The Group determines whether goodwill is impaired on a bi-annual basis and assesses impairment of all other assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technology, economic and political environments, including the impact of the COVID-19 pandemic. If an impairment trigger exists the recoverable amount of the asset is determined. Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless it does not generate inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs. An estimation of recoverable amount of cash generating units is made by using a value in use model or fair value less costs of disposal. A number of assumptions are made by the Group in this estimation of recoverable amount.

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

In the absence of comparable transactions, fair value has been assessed using a discounted cash flow methodology. The significant judgements included in the forecast of future cashflows are outlined in Note 9 (c). This is supported by EBITDA multiples which serve as an external cross check. Ovato believe that this provides the best indication of the recoverable amount to be obtained from disposal of the cash generating unit at arms length between knowledgeable and willing parties.

Refer to Note 8 and Note 9 for further details.

(ii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and for temporary differences to the extent that it is probable that future taxable profits will be available against which the losses and temporary differences 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 level of future taxable profits is based on the budgeted EBITDA forecast also used in the impairment testing. The significant judgements included in the budgeted EBITDA are outlined in Note 9 (c).

Consistent with prior periods, the deferred tax assets for losses of $18.0 million pertaining to the current financial year Australian tax loss and $2.2 million pertaining to the current New Zealand tax loss were 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 that the Directors consider is a reasonable recovery period (consistent with prior years).

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

The Directors believe that the deferred tax asset for tax losses and for temporary differences of $41.6 million is supportable given the level of forecast future tax profits. This position will continue to be reassessed on an ongoing basis.

1 Summary of significant accounting policies (continued)

Critical accounting estimates, assumptions and judgements (continued)

(iii) Fair value measurement and valuation process

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

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

(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.

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	 2019 $'000
2a Revenue			
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	2a(h)	**12,172**	—
Recoveries from the manufacturing process		**3,867**	10,159
Dividends		**276**	—
Gain on de-recognition of ROU assets and recognition of finance lease receivables	2b, 30(d)	**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	20	**563,230**	679,990

(a) Significant accounting policies

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

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

(b) Nature of goods and services

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

The Group may also be engaged by customers to provide a freight service to a specified location. These services form part of a contract with multiple deliverables. Freight is treated as a separate performance obligation as it is a distinct service that is separately included in the customer contract. It is not part of the overall performance obligation as not every customer engages the Group to perform this service.

Freight services are provided across all reportable operating segments. Revenue is recognised at a point of time, being when the freight services are provided.

For more information about reportable segments refer to Note 20.

i. Commercial and book printing

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

- Revenue is recognised when control of the good is transferred, being as the printing jobs are completed over time. Customers provide specifications for each job and as the printing work is performed, control is then passed to the customer.
- For each job, there is no alternative use for this asset to the Group, and the Group has a right to payment for performance completed to-date. Revenue is accrued for partly completed jobs in the month of service using the input method. This is calculated based on resources consumed (i.e. paper issued) relative to total resources expected to be consumed (i.e. paper allocated).

2a Revenue (continued)

i. Commercial and book printing (continued)

- Contracts can have separate transaction pricing for each service provided and includes fixed and variable pricing. Variable pricing includes discounts, revenue rebates and volume based rebates. The Group estimates the amount using a ‘most likely method’ and is included to the extent that it is highly probable that a significant reversal of revenue will not occur.

ii. Residential distribution

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

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

iii. Retail distribution

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

iv. Marketing services

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

(c) Financing component

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

(d) Contract balances

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

Contract liabilities primarily relate to consideration received in advance from customer contracts. The Group has an immaterial contract liability balance of $1.0 million (2019: $0.5 million) at 30 June 2020 which will be recognised in the next reporting period on performance of outstanding marketing service obligations. Contract liabilities are disclosed in Note 11 as Other accruals.

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

(e) Transaction price allocated to the remaining performance obligations

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

	Ovato Group	
	2020 $’000	2019 $’000
Commercial and book printing	**526**	—
Distribution	**—**	—
Magazine distribution	**—**	—
Marketing services	**478**	487
Freight	**—**	—
	1,004	487

The Group expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2020 will be recognised as revenue during the next reporting period.

(f) Costs to obtain a contract

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

(g) Disaggregation of revenue

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

(h) Revenue other than contracts with customers

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

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

Interest income is recognised as interest accrues.

Income from government grants as a result of the COVID-19 pandemic is recognised in other income. Due to the impact of COVID-19, the Group received $12.2 million in government assistance through the Australian Federal government JobKeeper program and New Zealand government Employer Wage Subsidy Scheme. Government grant income is only recognised as a receivable when there is reasonable assurance that the Group will comply with all the conditions relating to the eligibility requirements and the grants will be received. At year end there are no unfilled conditions attached to these grants. The government grant is recognised in the profit or loss in the same period that the related wage costs are recognised as an expense.

YEAR ENDED 30 JUNE 2020		NOTES	Ovato Group 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 assets and recognition of finance lease receivables		2(a)	**(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	**37,244**	—
Impairment of plant and equipment due to restructure initiatives		2(c), 8(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
Total 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 included in net loss after tax			**(19,569)**	(16,270)
Significant items have been included in the Consolidated statement of profit or loss and other comprehensive income within the following categories:				
External sales	- Sales rebate		**1,000**	—
Other revenue	- Net gain on disposal of plant and equipment		**(347)**	—
Other revenue	- Gain on de-recognition of ROU assets and recognition of finance lease receivables		**(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

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	17	**—**	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	5(b)	**1,734**	89

		2020 $	2019 $
2d Auditors' remuneration			
Deloitte and related network firms			
Audit or review of financial reports			
- Group		**448,518**	411,075
- Subsidiaries		**106,267**	103,054
		554,785	514,129
Other services			
- Corporate advisory services		**237,115**	—
- Taxation and related compliance services		**199,752**	204,960
		436,867	204,960

		2020 $'000	2019 $'000
2e Depreciation and amortisation			
Depreciation			
Leasehold improvements	8(a)	**1,153**	1,165
Plant and equipment	8(a)	**19,204**	26,945
Right-of-use assets	30(a)	**15,804**	—
Total depreciation		**36,161**	28,110
Amortisation			
Development and licence costs	9(a)	**805**	525
Total amortisation		**805**	525
Total depreciation and amortisation		**36,966**	28,635
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	30(b)	**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 finance 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

Significant accounting policies

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

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
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) Significant accounting policies

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

(c) Deferred tax assets and deferred tax liabilities

At 30 June 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).

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

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

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

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

All 100% owned Ovato entities operating in New Zealand are members of the Ovato NZ Limited tax consolidated group. Although there is no 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.

(f) 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 10 for further details. In addition, capital losses are only able to be used against capital gains and so are not recognised until used in any tax year. The revenue losses above have increased substantially in the current year due to the impairment of the deferred tax asset therefore increasing tax losses not recognised (in addition to the current year loss not recognised).

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
5 Receivables			
Trade debtors*		**46,290**	78,856
Allowance for expected credit losses	5(b)	**(2,197)**	(1,211)
Net trade debtors		**44,093**	77,645
Other debtors	5(d)	**6,561**	4,138
Total current receivables		**50,654**	81,783

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

(a) Significant accounting policies

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

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

(b) Impaired trade receivables

Ovato Group:
At 30 June 2020 an allowance for expected credit losses of $2,197,000 (2019: $1,211,000) has been recognised. This relates to a variety of customers who are in unexpectedly difficult economic situations.

Movements in the allowance for expected credit losses are as follows:		Ovato Group 2020 $'000	2019 $'000
Balance as at 1 July		**1,211**	1,280
Adjustment on initial application of AASB 9		**—**	711
Amounts written off		**(746)**	(877)
Net remeasurement of allowance	2(c)	**1,734**	89
Net foreign currency translation difference		**(2)**	8
Balance at 30 June		**2,197**	1,211

The Group has applied the simplified impairment approach in assessing the expected credit losses associated with trade debtors. This requires expected lifetime losses to be recognised from initial recognition of all trade debtors.

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

The allowance for expected credit losses as at 30 June 2020 and 30 June 2019 was determined as follows:

	Trade debtors					
	Days past due					
	Current	< 30 days	30-60 days	61-90 days	> 91 days	Total
30 June 2020	$'000	$'000	$'000	$'000	$'000	$'000
Expected loss rate %	0.5%	1.4%	8.9%	35.0%	95.0%	4.7%
Carrying amount - trade debtors	36,825	6,908	390	296	1,871	46,290
Allowance for expected credit losses	**184**	**97**	**35**	**104**	**1,777**	**2,197**
30 June 2019						
Expected loss rate %	0.30%	1.11%	6.9%	30.2%	77.0%	1.5%
Carrying amount - trade debtors	63,396	12,579	1,460	671	750	78,856
Allowance for expected credit losses	190	140	101	203	577	1,211

YEAR ENDED 30 JUNE 2020

5 Receivables (continued)

(c) Past due but not impaired

At 30 June 2020 there were $7,452,000 (2019: $14,439,000) of trade receivables in the Ovato Group past due but not impaired.

	Ovato Group	
	2020	2019
The aging analysis of these trade receivables is as follows:	**$'000**	$'000
Past due 1 - 30 days	**6,811**	12,439
Past due 31 - 60 days	**355**	1,359
Past due 61 - 90 days	**192**	468
Past due greater than 90 days	**94**	173
	7,452	14,439

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

(d) Other debtors

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

YEAR ENDED 30 JUNE 2020	Ovato Group	
	2020	2019
	$'000	$'000
6 Inventories		
Raw materials, spare parts and stores at cost	**49,356**	55,579
Less: provision for diminution	**(627)**	(367)
Net raw materials, spare parts and stores	**48,729**	55,212
Finished goods at cost	**36,461**	44,189
Work in-progress at cost	**2,681**	3,291
Total current inventories	**87,871**	102,692

Significant accounting policies

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

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

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

The Group regularly tests its inventory for signs of impairment. During the year, inventories have been reduced by $2.6 million (2019: Nil) as a result of the write-down to net realisable value. The write-down was recognised as an expense in 2020, through Cost of finished goods sold.

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group	
		2020	2019
		$'000	$'000
7 Other assets			
Current other assets			
Prepayments		**3,063**	4,739
Finance lease receivables	30(d)	**3,215**	—
Total current other assets		**6,278**	4,739
Non-current other assets			
Defined benefit plan asset	21	**1,093**	1,527
Other assets		**413**	484
Finance lease receivables	30(d)	**11,576**	—
Total non-current other assets		**13,082**	2,011

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
8 Property, plant and equipment			
Leasehold improvements			
At cost		**16,237**	15,329
Accumulated depreciation		**(10,665)**	(9,707)
Accumulated impairment		**(1,844)**	(1,846)
Net leasehold improvements	8(a)	**3,728**	3,776
Plant and equipment			
At cost		**535,751**	560,619
Accumulated depreciation		**(397,286)**	(416,353)
Accumulated impairment		**(36,241)**	(34,632)
Net plant and equipment	8(a)	**102,224**	109,634
Leased plant and equipment			
At cost		**220**	220
Accumulated depreciation		**(220)**	(220)
Net leased plant and equipment		**—**	—
Total net property, plant and equipment	8(a)	**105,952**	113,410
(a) Reconciliations			
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:			
Leasehold improvements			
Carrying amount at beginning of year		**3,776**	3,994
Additions		**—**	141
Disposals		**(99)**	(14)
Transfer from other asset category		**1,230**	1,366
Depreciation	2(e)	**(1,153)**	(1,165)
Impairment	2(b), 2(c), 8(b)	**—**	(630)
Net foreign currency translation difference		**(26)**	84
Carrying amount at end of year		**3,728**	3,776
Plant and equipment			
Carrying amount at beginning of year		**109,634**	150,305
Additions		**20,049**	7,431
Disposals		**(40)**	(1,562)
Impairment charge	2(b), 2(c), 8(b)	**(6,670)**	(17,387)
Transfer to other asset category		**(1,230)**	(1,366)
Transfer to inventories		**(70)**	—
Transfer to intangibles	9(a)	**—**	(1,239)
Depreciation	2(e)	**(19,204)**	(26,945)
Expensed to the profit and loss		**(50)**	(384)
Net foreign currency translation difference		**(195)**	781
Carrying amount at end of year		**102,224**	109,634
Total net property, plant and equipment		**105,952**	113,410
(b) Impairment			
Impairment of plant and equipment	2(b), 2(c)	**6,670**	18,017
		6,670	18,017

Based on impairment testing carried out at 30 June 2020, the Ovato Australia cash generating unit analysis showed a deficit. Plant and equipment of A$6 million associated with this cash generating unit was impaired. The balance of the impairment in the 2020 financial year, related to the write down of individual items of plant and equipment as part of the consolidation of Ovato's NSW print sites.

YEAR ENDED 30 JUNE 2020

8 Property, plant and equipment (continued)

(c) Significant accounting policies

Carrying value

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

Derecognition

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

Depreciation

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

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

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

Impairment

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

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

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

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

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
9 Goodwill and intangible assets			
Development and licence costs			
At cost		**8,247**	7,854
Accumulated amortisation		**(6,837)**	(6,032)
Closing net book amount	9(a)	**1,410**	1,822
Goodwill			
At cost		**133,963**	133,963
Accumulated impairment		**(136,867)**	(99,623)
Net foreign currency translation difference		**2,904**	2,955
Closing net book amount	9(a)	**—**	37,295
Total net intangibles	9(a)	**1,410**	39,117

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
9 Goodwill and intangible assets (continued)			
(a) Reconciliations			
Development and licence costs			
Carrying amount at beginning of year		**1,822**	501
Additions		**393**	607
Transfer from/(to) other asset category	8(a)	**—**	1,239
Amortisation	2(e)	**(805)**	(525)
Carrying amount at end of year		**1,410**	1,822
Goodwill			
Carrying amount at beginning of year		**37,295**	37,209
Impairment	2(b), 2(c)	**(37,244)**	—
Net foreign currency translation difference		**(51)**	86
Carrying amount at end of year	9(c)	**—**	37,295
Total net intangibles		**1,410**	39,117

(b) Significant accounting policies

Goodwill

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

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

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

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

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

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

Development and licence costs

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

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

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

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

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
9 Goodwill and intangible assets (continued)			
(c) Impairment testing of goodwill			
Carrying amount of goodwill allocated to each cash generating unit:			
Ovato Residential Distribution - New Zealand		—	2,092
Ovato Australia		—	35,203
Total goodwill	9(a)	—	37,295

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 following tables.

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 post-tax discount rate. The key assumptions used and the impact on them for various sensitivities are disclosed in the following tables.

Impairment

Based on testing carried out at 30 June 2020, the Ovato Australia CGU 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.

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 reasonably possible 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%)	$20m - $23m impairment	$2m - $3m impairment
EBITDA	(20%)	$40m - $43m impairment	$6m - $7m impairment
WACC	+0.5%	$4m - $6m impairment	$0m - $1m impairment
Cost Savings	50% of year 1 costs savings deferred to year 2	$3m - $5m impairment	$0m - $1m impairment

9 Goodwill and intangible assets (continued)

(c) Impairment testing of goodwill (continued)

Key assumptions:

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

Area of judgement	Assumption used in value in use calculation - Ovato Retail Distribution (New Zealand) - Ovato Residential Distribution (New Zealand) - Ovato Book Printing (Australia) - Ovato Retail Distribution (Australia)
Budgeted EBITDA	The Group prepares an annual budget plus longer term plans which are internally approved by senior management. These plans form the basis of the discounted cash flow models used for impairment testing and are based upon past experience and future outlook. Budgeted EBITDA is calculated as operating profit before depreciation and amortisation, based upon current market and customer expectations. Adjustments are made to budgeted EBITDA as follows: - removal of benefits from future uncommitted restructuring Post-tax cash flows used. Notional tax of 30% in Australia and 28% in New Zealand applied. Cash flows include working capital movements.
Long term growth rate	Management's plan is used for the first three years of the Group's value in use calculations. An annual growth rate of 0% for years four, five and perpetuity (where applicable) has been applied. The rate applied is based on management's assessment of the specific circumstances of that business.
Budgeted capital expenditure	The cash flow forecasts for capital expenditure are based on past experience and include the ongoing capital expenditure required to maintain current fixed asset levels after taking into account budgeted repairs and maintenance.
Discount rate	The post-tax discount rate applied to the cash flows of each of the Group's cash generating units in Australia and New Zealand is 10.0% (2019: 9.5%). The discount rate is based on the risk-free rate for ten year government bonds adjusted for a risk premium to reflect the increased risk of investing in equities ("equity market risk premium") and the systematic risk adjustment ("beta") to reflect the risk of the Company relative to the market as a whole.

YEAR ENDED 30 JUNE 2020

9 Goodwill and intangible assets (continued)

(c) Impairment testing of goodwill (continued)

Key assumptions: (continued)

Area of judgement	Assumption used in fair value less costs of disposal calculation - Ovato Australia - Print Maxum New Zealand
Budgeted EBITDA	The Group prepares a budget plus a longer term plans which are internally approved by senior management. These plans form the basis of the discounted cash flow models used for impairment testing and are based upon past experience and future outlook.
EBITDA key assumptions	The following key assumptions are included in the Budgeted EBITDA for Ovato Australia: - Print volumes expected to decline in FY21 before stabilising in FY22 and the longer term; - Strategic cost saving initiatives assisted by external consultants; - Revenue from new contracts in the marketing services business; and - COVID-19 government JobKeeper payments until December 2020. The following key assumptions are included in the Budgeted EBITDA for Print Maxum New Zealand: - Volumes expected to recover to pre COVID-19 levels by October 2020; - Volume increases from new business (new and existing customers); - Strategic cost saving initiatives; and - Reductions in inventory due to a build up in late FY20 during the NZ lockdown. Post-tax cash flows used. Notional tax of 30% in Australia and 28% in New Zealand applied. Cash flows include working capital movements as well as future uncommitted restructuring and benefits associated with those future restructurings. Includes costs to sell cash outflow of 1.5%.
Long term growth rate	Management's plan is used for the first three years of the Group's fair value less costs of disposal calculations. An annual growth rate of 0% for years four, five and perpetuity (where applicable) has been applied. The rate applied is based on management's assessment of the specific circumstances of that business.
Budgeted capital expenditure	The cash flow forecasts for capital expenditure are based on past experience and include the ongoing capital expenditure required to maintain current fixed asset levels after taking into account budgeted repairs and maintenance.
Discount rate	The post tax discount rate applied to the cash flows was 10.0% (2019: 9.5%).

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group **2020 $'000**	 2019 $'000
10 Deferred tax			
Deferred tax assets			
Temporary differences:			
- Provisions/accruals		**14,867**	23,075
- Lease liabilities		**30,747**	—
- Property, plant and equipment [1]		**(4,581)**	10,819
- Cash flow hedges		**8**	(74)
- Other assets		**(5,341)**	(926)
Tax losses		**5,859**	15,918
Total deferred tax assets	10(a)	**41,559**	48,812

1 This includes Right-of-use assets. 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.

10 Deferred tax (continued)

(a) Movements in deferred tax assets	Provisions/ accruals $'000	Lease liabilities $'000	Other assets $'000	Property, plant and equipment $'000	Cash flow hedges $'000	Tax losses $'000	Total $'000
At 1 July 2018	23,429	—	(1,170)	5,475	(125)	35,050	62,659
(Charged)/credited							
- to profit or loss	(620)	—	51	5,329	—	—	4,760
- to other comprehensive income	213	—	193	—	50	—	456
- foreign currency translation reserve	53	—	—	15	1	10	79
Increase in New Zealand tax losses	—	—	—	—	—	679	679
Impairment of Australian tax losses	—	—	—	—	—	(19,821)	(19,821)
At 30 June 2019	23,075	—	(926)	10,819	(74)	15,918	48,812
(Charged)/credited							
- to profit or loss	**(2,240)**	**(5,648)**	**(1,784)**	**6,368**	**—**	**—**	**(3,304)**
- to other comprehensive income	**92**	**36,395**	**(237)**	**(30,096)**	**82**	**—**	**6,236**
- foreign currency translation reserve	**(30)**	**—**	**—**	**(96)**	**—**	**(22)**	**(148)**
Reclassify	**(6,030)**	**—**	**(2,394)**	**8,424**	**—**	**—**	**—**
Reduce prior year New Zealand tax losses	**—**	**—**	**—**	**—**	**—**	**(37)**	**(37)**
Impairment of Australian tax losses	**—**	**—**	**—**	**—**	**—**	**(10,000)**	**(10,000)**
At 30 June 2020	**14,867**	**30,747**	**(5,341)**	**(4,581)**	**8**	**5,859**	**41,559**

(b) Significant accounting policies

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

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

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

(c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and for temporary differences to the extent that it is probable that future taxable profits will be available against which the losses and temporary differences 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 for losses of $18 million pertaining to the current financial year Australian tax loss and $2.2 million pertaining to the current New Zealand tax loss were 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 years period, a time frame the Directors consider is a reasonable recovery period (consistent with prior years).

Despite the non-recognition of these losses on the Consolidated statement of financial position, 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.

The Directors believe that the deferred tax asset for tax losses and for temporary differences of $41.6 million is supportable given the level of forecast future tax profits. This position will continue to be reassessed on an ongoing basis.

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
11 Payables			
Current payables			
Creditors - unsecured			
Trade creditors and accruals *		**130,695**	143,350
Interest payable		**699**	525
Total current payables		**131,394**	143,875

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

Significant accounting policies

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

Payables to related parties are carried at the principal amount.

YEAR ENDED 30 JUNE 2020		NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
12 Interest bearing liabilities				
(a) Current interest bearing liabilities				
Secured				
Overdraft:	Australian dollars		**4,280**	—
Export Financing - repayable in:	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 - repayable in:	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: 5.0 million) measured at the exchange rate prevailing at balance date.

(c) Significant accounting policies

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

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

12 Interest bearing liabilities (continued)

(d) 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 loan	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.

(e) 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 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 A$40 million corporate bond on 22 November 2018 replacing the previous unsecured A$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. The requirement to test these ratios at June 2020 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 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.

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 A$50 million Receivables Financing Facility with Scottish Pacific. Refer to the subsequent event note for further details.

YEAR ENDED 30 JUNE 2020

12 Interest bearing liabilities (continued)

(f) Net debt

	Ovato Group 2020 $'000	Ovato Group 2019 $'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.

(g) Reconciliation of liabilities arising from financing activities

				Non-cash changes			
	NOTES	2019 $'000	Cash Flows $'000	Other[1] $'000	Foreign Exchange Movement $'000	Fair Value Changes $'000	2020 $'000
Overdraft	12(a)	—	4,280	—	—	—	4,280
Corporate bond	12(a) & 12(b)	40,000	—	—	—	—	40,000
Export Financing - EUR	12(a) & 12(b)	8,076	(1,628)	—	67	—	6,515
Equipment Financing	12(a)	1,409	(1,409)	—	—	—	—
Export Financing	12(a) & 12(b)	—	16,917	—	—	—	16,917
Receivables Financing	12(a)	34,556	(13,155)	—	—	—	21,401
Other	12(a)	1,314	(1,314)	—	—	—	—
Total current & non-current interest bearing liabilities #		85,355	3,691	—	67	—	89,113
Lease Liabilities [2]		—	(26,084)	134,126	(388)	—	107,654
Asset held to hedge long-term borrowings ##	26(h)	(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 Consolidated statement of cash flows) and non-cash changes.

1 Balances arise due to adoption of *AASB 16 Leases* from 1 July 2019.

2 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.

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
13 Provisions			
(a) Current provisions			
Employee entitlements		**28,004**	27,122
Other	13(c)	**1,800**	16,050
Total current provisions		**29,804**	43,172
Non-current provisions			
Employee entitlements		**1,492**	1,800
Other	13(c)	**7,186**	19,827
Total non-current provisions		**8,678**	21,627
Total provisions		**38,482**	64,799

(b) Significant accounting policies

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

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

Employee entitlements

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

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

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

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

YEAR ENDED 30 JUNE 2020

13 Provisions (continued)

(c) Movements in provisions

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

	Make good	Onerous leases & contracts	Lease Incentive	Other	Total
	$'000	$'000	$'000	$'000	$'000
Current					
Carrying amount at 1 July 2019	4,474	10,806	378	392	16,050
Retained earnings adjustment on transition to AASB 16	—	—	(313)	—	(313)
Impair ROU asset on transition to AASB 16	—	(5,825)	(35)	—	(5,860)
Charged/(credited) to profit or loss					
- additional provisions recognised	—	304	—	554	858
- unused amounts reversed	(253)	(145)	—	(263)	(661)
- discount unwind	—	39	—	—	39
Transfer (to)/from current/non-current	(1,306)	496	—	—	(810)
Transfer (to)/from other provision class	65	—	—	(65)	—
Amounts used during the period	(2,002)	(5,084)	(30)	(384)	(7,500)
Net foreign currency translation difference	—	—	—	(3)	(3)
Carrying amount at 30 June 2020	978	591	—	231	1,800
Non-Current					
Carrying amount at 1 July 2019	4,545	14,834	448	—	19,827
Retained earnings adjustment on transition to AASB 16	317	—	(405)	—	(88)
Impair ROU asset on transition to AASB 16	—	(13,380)	(43)	—	(13,423)
Charged/(credited) to profit or loss					
- additional provisions recognised	—	1	—	—	1
- unused amounts reversed	—	—	—	—	—
- discount unwind	89	—	—	—	89
Transfer (to)/from current/non-current	1,306	(496)	—	—	810
Amounts used during the period	—	—	—	—	—
Net foreign currency translation difference	(30)	—	—	—	(30)
Carrying amount at 30 June 2020	6,227	959	—	—	7,186

The Group adopted *AASB 16 Leases* on 1 July 2019. On transition the Group adjusted the ROU asset carrying amount by the amount of any existing onerous lease provisions and existing straight-line lease incentive provisions were reversed to retained earnings. Refer to Note 1 Changes in accounting policies.

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
14 Financial assets and financial liabilities			
Current financial assets			
Forward currency contracts	26(e)(iv)	**80**	513
Cross currency swaps	26(c)(ii)	**—**	692
Total current financial assets		**80**	1,205
Non-current financial assets			
Cross currency swaps	26(c)(ii)	**—**	1,207
Total non-current financial assets		**—**	1,207
Total financial assets		**80**	2,412
Current financial liabilities			
Forward currency contracts	26(e)(iv)	**110**	144
Total current financial liabilities		**110**	144
Total financial liabilities		**110**	144

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

YEAR ENDED 30 JUNE 2020	Number 2020 '000	Number 2019 '000	Ovato Group 2020 $'000	Ovato Group 2019 $'000
15 Contributed equity				
Issued and paid up capital				
Movements in ordinary share capital:				
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 2019 financial period.

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

16 Dividends

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

Significant accounting policies

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

Due to the statutory loss Ovato has not declared a dividend for the 2020 year (nor paid any interim dividends).

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

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
17 Reserves			
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

Nature and purpose of reserves

i. Foreign currency translation reserve

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

ii. Share-based payment reserve

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

iii. Cash flow hedge reserve

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

YEAR ENDED 30 JUNE 2020	Ovato Group 2020 $'000	Ovato Group 2019 $'000
18 Capital expenditure commitments		
The following capital expenditure commitments are not reflected in the balance sheet and are payable as follows:		
(a) Capital expenditure:		
- not later than one year	**49**	20,485
- later than one year but not later than five years	**—**	—
Total capital expenditure	**49**	20,485

At 30 June 2020 the Group capital expenditure commitments relate to the acquisition of new plant and equipment.

	Country of Incorporation	NOTES	Interest held 2020 %	Interest held 2019 %
19 Controlled entities (d)				
Pacific Publications Holdings Pty Limited	Australia	(a)	**100**	100
Attic Futura Pty Limited	Australia	(a)	**100**	100
Pacific O'Brien Publications Pty Limited	Australia	(a)	**100**	100
Total Sampling Pty Limited	Australia	(a)	**100**	100
PMP Publishing Pty Ltd	Australia	(a)	**100**	100
Ovato Print Pty Ltd	Australia	(a)	**100**	100
PMP Property Pty Limited	Australia	(a)	**100**	100
PT Pac-Rim Kwartanusa Printing	Indonesia		**95**	95
PMP Advertising Solutions Pty Limited	Australia	(a)	**100**	100
PMP Home Media Pty Limited	Australia	(a)	**100**	100
Shomega Pty Limited	Australia	(a)	**100**	100
Show-Ads Pty Ltd	Australia	(a)	**100**	100
Linq Plus Pty Limited	Australia	(a)	**100**	100
PMP Wholesale Pty Ltd	Australia	(a)	**100**	100
Ovato Creative Services Clayton Pty Ltd	Australia	(a)	**100**	100
Pacific Intermedia Pty Ltd	Australia	(a)	**100**	100
The Argus & Australasian Pty Limited	Australia	(a)	**100**	100
Ovato Retail Distribution Pty Ltd	Australia	(a)	**100**	100
A.C.N. 128 266 268 Pty Limited	Australia	(b)	**100**	100
Scribo Holdings Pty Ltd	Australia	(b)	**100**	100
The Scribo Group Pty Ltd	Australia	(b)	**100**	100
Tower Books Pty Limited	Australia	(b)	**100**	100
Gary Allen Pty Ltd	Australia	(b)	**100**	100
ilovemagazines.com.au Pty Ltd	Australia	(a)	**100**	100
PMP Directories Pty Limited	Australia	(a)	**100**	100
Argyle Print Pty Ltd	Australia	(b)	**100**	100
Red PPR Holdings Pty Ltd	Australia	(a)	**100**	100
Ovato Finance Pty Ltd	Australia	(a)	**100**	100
PMP Share Plans Pty Limited	Australia		**100**	100
Manningtree Investments Pty Limited	Australia	(a)	**100**	100
Canberra Press Pty Limited	Australia	(a)	**100**	100
Ovato NZ Limited	New Zealand		**100**	100
Ovato Print NZ Limited	New Zealand		**100**	100
PMP Maxum Limited	New Zealand		**100**	100
Ovato Residential Distribution NZ Limited	New Zealand		**100**	100
Ovato Retail Distribution NZ Limited	New Zealand		**100**	100
PMP Digital Limited	New Zealand		**100**	100

Footnotes refer to all of Note 19.

(a) These companies entered into a Deed of Cross Guarantee dated 27 June 2008 with Ovato Limited which replaced the previous deed dated 10 June 1992. The deed provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding up of that company. As a result of a Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission, those companies are relieved from the requirement to prepare financial statements.

(b) On 11 June 2009 these companies were joined as parties to the Deed of Cross Guarantee referred above.

(c) These Companies were acquired by Ovato on 1 March 2017, and were joined on 6 June 2017 as parties to the Deed of Cross Guarantee referred above.

(d) Notes on the closed group:
- Ovato Limited is the ultimate parent company of the Ovato Group.
- All companies have ordinary share capital.

YEAR ENDED 30 JUNE 2020	Country of Incorporation	NOTES	Interest held 2020 %	Interest held 2019 %
19 Controlled entities (continued)				
IPMG Holdco Pty Ltd	Australia	(c)	**100**	100
IPMG Subco Pty Ltd	Australia	(c)	**100**	100
Propsea Pty Limited	Australia	(c)	**100**	100
MJV Pty Limited	Australia	(c)	**100**	100
Tigerstone Pty Limited	Australia	(c)	**100**	100
KTAR Pty Limited	Australia	(c)	**100**	100
PMP Subco No.6 Pty Limited	Australia	(c)	**100**	100
D. Livingstone Pty. Limited	Australia	(c)	**100**	100
PMP Subco No.2 Pty Limited	Australia	(c)	**100**	100
PMP Subco No.3 Pty Limited	Australia	(c)	**100**	100
PMP Subco No.4 Pty Limited	Australia	(c)	**100**	100
IPMG Pty Limited	Australia	(c)	**100**	100
Hannan Finance Corporation Pty Limited	Australia	(c)	**100**	100
IPMG Administration Pty Limited	Australia	(c)	**100**	100
NDD Distribution Pty Ltd	Australia	(c)	**100**	100
Southern Independent Publishers Pty Limited	Australia	(c)	**100**	100
The Federal Publishing Co Pty Ltd	Australia	(c)	**100**	100
PMP Subco No.1 Pty Limited	Australia	(c)	**100**	100
IPMG Management (No.2) Pty Ltd	Australia	(c)	**100**	100
IPMG Digital Pty Ltd	Australia	(c)	**100**	100
Forty Two International Pty Limited	Australia	(c)	**100**	100
Holler Australia Pty Ltd	Australia	(c)	**100**	100
Holler Administration Pty Ltd	Australia	(c)	**100**	100
IPMG Consulting Pty Limited	Australia	(c)	**100**	100
Massmedia Studios Pty Ltd	Australia	(c)	**100**	100
Max Australia Pty Ltd	Australia	(c)	**100**	100
Ovato Creative Services Pty Ltd	Australia	(c)	**100**	100
Ovato Communications Pty Ltd	Australia	(c)	**100**	100
Ovato Communications Singapore Pte Ltd	Singapore		**100**	100
Spin Comm. Syd. Pty Ltd	Australia	(c)	**100**	100
The Gang of 4 Pty Limited	Australia	(c)	**100**	100
Ovato Technology Pty Ltd	Australia	(c)	**100**	100
Ovato Technology London Limited	United Kingdom		**100**	100
Ovato Technology Chennai Private Limited	India		**100**	100
The Independent Print Media Group Pty Limited	Australia	(c)	**100**	100
PMP Subco No.5 Pty Limited	Australia	(c)	**100**	100
Offset Alpine Printing Group Pty Limited	Australia	(c)	**100**	100
Kierle Investments Pty Ltd	Australia	(c)	**100**	100
Offset Alpine Printing Pty Limited	Australia	(c)	**100**	100
Craft Printing Pty Ltd	Australia	(c)	**100**	100
Hannanprint NSW Pty Limited	Australia	(c)	**100**	100
Hannanprint Victoria Pty Limited	Australia	(c)	**100**	100
SYNC Communications Management Pty Limited	Australia	(c)	**100**	100
Warwick Farm Business Park Pty Ltd	Australia	(c)	**100**	100
Woodox Pty Ltd	Australia	(c)	**100**	100
Inprint Pty Limited	Australia	(c)	**100**	100
Ovato Print Cairns Pty Ltd	Australia	(c)	**100**	100
Ovato Packaging Pty Ltd	Australia	(c)	**100**	100
Ovato Creative Services Geebung Pty Ltd	Australia	(c)	**100**	100

19 Controlled entities (continued)

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

	Closed Group	
Statements of profit or loss and other comprehensive income of the closed group	**2020[1] $'000**	2019 $'000
Sales revenue	**448,359**	553,272
Other revenue	**23,598**	14,202
Revenue	**471,957**	567,474
Raw materials and consumables used	**(171,790)**	(209,287)
Cost of finished goods sold	**(4,666)**	(1,458)
Employee expenses	**(193,237)**	(230,425)
Outside production services	**(11,394)**	(12,462)
Freight	**(50,420)**	(58,411)
Repairs and maintenance	**(10,642)**	(12,681)
Occupancy costs	**(7,005)**	(35,439)
Other expenses	**(73,563)**	(39,152)
Loss before depreciation, amortisation, finance costs and income tax	**(50,760)**	(31,841)
Depreciation and amortisation	**(31,060)**	(24,328)
Loss before finance costs and income tax	**(81,820)**	(56,169)
Finance costs	**(17,304)**	(8,964)
Loss before income tax	**(99,124)**	(65,133)
Income tax expense	**(13,082)**	(17,685)
Net loss attributable to members of the closed group	**(112,206)**	(82,818)

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.

YEAR ENDED 30 JUNE 2020	Closed Group 2020 $'000	Closed Group 2019 $'000
19 Controlled entities (continued)		
Statement of financial position of the closed group		
Current assets		
Cash and cash equivalents	**10,783**	27,324
Receivables	**42,455**	68,760
Inventories	**71,008**	84,555
Financial assets	**80**	1,160
Other	**5,935**	4,285
Total current assets	**130,261**	186,084
Non-current assets		
Property, plant and equipment	**97,394**	101,399
Right-of-use assets [1]	**47,913**	—
Deferred tax assets	**35,387**	43,553
Goodwill and intangible assets	**1,404**	37,019
Financial assets	**—**	1,207
Other	**28,063**	30,318
Total non-current assets	**210,161**	213,496
Total assets	**340,422**	399,580
Current liabilities		
Payables	**110,642**	115,909
Interest bearing liabilities	**37,192**	39,735
Lease liabilities [1]	**21,446**	—
Financial liabilities	**106**	30
Provisions	**27,403**	40,204
Total current liabilities	**196,789**	195,878
Non-current liabilities		
Interest bearing liabilities	**48,829**	43,243
Lease liabilities [1]	**70,371**	—
Provisions	**7,160**	19,421
Total non-current liabilities	**126,360**	62,664
Total liabilities	**323,149**	258,542
Net assets	**17,273**	141,038
Equity		
Contributed equity	**497,523**	497,523
Reserves	**(17)**	181
Accumulated losses	**(480,233)**	(356,666)
Total equity	**17,273**	141,038

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.

20 Segmental information

Description of segments

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

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:

	Ovato Australia Group		Ovato New Zealand Group		Consolidated	
(a) Operational and Geographic Segments	**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 item	**(1,000)**	—	**—**	—	**(1,000)**	—
Freight	**16,645**	25,015	**7,453**	8,432	**24,098**	33,447
Other revenue [2]	**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.

2. Other revenue includes government assistance through the Australian Federal Government JobKeeper program of $9.7 million and the New Zealand Government Employer Wage Subsidy Scheme of $2.5 million.

~ 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

20 Segmental information (continued)

(b) Significant items by operating segments	Ovato Australia Group 2020 $'000	Ovato Australia Group 2019 $'000	Ovato New Zealand Group 2020 $'000	Ovato New Zealand Group 2019 $'000	Consolidated 2020 $'000	Consolidated 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 assets and recognition of finance lease receivables	**5,976**	—	**—**	—	**5,976**	—
Total segment significant items of revenue	**5,323**	—	**—**	—	**5,323**	—
Significant items of expense						
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 finance costs	**—**	(231)	**—**	—	**—**	(231)
Total segment significant items - finance costs	**(321)**	(631)	**—**	—	**(321)**	(631)

20 Segmental information (continued)

(c) Other segment information

i. Disaggregation of revenue by major product and service offerings

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

	Ovato Australia Group		Ovato New Zealand Group		Consolidated	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Segment Revenue						
Commercial printing, marketing services and residential distribution	**353,462**	446,773	**73,457**	95,043	**426,919**	541,816
Book printing	**28,987**	28,843	**—**	—	**28,987**	28,843
Magazine distribution	**50,177**	54,297	**9,089**	10,833	**59,266**	65,130
Freight	**16,645**	25,015	**7,453**	8,432	**24,098**	33,447
Total sales revenue	**449,271**	554,928	**89,999**	114,308	**539,270**	669,236

ii. Major customers

Included in the Ovato Australia Group and the Ovato New Zealand Group segments are sales revenue of approximately $120.6 million (14% of Group gross sales) which arose from sales to the Group's largest customer (2019: The sales revenue from this customer was $133.5 million, 13% of the Group's gross sales).

(d) Significant accounting policies

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

YEAR ENDED 30 JUNE 2020

21 Pension plans

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

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

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

Employer contributions to superannuation plans in the year ended 30 June 2020 totalled $10,319,727 (2019: $11,606,070).

Accumulation funds

Contribution obligations in respect of each accumulation fund for the year to 30 June 2020 was 9.5% (2019: 9.5%) of members' wages or as defined by the Trust Deed.

Defined benefit funds

i. Nature of the benefits provided

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

ii. Regulatory framework

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

iii. Governance of the Plan

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

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

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

iv. Risks

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

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

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

v. Description of significant events

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

YEAR ENDED 30 JUNE 2020	NOTES	Ovato Group 2020 $'000	2019 $'000
21 Pension plans (continued)			
(a) Statement of financial position impact			
Defined benefit obligation		**(10,051)**	(10,022)
Less: fair value of plan assets		**11,144**	11,549
Net defined benefit plan asset	7	**1,093**	1,527
(b) Movement in net defined benefit plan asset			
Net defined benefit plan asset at start of year		**1,527**	2,122
Defined benefit plan cost		**(142)**	(117)
Remeasurements recognised in other comprehensive income		**(447)**	(642)
Employer contributions		**155**	164
Net defined benefit plan asset	7	**1,093**	1,527
(c) Reconciliation of the net defined benefit plan asset			
Net defined benefit plan asset at start of year		**1,527**	2,122
Current service cost		**(177)**	(185)
Net interest		**35**	68
Actual return on plan assets less interest income		**(717)**	255
Actuarial (losses) arising from changes in financial assumptions		**(161)**	(268)
Actuarial gains/(losses) arising from liability experience		**431**	(629)
Employer contributions		**155**	164
Net defined benefit plan asset at end of year	7	**1,093**	1,527

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

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

(d) Significant accounting policies

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

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

(e) Actuarial assumptions

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

	Ovato Group 2020 %	2019 %
Discount rate	**1.90**	2.50
Expected salary increase rate	**1.25**	1.25

YEAR ENDED 30 JUNE 2020

22 Share-based payment plans

(a) Employee long term incentive plan

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

Ordinary shares up to 5.0% (2019: 5.0%) of the total number of ordinary shares on issue may be allotted under the Ovato long term incentive plan.

Total number of employee options/performance rights issued since commencement:	79,363,811
Total number of employee performance rights issued as at balance date:	—
Rights on issue (as a percentage of total shares on issue) as at 30 June 2020:	0.00%
Total number of employee performance rights issued during the year	—
Total number of employee performance rights issued post balance date:	—

(b) Significant accounting policies

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

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

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

23 Related parties

(a) Key Management Personnel

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

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

(b) Compensation of Key Management Personnel

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

	Ovato Group	
	2020 $	2019 $
Short-term employee benefits	**2,199,923**	2,059,746
Other long-term employee benefits	**17,985**	12,091
Post employment benefits	**91,473**	109,264
Share-based payment [1]	**—**	3,701
Total compensation	**2,309,381**	2,184,802

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

23 Related parties (continued)

(c) Key Management Personnel shareholdings

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

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

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

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

		Payments/(receipts) transaction value for the year ended 30 June		Payable/(receivable) balance outstanding as at 30 June	
Director/Executive	**Transaction**	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
M Hannan	Property leases (i)	**10,789**	9,429	**2,003**	—
M Hannan	Interest on corporate bond (ii)	**407**	248	**44**	45
D Karai	Whistleblower reporting service (iii)	**7**	7	**—**	—

(i) Mr Hannan is a Non-Executive Director of Ovato Limited and a beneficiary of Rathdrum Property Trust ("RPT"). Subsidiary companies of Ovato Limited lease some properties from RPT. All leases expire on 30 June 2024. Properties leased are Geebung QLD (Inprint), Noble Park VIC (Hannan Print Victoria), Warwick Farm NSW (Hannan Print NSW) and Lidcombe NSW (Offset Alpine). Ovato Group assumed responsibility for these leases when it acquired IPMG on 1 March 2017. The Noble Park VIC lease was exited on 30 April 2020. A fee of $1,250,000 was paid to exit the lease early. Amounts disclosed excludes outgoings.

In response to the COVID-19 pandemic, RPT provided deferred rental relief of $1,821,000. Deferred rentals are to be repaid over the remaining term of the leases.

RPT has provided a guarantee to the ANZ Banking Group guaranteeing Ovato's transactional facilities up to $27 million plus costs.

(ii) Ovato issued an unsecured $40 million corporate bond on 22 November 2018. The bond has a fixed coupon of 8.25% per annum and a four year term. Mr Hannan is a Non-Executive Director of Ovato Limited and a related company holds $5 million of the corporate bond.

(iii) Ms Karai is a Partner at Grant Thornton Australia. Grant Thornton provides a whistleblower reporting service to Ovato Limited. Amounts were billed at normal market rates for such services and payable under normal payment terms.

The Right-of-use ("ROU") property assets written down value ("WDV") and lease liabilities of RPT leases as at 30 June 2020 are disclosed in the table below.

	ROU asset WDV 2020 $'000	Lease Liabilities 2020 $'000
Offset Alpine Printing Pty Limited	**—**	**10,915**
Hannanprint NSW Pty Limited	**19,700**	**23,906**
Inprint Pty Limited	**5,138**	**8,222**
Ovato Creative Services Geebung Pty Ltd	**150**	**241**
	24,988	**43,284**

YEAR ENDED 30 JUNE 2020

23 Related parties (continued)

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

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

	2020 $'000	2019 $'000
- not later than one year	**9,996**	10,875
- later than one year but not later than five years	**28,372**	36,547
Total undiscounted lease liabilities	**38,368**	47,422

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

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

(f) Transactions with other related parties

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

	2020 Number '000	2019 Number '000
24 Earnings per share		
(a) Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**732,004**	526,955

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

YEAR ENDED 30 JUNE 2020		NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
25 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 expected credit loss/bad debts written off			**986**	(69)
Movement in provision for tax			**—**	3
Net (gain)/loss on disposal of plant and equipment		2(c)	**(501)**	775
Share-based payment plans		2(c), 17	**—**	15
Gain on de-recognition of ROU assets and recognition of finance lease receivables		2(a), 2(b)	**(5,976)**	—
Non-cash superannuation expense		21(b)	**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 provided by/(used in) operating activities			**8,089**	(19,223)

(b) Reconciliation of cash and cash equivalents	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
Cash and cash equivalents		**16,200**	38,701
Total cash and cash equivalents		**16,200**	38,701

YEAR ENDED 30 JUNE 2020

26 Financial instruments

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

Categories of financial instrument:

The Group holds the following categories of financial instruments:

	NOTES	Ovato Group 2020 $'000	2019 $'000
Financial assets			
Cash and cash equivalents	25(b)	**16,200**	38,701
Trade and other receivables	5	**50,654**	81,783
Finance lease receivables	7	**14,791**	—
Derivative financial instruments	14	**80**	2,412
		81,725	122,896
Financial liabilities			
Trade and other payables	11	**131,394**	143,875
Interest bearing liabilities	12(a), 12(b)	**86,021**	82,978
Lease liabilities	30(b)	**107,654**	—
Derivative financial instruments	14	**110**	144
		325,179	226,997

(a) Significant accounting policies

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

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

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

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

i. Cash flow hedge

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

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

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

ii. Derivatives that do not qualify for hedge accounting

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

26 Financial instruments (continued)

(b) Hedging policy - overview

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

a) It does not trade in derivatives that are not used in hedging the underlying business exposure of the economic entity; and

b) All hedging is undertaken through the Group's central treasury operation and is in accordance with Board approved policies.

(c) Interest Rate Management

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

i. Interest rate risk exposure

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

	30 June 2020		30 June 2019	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Bank loans - AUD floating rate	**3.8%**	**(42,598)**	3.9%	(35,965)
Bank loans - AUD fixed rate	**—**	**—**	7.5%	(1,314)
Bank loans - EUR floating rate	**2.0%**	**(6,515)**	2.0%	(8,076)
Corporate Bond	**8.3%**	**(40,000)**	8.3%	(40,000)
Cross Currency Interest Rate Swaps				
- receive EUR floating rate	**—**	**—**	1.8%	8,076
- pay AUD floating rate	**—**	**—**	5.9%	(6,103)
Year end borrowing cost (excl. cash, fees & charges)	**5.6%**	**(89,113)**	6.2%	(83,382)
Cash and cash equivalents	**0.1%**	**16,200**	1.3%	38,701

As at balance date, the Group maintained floating rate borrowings of $49.1 million (2019: $42.1 million), that were not hedged by interest rate swaps or fixed rate borrowings. The associated interest rate risk is partially mitigated by expected free cash flow and intra-period movements in cash requirements. In 2020, the average borrowing rate excluding capitalised fees and charges was 6.1% (2019: 6.0%).

Ovato Limited's receivables and payables are non-interest bearing. Cash and overdraft amounts are at the floating interest rate applicable to the Ovato Group.

ii. Fair value of cross currency swaps

		Ovato Group	
	NOTES	**2020 $'000**	2019 $'000
Australian Dollar / Euro cross currency interest rate swaps		**—**	1,899
Total fair value of cross currency swaps	14	**—**	1,899

The cross currency swaps convert the Euro denominated floating debt to Australian dollar floating debt and have been designated as cash flow hedges.

At 30 June 2020, a $133,311 loss has been recorded in the Consolidated statement of profit or loss and other comprehensive income (2019: $6,643 gain) from the close out of the swap during the financial year.

YEAR ENDED 30 JUNE 2020

26 Financial instruments (continued)

(d) Liquidity risk management

Liquidity risk is the risk that funds may be insufficient to settle a transaction on the due date, and the Group may be forced to sell financial assets at a value which is below what they are worth.

Ovato manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continually monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

The table below shows the Group's financial liabilities and derivative instruments in relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts shown in the table are the contractual, undiscounted cash flows and include both principal and interest.

	Ovato Group					
30 June 2020	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years
Interest bearing liabilities	$'000	$'000	$'000	$'000	$'000	$'000
Bank Overdraft - Australian dollars	**4,280**	**4,310**	**4,310**	**—**	**—**	**—**
Corporate Bond - Australian dollars	**40,000**	**47,322**	**6,972**	**7,836**	**32,514**	**—**
Bank Loans - Australian dollars	**38,318**	**41,549**	**7,504**	**5,269**	**28,776**	**—**
Bank Loans - Euros	**6,515**	**6,632**	**4,986**	**1,646**	**—**	**—**
Lease Liabilities	**107,654**	**133,532**	**32,012**	**27,692**	**55,383**	**18,445**
Forward FX Contracts						
- inflows	**(69)**	**(1,404)** (2)	**(1,404)**	**—**	**—**	**—**
- outflows	**99**	**6,791** (2)	**6,791**	**—**	**—**	**—**
Prepaid finance costs	**(3,092)**	**—**	**—**	**—**	**—**	**—**
Payables	**131,394**	**131,394**	**131,394**	**—**	**—**	**—**
Total	**325,099**	**370,126**	**192,565**	**42,443**	**116,673**	**18,445**

	Ovato Group					
30 June 2019	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years
Interest bearing liabilities	$'000	$'000	$'000	$'000	$'000	$'000
Corporate Bond - Australian dollars	40,000	50,622	3,300	6,972	40,350	—
Bank Loans - Australian dollars	37,279	38,433	38,433	—	—	—
Bank Loans - Euros	8,076	8,322	3,378	3,312	1,632	—
Cross Currency Swaps - AUD/EURO (1)	(1,899)	(1,688)				
- inflows			(3,356)	(3,296)	(1,629)	—
- outflows			2,746	2,595	1,252	—
Forward FX Contracts						
- inflows	(8)	(809) (2)	(809)	—	—	—
- outflows	(361)	56,690 (2)	56,690	—	—	—
Prepaid finance costs	(2,377)	—	—	—	—	—
Payables	143,875	143,875	143,875	—	—	—
Total	**224,585**	**295,445**	**244,257**	**9,583**	**41,605**	**—**

(1) This represents the Australian Dollar equivalents of the interest and principal payments due on the cross currency swap. For the carrying amount, it represents the fair value amount as shown in note 26(c)(ii).

(2) This represents the Australian Dollar equivalents of the foreign currency payment/receipt leg of the forward foreign exchange contracts.

26 Financial instruments (continued)

(e) Foreign exchange management

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's foreign currency exchange risk arises primarily from where the Group has firm commitments or highly probable forecast transactions for receipts and payments that are to be settled in foreign currencies, or where the price is dependant on foreign currencies and also the risk that arises on translation of net investments in foreign operations.

The Group is exposed to foreign exchange risk from various currency exposures, primarily with respect to the New Zealand Dollar, the US Dollar, the Euro and the Great British Pound.

Foreign exchange risk that arises from firm commitments or highly probable transactions are managed primarily through the use of forward foreign currency derivatives. A portion of these transactions are hedged (such as the purchase of paper and ink from various foreign suppliers) in each currency in accordance with the Group's risk management policy.

Foreign exchange risk arises from foreign denominated borrowings. These borrowings are hedged back into the local currency via the use of hedging instruments. This is to ensure that the risk from movements in exchange rates and foreign interest rates are eliminated.

Foreign currency risk also arises on translation of the net assets of Ovato's non-Australian controlled entities which have a different functional currency. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve on translation to Australian Dollars on consolidation.

Where a subsidiary hedges foreign exchange transactions it designates hedging instruments as cash flow hedges as appropriate.

i. Foreign currency borrowings

	Liabilities		Assets	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Euro borrowings	**6,515**	8,076	**—**	—
Cross Currency Swap	**—**	(8,076)	**—**	—
	6,515	—	**—**	—

ii. Australian entity contracts to exchange foreign currency - relating to receipts and payments

		Average exchange rate		Ovato Group	
		2020 $	2019 $	**2020 $'000**	2019 $'000
United States Dollars	- less than one year	**0.669**	0.706	**1,703**	5,822
UK Pounds receivables	- less than one year	**0.530**	0.546	**(1,404)**	(809)
Euro	- less than one year	**0.630**	0.620	**4,510**	41,691
				4,809	46,704

iii. New Zealand entity contracts to exchange foreign currency - relating to payments

		Average exchange rate		NZ Dollars		AUD $ Equivalent Ovato Group	
		2020 $	2019 $	**2020 NZD $'000**	2019 NZD $'000	**2020 $'000**	2019 $'000
United States Dollars	- less than one year	**0.637**	0.671	**628**	5,009	**587**	4,797
Euro	- less than one year	**—**	0.578	**—**	4,575	**—**	4,381
				628	9,584	**587**	9,178

YEAR ENDED 30 JUNE 2020

26 Financial instruments (continued)

(e) Foreign exchange management (continued)

iv. Fair value of forward exchange contracts

	NOTES	Ovato Group 2020 $'000	Ovato Group 2019 $'000
Australian entity - foreign exchange contracts relating to receipts		**69**	8
Australian entity - foreign exchange contracts relating to payments		**(95)**	430
New Zealand entity - foreign exchange contracts relating to payments		**(4)**	(69)
Total fair value of forward exchange contracts		**(30)**	369
Comprised of:			
Financial assets - current	14	**80**	513
Financial liabilities - current	14	**(110)**	(144)
Total fair value of forward exchange contracts		**(30)**	369

At 30 June 2020, a $66,000 credit (2019: $95,000 debit) has been recognised within the Consolidated statement of profit or loss and other comprehensive income and a $29,000 debit, excluding tax effect (2019: $0.3 million credit) is included within the cash flow hedge reserve in equity. $46,000 debit was transferred to inventory during the financial year ended 30 June 2020 (2019: $43,000 credit).

v. Foreign currency sensitivity risk

The following table shows the effect on equity excluding tax effect as at 30 June from a 10 percent adverse / favourable movement in exchange rates at that date on a total portfolio basis with all other variables held constant, taking into account all underlying exposures and related hedges.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in the Group's foreign currency risk exposure and a worsening in financial position. A favourable movement in exchange rates implies a reduction in foreign currency risk exposure and an improvement in financial position.

A sensitivity of 10 percent has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movement. Comparing the Australian dollar exchange rate against the United States dollar and the Euro and the New Zealand dollar against the United States dollar year end rates would give the following adverse and favourable rates:

	Year end rate	10% rate increase	10% rate decrease
Australia dollar to:			
United States dollar	0.687	0.755	0.624
Euro	0.611	0.672	0.555
New Zealand dollar to:			
United States dollar	0.642	0.706	0.584
Euro	0.571	0.628	0.519

The net gain/(loss) in the cash flow hedge reserve reflects the result of exchange rate movements on the derivatives held in cash flow hedges which will be released to the Consolidated statement of profit or loss and other comprehensive income in the future as the underlying hedged item affects profit.

26 Financial instruments (continued)

(e) Foreign exchange management (continued)

v. Foreign currency sensitivity risk (continued)

	Ovato Group (cash flow hedge reserve) Equity at 30 June	
	2020 $000	2019 $000
If there was a 10% increase in exchange rates with all other variables held constant - (decrease)	**(501)**	(3,560)
If there was a 10% decrease in exchange rates with all other variables held constant - increase	**569**	5,100

The impact on the parent, Ovato Limited, would be $nil as the entity does not hold forward exchange contracts.

For the Ovato Group, foreign currency translation risk associated with Ovato's foreign investments results in some volatility to the foreign currency translation reserve. The impact on the foreign currency translation reserve relates to the translation of the net assets of foreign currency controlled entities on consolidation.

(f) Credit Risk

Credit risk is the risk that a counterparty will default on their financial obligations resulting in financial loss to the Group. Credit risk exists from cash and cash equivalents, trade and other receivables and derivative financial instruments. The Group's exposure to credit risk arises from the potential default of the counter party, with a maximum exposure equal to the carrying value of these assets net of any provision for doubtful debts (refer to Note 5).

The credit risk on cash and cash equivalents and financial instruments is limited as the counterparties are financial institutions with credit ratings of A- or higher. Also, Ovato has policies that limit the amount of credit exposure to any one financial institution.

Ovato has an approved Credit Policy Manual which provides guidelines for the management of credit risk. This provides guidance for the way in which the credit risk of customers is assessed, and the use of credit risk rating and other information in order to set appropriate trading limits with customers.

In some instances security may be required to be supplied to Ovato from customers to minimise risk. The security is either in the form of Director guarantees for their business which is secured over a residential property or may be an upfront payment of between 75% - 50% of the trade before executing the sale.

(g) Fair values

The fair value of all financial assets and liabilities equates to the carrying value.

YEAR ENDED 30 JUNE 2020

26 Financial instruments (continued)

(h) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value.

Ovato Group - 30 June 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)**

Ovato Group - 30 June 2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	—	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

The fair value of financial instruments that are not traded in an active market (for example, derivatives used for hedging) is determined using valuation techniques. Cross currency swaps and forward foreign exchange contracts are valued using a discounted cash flow approach. Future cash flows are estimated based on market forward interest rates (and foreign exchange rates for cross currency swaps and forward foreign exchange contracts) as at the end of the reporting period and the contract rates, discounted at a rate that reflects the credit risk of the various respective counterparties. These instruments are included in Level 2.

26 Financial instruments (continued)

(i) Hedge Reserve Reconciliation

Cash flow hedge reserve Ovato Group - 30 June 2020	**Total $'000**	**Cross Currency Swaps $'000**	**Forward Exchange Contracts $'000**
Opening balance	**172**	**(71)**	**243**
Gain/(Loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:			
Movement			
- Other	**(30)**	**—**	**(30)**
- Tax effect	**10**	**—**	**10**
Transfer out			
- Other	**(245)**	**102**	**(347)**
- Tax effect	**73**	**(31)**	**104**
Total cash flow hedge reserve	**(20)**	**—**	**(20)**

Cash flow hedge reserve Ovato Group - 30 June 2019	**Total $'000**	**Cross Currency Swaps $'000**	**Forward Exchange Contracts $'000**
Opening balance	302	(149)	451
Gain/(Loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:			
Movement			
- Foreign currency basis	(4)	(4)	—
- Other	159	(193)	352
- Tax effect	(50)	59	(109)
Transfer out			
- Foreign currency basis	72	72	—
- Other	(408)	236	(644)
- Tax effect	101	(92)	193
Total cash flow hedge reserve	172	(71)	243

YEAR ENDED 30 JUNE 2020

26 Financial instruments (continued)

(j) Disclosure of amounts related to designated hedging instruments

	Nominal amount of the Hedging Instrument	Net carrying amount of the Hedging Instrument		Changes in value of Hedging Instrument used for calculating hedge effectiveness
	($'000)	Assets ($'000)	Liabilities ($'000)	($'000)
Cash Flow Hedges				**Gain / (Loss)**
Foreign Exchange Risk - Committed foreign currency expenditure	**5,387**	**—**	**(30)**	**(399)**
Foreign Exchange Risk - Cross Currency Interest Rate Swaps (hedging of foreign currency debt)	**6,515**	**—**	**—**	**(1,899)**

(k) Amount and timing of future cash flows

	Notional Amounts of the Hedging Instruments ($'000)				
	0-6 months	7-12 months	1-2 years	2-5 years	Over 5 years
Foreign Exchange Risk (AUD/USD) - FX Forwards (hedge committed foreign exchange expenditure)					
Average contracted FX rate	0.6682	0.6762	—	—	—
Notional Amount (A$'000 Equivalent)	1,518	185	—	—	—
Fair Value (A$'000 Equivalent)	(41)	(3)	—	—	—
Foreign Exchange Risk (AUD/EUR) - FX Forwards (hedge committed foreign exchange expenditure)					
Average contracted FX rate	0.6029	—	—	—	—
Notional Amount (A$'000 Equivalent)	4,501	—	—	—	—
Fair Value (A$'000 Equivalent)	(52)	—	—	—	—
Foreign Exchange Risk (NZD/USD) - FX Forwards (hedge committed foreign exchange expenditure)					
Average contracted FX rate	0.6374	—	—	—	—
Notional Amount (A$'000 Equivalent)	587	—	—	—	—
Fair Value (A$'000 Equivalent)	(4)	—	—	—	—

27 Contingent liabilities

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

The Company:

- Ovato has guaranteed the debts of certain wholly owned Australian controlled entities in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission, which provides relief from the requirements to prepare, audit and lodge financial statements (refer to Note 19).

Related bodies corporate:

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

28 Subsequent events

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, other than:

- Subsequent to year end, Ovato entered into a new A$50 million Receivables Financing Facility on 5 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 an equal first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and New Zealand. This is also disclosed in Note 12(e).
- Ovato Print Pty Ltd filed an application in the Fair Work Commission on 29 July 2020 for the termination of the PMP Print, Distribution and Digital Enterprise Agreement 2018, which has a nominal expiry date of 30 June 2020. This application is set down to be heard over 3 days from 30 September 2020.
- 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.

29 Parent

As at, and throughout the 2020 financial year, the parent company of Ovato Group was Ovato Limited.

	NOTES	Ovato Limited 2020 $'000	Ovato Limited 2019 $'000
Financial performance of the parent			
Loss after tax		**(19,511)**	(121,732)
Other comprehensive expense		**(313)**	(449)
Total comprehensive loss		**(19,824)**	(122,181)
Financial position of the parent at year end			
Current assets		**5,481**	57,692
Non-current assets		**24,666**	105,679
Total assets		**30,147**	163,371
Current liabilities		**8,662**	125,872
Non-current liabilities		**4,252**	244
Total liabilities		**12,914**	126,116
Net assets		**17,233**	37,255
Total equity of the parent comprising of:			
Contributed equity		**497,523**	497,523
Accumulated losses		**(513,278)**	(493,256)
Dividend reserve		**32,988**	32,988
Total equity		**17,233**	37,255

In the 2020 accounts there has been an adjustment to reduce $118 million of intercompany current liabilities to nil, as these are correctly offset against intercompany current and non-current assets.

YEAR ENDED 30 JUNE 2020

29 Parent (continued)

(a) Significant accounting policies

Financial information for the parent has been prepared on the same basis as the Consolidated Financial Statements.

Leases
The parent entity adopted *AASB 16 Leases* using the modified retrospective approach from 1 July 2019. As at 30 June 2020 non-current assets includes ROU assets of $2.9 million, current liabilities includes $1.0 million of lease liabilities and non-current liabilities includes $2.5 million of lease liabilities.

(b) Parent maturity profile of contractual undiscounted lease liabilities as at 30 June 2020

	Ovato Limited	
	2020 $'000	2019 $'000
- not later than one year	**1,417**	2,129
- later than one year but not later than five years	**2,742**	2,952
Total undiscounted lease liabilities	**4,159**	5,081

(c) Parent capital commitments for acquisition of property, plant and equipment

There were no capital commitments for the acquisition of property, plant and equipment as at 30 June 2020 (2019: $nil)

(d) Investment in controlled entities

Ovato Limited has impaired its investment in controlled entities during the year ended 30 June 2020 by $73.5 million (2019: $79.9 million).

(e) Parent capital guarantees in respect of debts of certain subsidiaries

The parent has entered into a Deed of Guarantee with subsidiaries whereby in the event of windup of a subsidiary, the parent guarantees debts of that subsidiary. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note 19.

(f) Parent contingent liabilities

There were no contingent liabilities for the year ended 30 June 2020 (2019: $nil).

30 Leases

The Group leases properties, presses, forklifts, motor vehicles, IT and equipment. Previously these leases were classified as operating leases, in accordance with *AASB 117 Leases.*

The Group has applied *AASB 16 Leases* ("AASB 16") in the current financial year using the modified retrospective approach, which recognises the cumulative impact of AASB 16 in opening retained earnings at 1 July 2019, as shown in the Consolidated statement of changes in equity. For more details regarding the impact on the financial statements of adopting AASB 16, refer to Note 1 – Changes in accounting policies.

The Group's rental contracts are typically made for fixed periods of between one to five years. They may contain extension options. Extension options are most common for property leases and range between one and five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Short term leases (less than 12 months) and Low Value Leases (less than $10,000 to purchase brand new) are not recognised as Right-of-use ("ROU") assets under AASB 16, but rather expensed as incurred through the Consolidated statement of profit and loss.

Finance lease receivables have also been recognised by the Group for long term contracts it has entered into as a Lessor. These relate to property's sub-leased by the Group to other parties. The net investment in the lease is recognised as a receivable.

(a) Right-of-use assets

The carrying value of ROU assets is presented below:

	NOTES	Property $'000	Other $'000	Total $'000
Cost		**131,947**	**15,195**	**147,142**
Less: Accumulated depreciation and impairment		**(84,843)**	**(3,958)**	**(88,801)**
Carrying amount at end of period		**47,104**	**11,237**	**58,341**
Movement:				
Recognition on initial application of AASB 16	1	**64,874**	**14,115**	**78,989**
Additions		**287**	**1,071**	**1,358**
Remeasurements		**91**	**9**	**100**
Depreciation expense	2(e)	**(11,841)**	**(3,963)**	**(15,804)**
Impairment		**(250)**	**—**	**(250)**
Derecognition due to sub-lease		**(5,797)**	**—**	**(5,797)**
Net foreign currency translation difference		**(260)**	**5**	**(255)**
Carrying amount at 30 June 2020		**47,104**	**11,237**	**58,341**

(b) Lease Liabilities

The carrying value of lease liabilities is presented below:

	NOTES	Total $'000
Movement:		
Recognition on initial application of AASB 16	1	**122,874**
Additions		**1,311**
Remeasurements		**100**
Interest expense	3	**9,841**
Payments for the interest component of lease liabilities		**(8,386)**
Repayment of lease liabilities		**(17,698)**
Net foreign currency translation difference		**(388)**
Carrying amount at 30 June 2020		**107,654**
Current		**23,878**
Non-current		**83,776**
Carrying amount at 30 June 2020		**107,654**

YEAR ENDED 30 JUNE 2020

30 Leases (continued)

(c) Maturity profile of contractual undiscounted lease liability cashflows as at 30 June 2020

	2020 $'000
- not later than one year	**32,012**
- later than one year but not later than five years	**83,075**
- later than five years	**18,445**
Total undiscounted lease liabilities	**133,532**

(d) Finance Lease Receivables

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 of $2.9 million was recorded in opening accumulated losses at 1 July 2019. The head lease liability remained unchanged.

During the 2020 financial year, the Group sub-leased some manufacturing facilities that had been presented as part of property ROU assets. The Group recognised a gain on de-recognition of the ROU assets of $6.0 million and was included in other income. The gain of $6.0 million arose due to the onerous lease provision on adoption of AASB 16 reducing the ROU asset compared to the receivable upon subleasing. Refer to note 2(a). Interest income of $0.6 million on the unwind of the discount on finance lease receivables was recognised during the financial year (2019: Nil).

Expected credit losses on finance lease receivables are immaterial.

The carrying value of finance lease receivables is presented below:

	NOTES	2020 $'000
Movement:		
Recognition on initial application of AASB 16	1	**4,123**
Additions		**11,772**
Interest income	2(b)	**618**
Receipts		**(1,722)**
Carrying amount at 30 June 2020		**14,791**
Current	7	**3,215**
Non-current	7	**11,576**
Carrying amount at 30 June 2020		**14,791**

(e) Maturity profile of contractual undiscounted lease receivables as at 30 June 2020

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date. Under AASB 117, the Group did not have any finance leases as a lessor.

	2020 $'000
- not later than one year	**4,046**
- one to two years	**4,423**
- two to three years	**3,984**
- three to four years	**3,494**
- four to five years	**1,039**
Total undiscounted lease receivables	**16,986**

30 Leases (continued)

(f) Amounts recognised in the Consolidated statement of profit or loss

	2020 $'000
Depreciation expense on ROU assets	15,804
Interest expense on lease liabilities	9,841
Expenses relating to short-term leases	1,948
Expenses relating to low value leases	142
Variable lease payments not included in the measurement of lease liabilities	3,982
Unwind of discount on finance lease receivables	(618)
Gain on de-recognition of ROU assets and recognition of finance lease receivables	(5,976)
Income from operating sub-leases	(63)

(g) Amounts recognised in the Consolidated statement of cash flows

	2020 $'000
Lease interest payments	(8,386)
Lease principal payments	(17,698)
Receipts from subleases	1,243
Total net cash outflow for leases	**(24,841)**

Payments for short term leases, low value leases and variable lease payments are included in Payments to suppliers and employees.

(h) Bank guarantees

The company has a number of bank guarantees in place that support various property leases in the name of either Ovato Limited or its subsidiaries. As at 30 June 2020 the value of bank guarantees was $16.4 million (2019: $16.3 million). The company has received guarantees for properties which it sub-leases of $2.1 million (2019: $0.9 million).

(i) COVID-19 rent related concessions

In response to the global COVID-19 pandemic, the Group sought and obtained rent concessions from some lessors. These included rent free periods, deferrals or rent reductions. Total deferrals received at 30 June 2020 was $4.1 million. Lessors typically deferred rent for three months during the financial year. Repayment of deferred amounts vary from 12 months to over the remaining lease term. Rental discounts of $0.2 million were received.

YEAR ENDED 30 JUNE 2020

30 Leases (continued)

(j) Significant accounting policies

The Group assesses whether a contract is, or contains a lease at inception of the contract. 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. A lease liability and corresponding lease asset are recognised at commencement of the lease.

Lease liabilities

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. When there is a change in lease term or a change in future lease payments, lease liabilities are remeasured with a corresponding adjustment to ROU assets.

ROU assets

ROU assets are initially measured at cost comprising the initial lease liability, any lease payments made at or before the commencement date (less any incentives received), any initial direct costs, and any make good costs.

ROU assets are subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Lease assets are tested for impairment in accordance with the policy for non-financial assets in Note 8 and 9.

Short-term leases

Short-term leases of 12 months or less are recognised as an expense in the Consolidated statement of profit or loss as incurred

Low-value leases

The Group does not capitalise leases which 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 recognised as an expense in the Consolidated statement of profit or loss as incurred.

Determining the lease term

In determining the lease term, the Group considers all factors and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or significant change in circumstances occurs which affects this assessment. The Group assesses within a reasonable timeframe of the lease expiry date whether the extension option will be exercised. The Group's lease terms are typically between one and five years and may contain extension options. Extension options are most common for property leases and are typically between one and five years. As at 30 June 2020, the weighted average lease expiry date for the portfolio of leases were:

	Weighted average expiry years[1]
As at 30 June 2020	
Ovato Australia Group	**5.4**
Ovato New Zealand Group	**5.9**
Group	**5.4**

1 Represents the weighted average number of years from the end of the reporting period to the end of the reasonably certain lease term.

Discount rates

In calculating the lease liability, the lease payments are discounted using the rate implicit in the lease or the Group's incremental borrowing rate. Determining the incremental borrowing rate requires significant judgement. The discount rate is derived from external market based rates, the Group's credit margin, and the length of the lease.

At the end of the reporting period, the weighted average incremental borrowing rate for the Group was 9.2%.

COVID-19 related rent concessions

In accordance with AASB 2020-4, the Group has elected to apply the practical expedient not to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications, and to account for any changes in lease payments resulting from the rent concessions as a gain in profit or loss.

Finance lease receivables

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 rate under the head lease 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.

OVATO

+61 2 9412 6111

Level 4, 60 Union St,
Pyrmont NSW 2009

www.ovato.com.au

In accordance with a resolution of the Directors of Ovato Limited, we state that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements are in compliance with the Financial Reporting Standards, as stated in Note 1 to the financial statements;

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001

At the date of this declaration, the company is within the class of companies affected by ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion there are reasonable grounds to believe that the company and the companies to which the ASIC Instrument applies, as detailed in Note 19 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become liable, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors

Michael Hannan
Chair

Kevin Slaven
Chief Executive Officer and Managing Director

Sydney, 11th September 2020

Deloitte.

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

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of Ovato Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ovato Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Deloitte.

Material Uncertainty Related to Going Concern

We draw attention to the financial report, which indicates that the Group incurred a net loss of $108,750,000 and had a net decrease in cash and cash equivalents of $22,229,000 during the year ended 30 June 2020. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our procedures in relation to going concern included, but were not limited to:

- inquiring of management and the directors as to knowledge of events and conditions that may impact the assessment on the Group's ability to continue as a going concern;
- challenging the assumptions contained in management's forecast in relation to the Group's ability to continue as a going concern; and
- assessing the adequacy of the disclosures related to going concern in Note 1.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying value of property, plant and equipment and intangible assets including goodwill	
As disclosed in Notes 8 and 9, as at 30 June 2020 the consolidated statement of financial position includes property, plant and equipment of $106.0 million, leasing right-of-use assets of $58.3 million and goodwill and other intangible assets of $1.4 million, after recording an impairment loss of $43.9 million. The evaluation of the recoverable amount of these assets requires significant judgement in respect of the key assumptions such as the 5-year cash flow forecasts, long term growth rate and discount rate as disclosed in the Critical accounting estimates, assumptions and judgements note included in Note 1 and Notes 8 and 9.	Our procedures included, but were not limited to: • evaluating the appropriateness of management's process over the evaluation of the carrying value of property, plant and equipment and intangible assets including goodwill to determine any asset impairments; • assessing the identification of cash generating units, including the allocation of goodwill; • agreeing relevant data to board approved budgets and latest forecasts; • challenging the 5-year cash flow forecasts by reference to the historical forecasting accuracy of management and the future expected financial impact of the COVID-19 pandemic; • in conjunction with our valuation specialists we assessed and challenged: ○ the key assumptions for long term growth in the forecast cash flows by comparing them to

	historical results and industry forecasts; ○ the discount rate applied by comparing to an independently determined discount rate; • performing sensitivity analysis in relation to key assumptions including cash flow forecasts and discount rate; • testing on a sample basis, the mathematical accuracy of the cash flow models; and • assessing the appropriateness of the disclosures included in the Notes to the financial statements.
Recoverability of Deferred Tax Assets relating to carry forward losses As disclosed in Note 10, as at 30 June 2020 the Group has recorded a deferred tax asset of $5.9 million in relation to carry forward tax losses incurred by the Group, after recording an impairment loss of $10.0 million. Significant judgement is required to assess whether there will be sufficient future taxable profits to utilise the recognised deferred tax assets as disclosed in the Critical accounting estimates, assumptions and judgements note included in Note 1 and Note 10.	Our procedures included, but were not limited to: • assessing and challenging management’s judgements relating to the recoupment of tax losses and the forecasts of future taxable profit and evaluating the reasonableness of the assumptions underlying the preparation of the taxable income forecasts; • assessing that the forecasts used are consistent, to the extent relevant, with those used in the impairment models; • evaluating whether all losses will remain available indefinitely for offset, subject to continuing to meet the statutory tax tests of continuity of ownership or, failing that the same business test; and • assessing the appropriateness of the disclosures in the Notes to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Company Profile, Chair’s Review, Chief Executive Officer’s (CEO) Review, Directors’ Report and Chief Financial Officer’s (CFO) Review.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Deloitte.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 34 to 40 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Ovato Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Joanne Gorton
Partner
Chartered Accountants
Sydney, 11 September 2020

Five year summary

For the year ended 30 June 2020

		2016	2017 <b>, <e>	2018 <f>	2019	2020 <g>	% change
				(Restated)			
SALES REVENUE							
Print Group Australia <c>, <e>	A$ mill	199.7	309.5	—	—	**—**	—
Residential Distribution Australia <e>	A$ mill	—	86.8	—	—	**—**	—
Distribution & Marketing Services <c>, <e>	A$ mill	134.9	—	—	—	**—**	—
Retail Distribution Australia <e>	A$ mill	345.8	—	—	—	**—**	—
Marketing Services Australia <e>	A$ mill	—	76.7	—	—	**—**	—
Ovato Australia Group	A$ mill	—	—	613.9	554.9	**449.3**	(19.0)
Ovato New Zealand Group	A$ mill	135.6	128.8	120.1	114.3	**90.0**	(21.3)
Total Sales Revenue	A$ mill	816.0	601.9	734.0	669.2	**539.3**	(19.4)
PROFITABILITY							
Print Group Australia <c>, <e>	A$ mill	26.4	16.9	—	—	**—**	—
Residential Distribution Australia <e>	A$ mill	—	3.0	—	—	**—**	—
Distribution & Marketing Services <c>, <e>	A$ mill	10.6	—	—	—	**—**	—
Retail Distribution Australia <e>	A$ mill	2.9	—	—	—	**—**	—
Marketing Services Australia <e>	A$ mill	—	3.6	—	—	**—**	—
Ovato Australia Group	A$ mill	—	—	30.0	26.3	**31.2**	18.7
Ovato New Zealand Group	A$ mill	15.0	12.4	10.6	4.6	**1.2**	(73.1)
Corporate	A$ mill	(3.7)	(3.8)	—	—	**—**	—
Total EBITDA (before significant items)	A$ mill	51.2	32.2	40.6	30.8	**32.4**	5.1
Total EBIT (before significant items)	A$ mill	23.3	3.7	9.4	2.2	**(4.5)**	—
NPAT post significant items	A$ mill	0.2	(126.4)	(43.8)	(84.3)	**(108.8)**	—
Print Group Australia EBITDA*/sales	%	13.2	5.5	—	—	**—**	—
Residential Distribution Australia EBITDA*/sales	%	—	3.5	—	—	**—**	—
Distribution & Marketing Services EBITDA*/sales	%	7.9	—	—	—	**—**	—
Retail Distribution Australia EBITDA*/sales	%	0.8	—	—	—	**—**	—
Marketing Services Australia EBITDA*/sales	%	—	4.7	—	—	**—**	—
Ovato Australia Group EBITDA*/sales	%	—	—	4.9	4.7	**6.9**	46.6
Ovato New Zealand Group EBITDA*/sales	%	11.1	9.6	8.8	4.0	**1.4**	(65.9)
Total EBITDA*/sales	%	6.3	5.4	5.5	4.6	**6.0**	30.5
OTHER							
Net cash provided by/(used in) operating activities	A$ mill	32.0	(12.5)	(6.1)	(19.2)	**8.1**	—
Earnings per ordinary share (basic)	cents	0.1	(33.3)	(8.6)	(16.0)	**(15.0)**	—
Earnings per ordinary share (diluted)	cents	0.1	(32.9)	(8.6)	(16.0)	**(15.0)**	—
Dividend per share (paid)	cents	<a> 3.0	<d> 2.4	—	—	**—**	—
Total assets	A$ mill	476.9	570.0	518.3	433.7	**381.4**	(12.0)
Total net debt/(net cash) <h>	A$ mill	(0.7)	18.5	32.8	44.7	**72.9**	—
Total shareholders equity	A$ mill	259.4	255.1	210.4	141.9	**17.8**	(87.5)
Net debt/Equity Ratio <h>	%	—	7.3	15.6	31.5	**410.6**	—
Depreciation <i>	A$ mill	27.1	27.6	30.7	28.1	**20.4**	27.6
Depreciation - Right of Use Asset	A$ mill	—	—	—	—	**15.8**	—
Amortisation	A$ mill	0.8	0.9	0.6	0.5	**0.8**	(53.3)
Payments for plant and equipment	A$ mill	4.2	2.0	9.0	7.8	**20.2**	—
Employees Full Time	No.	1,248	1,980	1,806	1,698	**1,608**	(5.3)

Note:

EBITDA - Earnings before depreciation, amortisation, finance costs and income tax.

EBIT - Earnings before finance costs and income tax.

NPAT - Net profit after tax.

* - Before significant items.

<a> Final dividend for the year ended 30 June 2015 of 1.8 cents (50% franked) and interim dividend for the year ended 30 June 2016 of 1.2 cents (unfranked).

<b> Includes IPMG result for 4 months to 30 June 2017.

<c> Ovato Australia business segment separated into Print Group Australia and Distribution and Marketing Services businesses in 2017 with comparables shown for 2016.

<d> Final dividend for the year ended 30 June 2016 of 2.4 cents (0% franked).

<e> During 2018, Ovato changed its segment reporting structures due to a change in the internal reporting structure after the acquisition of IPMG Holdco Pty Ltd and its subsidiaries. Marketing Services Australia includes Retail Distribution Australia and the digital businesses. Previously Retail Distribution Australia was a discrete operating segment and Residential Distribution, Ovato Book Printing and the digital businesses were combined. Residential Distribution is now a discrete operating segment and Print Group Australia includes Ovato Book Printing. There has been no change to the New Zealand operating segment. Comparatives have been restated for 2017. On 1 July 2017, Ovato Limited adopted *AASB 15 Revenue from Contracts with Customers*, resulting in a change in accounting policy and a restatement of balances for the year ended 30 June 2017.

<f> During 2019, Ovato changed its segment reporting structures due to a number of changes to the way the Group sells to its customers by making bundled offers under a rebranded company and revised management structure. The Group has combined Marketing Services Australia (includes Retail Distribution and the digital businesses), Residential Distribution Australia, Print Group Australia and Corporate into one discrete segment, Ovato Australia Group. There has been no change to the Ovato New Zealand Group segment. The 2018 comparatives have been restated.

<g> 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.

<h> Excludes lease liabilities arising from the adoption of AASB 16.

<i> Excludes depreciation on Right-of-use assets arising from the adoption of AASB 16.

Shareholder information

Alistair Clarkson
B Com LLB MBA ACIS GradDipACG

COMPANY SECRETARY
APPOINTED 24 APRIL 2009

The Ovato Limited Annual General Meeting.

Meeting will be held at 1.00pm on Thursday, 26 November 2020.

The meeting will be held virtually online via the Lumi platform at https://web.lumiagm.com with meeting ID [395-495-309].

Details of how shareholders can access this platform and of the business of the meeting are contained in the separate Notice of Meeting.

ASX Code: OVT

Investor Information

Shareholders requiring information should contact the share registry, or:

Geoff Stephenson
Chief Financial Officer

Telephone: 02 9412 6111

Email: geoff.stephenson@ovato.com.au

Shareholder Details

Ovato shareholders who:

- have changed their name or address
- wish to consolidate two or more separate holdings
- wish to lodge their tax file numbers
- do not wish to receive an Annual Report

should advise Ovato's share registry by completing the relevant forms available from www.computershare.com or by telephoning 1300 556 161 to request the appropriate forms.

Alternatively, shareholders can visit http://www.computershare.com.au/easyupdate/ovt to update their payment details, shareholder communication elections or Tax File Number or exemption details. Shareholders will need to key in their Holder Identification Number (HIN) if their securities are broker-sponsored and held in CHESS, while shareholders with securities held in an issuer-sponsored sub-register will need to key in their Security Reference Number (SRN).

Tax File Numbers: It is important that Australian resident shareholders have their tax file number or exemption details noted by the share registry. While it is not compulsory to provide a tax file number or exemption details, Ovato is required by law to deduct tax at the top marginal rate from the unfranked part of any dividend paid to Australian resident shareholders who have not supplied these details.

Share Registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

Enquiries within Australia: 1300 556 161

Enquiries outside Australia: +61 3 9415 4000

Website: www.computershare.com

Receive Information by Email

Shareholders can receive notifications about Notice of Meeting and Proxy, Statements, and company announcements, annual and periodic reports and other company information by email.

By registering for this service, shareholders can be kept up to date with significant company announcements as they happen.

To Register Electronically:
Visit http://www.computershare.com.au/easyupdate/ovt and follow these easy steps:

Click on Register Your Email Address for shareholder information

Then enter your personal security information:

- Holder Identification Number (HIN) or
- Security Reference Number (SRN)
- Postcode
- Read and agree with the Terms and Conditions

Click on "Next" and follow the prompts

Chief Entity Auditors

Deloitte Touche Tohmatsu

Principal Bankers

ANZ Banking Group Limited
Commerzbank AG

Share register information

Substantial Shareholders of Ordinary Shares (as reported to the ASX)	Number of Shares	% Voting Power
Michael Hannan, Lindsay Hannan, Sayman Pty Ltd, Adrian O'Connor, Richard O'Connor, James Hannan	393,734,555	53.79%
Sporran Lean Pty Ltd	43,804,787	5.98%
Greig and Harrison Pty Ltd	37,519,000	5.13%

Twenty Largest Shareholders* as at 28 August 2020	Number of Shares	% of Total Issued
Mr Lindsay Norman Hannan	105,060,694	14.35%
Sayman Pty Limited <Lindsay Hannan Family A/C>	92,662,194	12.66%
Mr Michael Ashton Hannan	50,536,320	6.90%
Mr James Michael Hannan	50,536,320	6.90%
Mr Richard Ashton Charles O'Connor	48,947,468	6.69%
Sporran Lean Pty Ltd	47,000,001	6.42%
Mr Adrian Thomas O'Connor	45,991,559	6.28%
Citicorp Nominees Pty Limited	39,897,468	5.45%
Nahill Investments Pty Ltd <Hill Super Fund A/C>	14,940,000	2.04%
Horrie Pty Ltd <Horrie Superannuation A/C>	14,000,000	1.91%
Wins Asset Management Pty Ltd <Wins A/C>	11,500,000	1.57%
Hillmorton Custodians Pty Ltd <The Lennox Unit A/C>	5,100,000	0.70%
Mr Umit Subasi	4,542,580	0.62%
Buffalo Investments Super Nominees Pty Ltd <Buffalo Investments S/F A/C>	4,500,000	0.61%
Mr Luke Groves	4,000,000	0.55%
Grandlodge Pty Ltd <Arney & Anastasiou Fam A/C>	3,802,891	0.52%
Mr Kyle Aidan Tudor	3,762,014	0.51%
Mr Nicholas John Regan	3,000,000	0.41%
Erskine Import Pty Ltd	2,809,000	0.38%
Kelpador Investments Pty Ltd <Kelpador Superannuation A/C>	2,807,000	0.38%
Totals : Top 20 Holders of Fully paid Ordinary Shares	**555,395,509**	**75.87%**
Total Remaining Holders Balance	**176,608,808**	**24.13%**

*Ungrouped

Distribution of Shareholders as at 28 August 2020	Number of Shareholders	Number of Shares	% of Issued Capital
1 - 1,000	639	347,450	0.05%
1,001 - 5,000	1,303	3,608,126	0.49%
5,001 - 10,000	331	2,632,765	0.36%
10,001 - 100,000	929	37,218,084	5.08%
100,001 - 9,999,999,999	335	688,197,892	94.02%
Total Number	**3,537**	**732,004,317**	**100.00%**
Unmarketable Parcels	**2,879**	**21,852,050**	
Shares on issue			**732,004,317**

OVATO

ABN 39 050 148 644

Level 4, 60 Union Street,
Pyrmont NSW 2009

+ 61 2 9412 6111

ovato.com.au