Annual Report 2021

OVATO

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“First class service from a team of experts in the printing industry. Woolworths are very thankful and appreciative of the team at Ovato over the 20 plus years we have been partners.”

Andrew Kenny,
Head of Trade Planning, Customer Projects & Advertising
Woolworths Limited

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The 2021 Annual Report was designed, printed and bound by Ovato.

Paper sourcing

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

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

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

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Ovato Limited

ABN 39 050 148 644

Registered Office:
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Pyrmont NSW 2009
Tel: 02 9412 6111
ovato.com.au

Annual general meeting

The Ovato Limited annual general meeting (AGM) will be held at 11.00am on Wednesday, 24 November 2021.

The meeting will be held virtually online via the Lumi platform at https://web.lumiagm.com with meeting ID 336-196-543.

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:

Andrew Stedwell
Tel: 02 9412 6000
andrew.stedwell@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
James Hannan

Non-Executive Directors
Dhun Karai
Andrew McMaster

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Ovato

We know print.

Ovato provides the printing solutions, platforms, and tools clients' need to get in front of the right people.

Our capabilities are diverse, but our focus is single-minded: we deliver high quality print products including magazines, catalogues, commercial work, point of sale, packaging and books – on time and on demand.

We offer an unmatched breadth of print solutions through our significant footprint across Australia and New Zealand, helping clients reach the people that matter to them with print material that works.

Our experienced team of specialists work with clients across multiple industries, from Retail to Publishing, eCommerce to FMCG and many more. Everything we do is based on a deep understanding of print and its business impact, allowing us to continually improve on our work for clients'.

At Ovato we promise:

Efficiency

Smart solutions that get printed material to market faster.

Effectiveness

Experience and knowledge drive measurable success for campaigns.

Impact

Maximise print activities with cutting-edge solutions.

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Catalogues

From concept to customers.

Catalogues are a powerful marketing tool, putting our clients' brands in customers' hands and homes. They help buyers make purchase decisions, discover new products and share offers with friends and family.

Ovato has enjoyed an extended tenure in the print industry, and our clients trust us to print bespoke catalogues that speak to customers based on our significant expertise and innovative spirit. We enjoy a national footprint with unrivalled manufacturing capability. This gives our clients faster speed to market and the flexibility to make content or volume decisions at any time.

Ovato's catalogue solutions range is diverse, be it 8 pages through to 800 pages. We can print on 45gsm up to 350gsm – and everything in between. We can even link the physical and digital experiences with immersive Augmented Reality (AR), loyalty program registration or steer customers to an online point of purchase.

We work with brands of all sizes to print and publish catalogues that work. Whatever they need, we offer a print catalogue solution.

"Ovato has the national footprint and experienced team to provide the most reliable service. For over 18 years, Ovato has been printing a national, weekly catalogue for us, and they have never missed a deadline."

Julie Sorrell, Production Director
BMF

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Magazines

Inspire and engage consumers.

Print magazines remain a source of inspiration, entertainment and education for consumers of all ages, backgrounds and demographics.

Readers might dwell on the beautifully shot front cover or curl up with an interesting interview and a cup of tea. They collect pages for scrapbooks, recipe inspiration or to share articles with friends and family.

From niche interests to everyday living, magazines deliver curated content in an accessible, portable, and interactive format.

At Ovato, we carry out a critical role in magazine creation – printing, binding, and finishing - but our background in publishing and content production means we also understand every single element of the magazine process. We have been printing magazines for over 50 years and currently print over 100 titles.

We work with leading publishers to print Australia's most recognisable titles, including *Australian Women's Weekly, Gourmet Traveller, R.M.Williams OUTBACK, Vogue, Reader's Digest, Australian Wine Selector, New Scientist, The Economist, Woman's Day* and many, many more.

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

Mark Muller, Editor-in-Chief
R.M.Williams Publishing Pty Ltd.

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Books

Capturing audience imagination across Australia and New Zealand.

From *Harry Potter* and *Girl on a Train* to Michelle Obama's *Becoming*, we know how to print bestsellers. For decades, we've been helping authors reach their readers with the worlds and words they create.

We deliver high-quality book printing that publishers and authors can be proud of. Ovato can deliver tens of thousands of books in a single run, with a combination of digital production and conventional print.

Our team works in partnership with authors and publishers to produce new titles and re-prints of which they can be proud. We create paperbacks and hardbacks. Plus, we're part of a global network giving them the opportunity to print their book in the part of the world where readers will enjoy it.

We provide clients with a one-stop-shop print, binding and finishing solution for everything book related.

"We continue to be impressed with Ovato's commitment to innovation and agile approach to printing, given the ever-changing environment. We believe it is important to partner with a company that is focused on setting up strong foundations for future success."

Gavin Schwarcz, Sales & Operations Director
Penguin Random House Australia

Packaging

Let your product speak for itself.

First impressions are important. Well-designed custom product packaging reflects our clients' brand values, quality and customer care – and it can make or break a sale.

We'll make sure their product is the one that customers want to pick off the shelf. Our large-scale production capabilities and deep knowledge of the FMCG market means we can produce a unique packaging solution for brands and target audience. When designing product packaging, we digest all customer research to ensure the packaging is both compelling and functional.

Ovato works with clients across the design, printing, converting, storage and logistics stages, as well as providing a consultancy service to review packaging materials, styles, machinery, print techniques and finishes.

And we have access to a range of carton boards ranging from premium virgin high strength white-back boards, FDA approved direct food contact boards, wet-strength boards, recycled boards and plastic laminates such as PP/PE and PET. Special finishes that we offer include embossing, debossing, braille, RFID tagging, varnish free areas, foil stamping, spot UV glosses and other specialty coatings accredited via ISO 9001:2008 Quality Assurance System.

"Ovato has been a partner for many years and in that time have always provided first class solutions, from concept finished cartons. Ovato has delivered on time, every time even with short turnaround times and we can always count on quality product."

Gabi Bishop, Brand Manager
Darrell Lea

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Point of sale

Reach customers at the right time, right place.

If a client's brand is going to grow, their marketing needs to reach as many new and existing customers as possible.

The point of sale is the time and place when all elements of a physical sale – consumer, purchase and product – come together. To get the most value out of this confluence of events, you need strong comms and marketing material right there in place.

Point of sale (POS) printing, displays, packaging, sales promotions, and in-store advertising all influence the consumer's buying decision.

Our innovative, well-managed and attractive in store point of sale programmes will stop a customer in their tracks to impulse buy.

Whether our clients sell chewing gum or state-of-the- art TVs, a point-of-sale program is essential to grab attention, pique interest and deliver the right information.

"I am forever grateful for our partnership with Ovato. I cannot thank the team enough for everything they do for us, the entire POS process from digital printing, kitting to delivery is seamless. Our accomplishments would not have been possible without the Ovato team."

Mandy Chew, Global Visual Merchandiser
Williams Sonoma

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Commercial work

Communicate clearly to your customers.

Professional promotional materials are a must-have for businesses of all shapes and sizes. We help bring our clients' brands to life in print so they are represented well, from letterbox drops to conferences and events. We offer a wide variety of sizes and paper stocks to complement their brand and product campaign objectives to help tell a story.

Leaflets and flyers are an accessible format that give customers all the details they need on one page. Think menus, events, services, contact info and more.

Pamphlets offers increased pagination so you can share more information. A range of fold options are available to suit our clients delivery needs.

Booklets are a great way to communicate it clearly. We produce everything from DL to A5 size booklets, covering things like regional tourism information, company profiles, training guides and educational courses. We can even personalise booklets for individual people, so the message achieves the best impact possible.

"Ovato has been printing The Travel Corporation brochures for over 20 years, helping us achieve the highest quality of print. Our brochure production for many of our brands are based in the UK and the biggest asset is the Ovato team's flexibility and ability to support us 24/7. Thanks to Ovato we never had to compromise the quality on our brands extremely time sensitive travel brochures, where a timely delivery to our distribution centre is a must."

Ela Swiecicki, Director, Print Management Services
Travcorp

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Direct marketing

Cut through the noise.

We are the largest Print Post mailer in Australia. Our highly experienced team can wrap and mail 420,000 articles in 24 hours, all under one roof.

Our audience-centric approach allows clients to create material that is personalised, cost-effective and measurable.

The single goal of direct marketing is to persuade the recipient to take action. We can help clients achieve this with our addressed and unaddressed mailing solutions.

Items are printed, folded, packed, wrapped or inserted and then delivered to either an existing database or a broad reach audience built using demographic, geographic and behavioural targeting.

"Ovato has been instrumental in assisting Myer to reach the right customers with print catalogues through their mail solutions. The Ovato team has worked closely with the Myer data and insights team to target the best pool of customers to receive the catalogue to drive the highest engagement."

Tamlin Watson, Head of Operations
Myer

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Chair review

Michael Hannan
Chair

It was clearly a most difficult year, undertaking and funding a financial and operational restructure of the business in view of industry-wide falling revenue trends and the impact of a pandemic that has defied all predictions. As the year was coming to a close, we saw a false dawn with a lessening of restrictions and some signs of return to new normality.

That optimism, believing that the worst was behind us, and that we had a year of steady recovery in front of us, was not to be. In July we were back to levels of uncertainty in the community and the severest of lockdowns since the start of the pandemic in March last year. Consumer confidence is once again taking a battering.

The disruption has been felt most heavily in our retail catalogue printing volumes, this segment of our business has been the main driver of the downturn in sales in FY21 by $45M.

There were, however, some bright spots during this period; magazine print volumes were not as heavily affected as expected and, in some sectors, have remained surprisingly buoyant.

Our book printing business has grown during FY21 due to the onshoring of book printing where supply chain issues caused uncertainty for publishers, driving demand for local print suppliers.

We expect that the new volume levels will be maintained in this part of the business presenting further growth opportunities in the future.

Through the entire period we have continued to right size and reshape Ovato for a stable future. We have removed old & excess capacity from our print sites and made good headway on other cost saving plans. We have also taken a brutal look at our overhead structure and made significant reductions

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in labour right across the business. We have focussed on exiting from non-core businesses and a loss-making letter box distribution business to reduce our debt and improve our cash balance sheet position. As a result, Ovato will emerge as a highly focussed and well-equipped print business

Kevin Slaven stood down as CEO in June and remained in a Transformation Advisory role until his contract expired in September.

I have worked with Kevin for more than 20 years, majority of that time while he was CFO and CEO at IPMG then at PMP and Ovato. He is a highly capable and caring CEO, and the Board and I give our sincere thanks to him for guiding us through the multiple challenges that have faced the company in the last two years.

James Hannan who has extensive knowledge of print operations and was most recently Ovato COO and responsible for its restructuring and transformation program, has been installed as CEO.

We also have a new CFO in Andrew Stedwell following the departure of Geoff Stephenson after many years in the role. Before Ovato, Andrew spent over 20 years at Are Media (Bauer), and before that, Australian Consolidated Press (ACP). Andrew has broad digital and print media experience having held senior roles across finance, publishing, operations, general management and marketing.

Our long serving Company Secretary and Legal Counsel Alistair Clarkson continues to guide us with his vast knowledge and invaluable experience.

We also owe a debt of gratitude to all our employees who through COVID-19 and major disruption and restructuring have truly risen to the occasion. It has been gratifying to see the dedication from them all given the circumstances.

I'd also like to give thanks to our clients, many of whom we have relationships going back decades. While some of their volumes reduced during the pandemic, they are the backbone of our business. They have remained loyal and supportive through all the disruption we have faced, and we are grateful to them for their continued support. In turn, despite the disruption, our record of performance and quality remains intact, and we take pride in not having let them down during the most difficult of periods.

To all our shareholders, we are grateful for your support as we work to being a better, stable, and profitable business to the benefit of all shareholders.

Finally, thank you to my fellow Board directors and the executive team for whom it has been a very difficult year to navigate. Your insight through this period has helped us make good decisions which will lead to the company delivering better outcomes and see our clients well served.

The focus for Ovato now returns to the core competency of efficient print production - the engine room of the Ovato business. The changes we have made better aligns our cost base to the

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"We also owe a debt of gratitude to all our employees who through COVID-19 and major disruption and restructuring have truly risen to the occasion."

expected revenue base, from which we will yield benefit as time goes on. We have an industry leading print management team that are highly focussed, and with the myriad of distractions behind us, now have a far more simplified operating business model, the tools and the energy to shift Ovato to be highly competitive and sustainably profitable into the future.

Michael Hannan
Chair

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CEO review

James Hannan
Chief Executive Officer and Managing Director

When Kevin made his report last year, he covered how the COVID-19 pandemic had impacted our business.

The challenges have been both numerous and difficult since then. I want to acknowledge Kevin's work over the last four years at Ovato. As a friend and mentor in that time, his calm demeanour and ability to find focus even under astounding pressure was a useful skill to learn from. I wish him the best for his next endeavours as our new management team takes the lead from here.

We have and continue to make the hard decisions necessary to ensure a sustainable future for the Ovato business. My new management team understands the challenge we have ahead of us and are committed to the effort and excellence it will require.

We can now solely focus on the future. We are returning our business to a singular focus and to the thing we do best – print production. When we hold a shared & focused vision, success will follow. That journey is already underway.

The sale of our Retail Distribution business to Are Media is now complete, as is the divestment of our Marketing Services business, both these events strengthening our balance sheet and providing funds for further transformation.

In July, we also announced the closure of our Residential Distribution Business in Australia to prevent ongoing trading losses in a part of the businesses where volumes have continued to steeply decline.

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Our immediate future is as a substantially smaller business. This has meant we have had to say goodbye to many of our team members as we find our new point of stability in the market. The resilience the Ovato community has shown, and the resolve it continues to hold are very encouraging as we move forward.

I expect and will lead a shift in our mindset to one of a smaller business, where everyone on the team is committed, connected, and working together for a shared outcome – success. This tighter team, increased focus and greater agility are advantages we will press.

Already we recognise opportunities for growth in a print-centric strategy. Sensible adjacencies exist for us in growing our point of sale and packaging offerings. We will pursue this growth once we have achieved our first goals in ensuring our core print business is as efficient as possible.

The context for our operation remains challenging and will likely be for some time to come. Your new management team has a clear plan, valuable experience and the determination required to succeed.

James Hannan
Chief Executive Officer
and Managing Director

"When we hold a shared & focused vision, success will follow. That journey is already underway."

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Health and safety

Keeping people safe continues to be a primary concern at Ovato. The COVID-19 pandemic continued to shift all focus throughout the year to the immediate health and safety of our personnel and their families.

While Ovato's strategic plan was disrupted by the continuing pandemic we had no recorded positive cases in Australia or New Zealand. All sites engaged in high levels of communication ensuring immediate 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.

Ovato's HSEQ team worked to secure the re-certification for our ISO 45001:2018 Integrated Management System while ensuring the business was able to adopt positive new ways to work throughout the pandemic.

Toward the end of the year, the pandemic presented some greater challenges to the business with the Delta strain outbreak, especially in NSW. Ovato found further measures to protect personnel and their families by implementing on-site COVID-19 testing.

At a group level, although Ovato saw a significant drop in staff working hours due to the Pandemic we saw more than a 20% reduction in our Total Recordable Injury Frequency Rate ("TRIFR") to 10.44, down from 13.19 in the prior year. This equates to a reduction in the number of reported injuries from 34 to 21, with no increase in severity. We also retained a very strong emphasis on early intervention and a well-supported return to work plan for those staff members. Our result reinforces the priority that Ovato puts on the health, safety and wellbeing of our personnel.

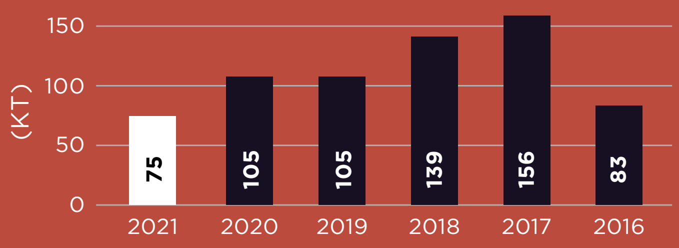
As teams continued to be put under increased stress because of the pandemic, Ovato saw the positive impact that the mental health first aid training program in line to support our "Working Safe, Living Well, It's ALL About ALL of You" campaign. No work-related stress claims have been reported.

Occupational health and safety

	FY21	FY20
TRIFR*	**10.44**	13.19

*Total Recordable Injury Frequency Rate

GHG emissions



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

Directors' report

For the year ended 30 June 2021

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 2021 and the Auditor's report thereon. Throughout the report, the consolidated entity is referred to as the Group.

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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.

James Hannan

B Bus

CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Appointed 4 June 2021

James Hannan has extensive experience in print operations and has held senior executive responsibilities since 2014. Prior to his appointment as CEO, he served as the Groups COO, responsible for the Group's operations. James also played a pivotal role in the successful negotiations with all stakeholders through the 2020 recapitalisation and restructure of the business.

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 (resigned 4 June 2021)
James Hannan (appointed 4 June 2021)

NON-EXECUTIVE DIRECTORS
Dhun Karai
Andrew McMaster

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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 an Audit 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.

Kevin Slaven
BCom, CA, GAICD

MD AND CEO
Appointed 27 February 2018
Resigned 4th June 2021

Mr Slaven was the managing director and chief executive officer from 27 February 2018 to 4 June 2021.

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, FCIS, 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 a fellow 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:

		Michael Hannan *	Dhun Karai	Andrew McMaster	James Hannan	Kevin Slaven
Monthly Board Meetings	Attended	10	10	10	1	9
	Maximum	10	10	10	1	9
Audit & Risk Management ("ARMC") Meetings	Attended	<a>	8	8	<a>	<a>
	Maximum	<a>	8	8	<a>	<a>
Appointments & Compensation ("ACC") Meetings	Attended	<a>	1	1	<a>	<a>
	Maximum	<a>	1	1	<a>	<a>
Adhoc Board Meetings	Attended	9	11	11	0[#]	10
	Maximum	11	11	11	1	10

Table 1. Directors' Meetings.

* Michael Hannan abstained from 2 meetings due to having a material personal interest

James Hannan abstained from 1 meeting due to having a material personal interest

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

5. Corporate Governance Statement

Ovato Limited's Corporate Governance Statement is available on its website at: www.ovato.com.au/corpgovstatement2021

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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 during FY21 were 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 2021 was a $67.1M loss (2020: $108.8M loss).

6.4 Dividends

No dividends were declared or paid during the year ended 30 June 2021 (2020: Nil).

6.5 Review of operations

OVERVIEW

A statutory net loss after tax of $67.1M was recorded for the 2021 year which was a $41.7M improvement on the prior period. EBITDA before significant items at $31.1M was down $1.3M on the previous corresponding period ("pcp") on 17.9% lower revenues.

While tier 1 catalogue food & beverage revenues were down in H1, revenue in H2 was consistent on pcp of FY20. Non-food & beverage catalogues were down 38.0% driven largely by a major retailer not returning to catalogue printing in FY21. The various levels of lockdown across States continue to create uncertainty about demand from key catalogue and publishing customers.

Given a $96.6M or 17.9% fall in sales in FY21 compared to FY20, the Company acted on its fixed cost base albeit as print volumes continue to decline further restructuring to both the Company's manufacturing and support infrastructures is required and continuing.

Results compared to pcp are as follows:

- FY21 sales revenue at $442.7M is $96.6M or 17.9% lower
- FY21 EBITDA* at $31.1M down $1.3M or 4.2%
- Ovato Australia EBITDA* of $29.0M down $2.2M or 7.7%
- Ovato New Zealand EBITDA* of $2.1M up $0.8M or 69.1%
- Net debt at June 2021 was $39.9M vs December 2020 at $34.7M and June 2020 at $72.9M

* Before significant items

FY21 Group sales at $442.7M were down $96.6M or 17.9%, primarily due to $90.5M 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 across the year, particularly felt with non-food & beverage catalogue customers. Revenues at Ovato New Zealand were $6.0M lower with lower print and residential distribution volumes noted across the board.

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 Company's plans to de-leverage the business via asset sales and equity re-capitalisation was executed during the 2021 financial year (previously delayed due to the widespread impact of COVID-19). During the 2nd quarter, the restructure and re-capitalisation involved:

- Renegotiation of the Print Australia Enterprise Agreement with reduced redundancy scales and more flexible working practices.
- Reduction of the $40M corporate bond to $15M by way of debt forgiveness and the note holders consenting to the conversion of the remaining $15M into equity by a further issue of shares in Ovato.
- Court approved Creditors' and Members' Scheme of Arrangement resulting in certain debt being forgiven and the liquidation of certain companies of the Group allowing the closure of the Victorian heatset print site.
- Negotiations with landlords allowing the termination and re-establishment of terms for certain onerous property leases and deferral of equipment financing loans.
- Establishment of a new $17M secured debt facility to cash back the existing bank guarantee facility.
- Raising of $40M in new equity.

This was largely complete by the 3rd quarter when the remaining $15M of the corporate bond and the surrender of an onerous lease were converted to equity through a further issue of shares in Ovato.

During the 4th quarter, Ovato entered into agreements to sell two business units, Ovato Retail Distribution for a headline price of $15M together with the assumption of $27M negative working capital and Ovato Marketing Services for $9M. On 30 July 2021, Ovato completed the sale of the magazine distribution businesses in Australia to Are Media Limited and also sold its marketing services business to Ballygriffin Holdings Pty Ltd. On 31 August 2021, Ovato completed the sale of the magazine distribution business in New Zealand to Are Media.

On 5 July 2021 Ovato announced its intention to close its letterbox distribution business in Australia with effect from 30 July 2021, which is expected to achieve savings for the Ovato Group in 2022.

OVATO AUSTRALIA

Ovato Australia sales at $358.8M were down $90.5M or 20.1% on pcp mostly from $67.1M lower print sales, with $49.5M reductions in print catalogues and $19.5M in print magazines & newspapers. While tier 1 catalogue food & beverage revenues were down in H1, revenue in H2 was consistent on the pcp of FY20. Non-food & beverage catalogues were down 38.0% driven largely by a major retailer not returning to catalogue printing in FY21.

Residential Distribution sales fell 35.8% or $21.7M on lower existing customer volumes as a result of very slow COVID-19 retail conditions.

Retail Distribution continued to expand their product range into retail outlets to partially offset the impact of lower magazine revenues.

Ovato Australia's EBITDA* at $29M was down $2.2M or 7.7% due to the drop in revenue which was partially offset by the savings from the closure of the Victorian heatset print site, tight cost controls and Government wage subsidies.

The various stages of lockdowns across the year as a result of COVID-19 and the resulting subdued consumer confidence saw a continuation of retail conditions where the volumes of catalogues, and real estate dependent publications fell further than anticipated.

OVATO NEW ZEALAND

Ovato New Zealand EBITDA* of $2.1M was up $0.8M 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.

On 7 September 2021 Ovato New Zealand announced the closure of its Christchurch operations.

*Before significant items

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OTHER

Full year FY21 statutory loss after tax was $67.1M vs $108.8M loss in FY20, improved by $41.7M pcp mostly due to lower significant items and depreciation expense, partially offset by higher income tax expense as a result of a non-cash impairment of the deferred tax asset.

Net cash flow in FY21 of negative $5.9M was $4.2M better pcp, as lower cash receipts and higher supplier and employee payments were offset by higher Government grants received and lower capex spend. Controls remain in place to tightly manage liquidity and cash.

SIGNIFICANT ITEMS

Significant items booked in FY21 were $20.4M pre-tax down $52.1M pcp. Cash significant items at $17.4M includes employee related costs, the Victorian heatset print site closure costs, legal fees, professional fees and finance costs. Non-cash significant items at ($3M) include a net benefit from the scheme of arrangement of $37.7M less impairments of PP&E and right of use assets, onerous lease provisions and inventory write downs.

DEBT

The company has a net debt position at June 2021 of $40.1M (excluding lease liabilities from the adoption of AASB 16), which is $33M lower than June 2020.

6.6 Significant changes in the state of affairs

The closure of Ovato's Victorian heatset print site was completed during the 2021 financial year. Whilst some plant, equipment and inventory was relocated to Warwick Farm, Ovato's largest and most modern print facility, the remaining assets were scrapped or sold where possible. Ovato's marketing services business was sold with completion occurring on 30 July 2021. Ovato's magazine distribution business, Ovato Retail Distribution was sold, with the sale in Australia completed on 30 July 2021 and in New Zealand on 31 August 2021.

COVID-19 has significantly impacted Ovato. In response to the decrease in revenues, from 1 April 2020 the Group's workforce agreed to a temporary shortened working week which continued for many staff through to the end of December 2020 (when the majority of Ovato employers ceased to be eligible for the JobKeeper wage subsidy), although some staff were back at full capacity before that time. Both the Australian JobKeeper and New Zealand wage subsidies were an important cashflow support to the Ovato Group in 2021.

6.7 Risks, likely developments and future prospects

Following the sale of Ovato Retail Distribution and Ovato Marketing Services and the closure of the letterbox distribution business Ovato returned to a singular focus and to the thing it does best – print production across catalogues, magazines, books and packaging.

The COVID-19 global pandemic continues to impact 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 due to the pandemic, and the inability to predict its permanent impact with confidence.

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 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 fluctuations in the cost of these supplies.

Catalogue and magazine printing make up the majority of Ovato's earnings.

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 National Pollution Inventory report.

6.9 Share issues

Share issues	
	Shares (000's)
Balance as at 1 July - ordinary shares	732,004
- Share issue[1]	8,000,808
- Bond/Debt Conversion[2]	3,480,000
Balance at 30 June - ordinary shares	**12,212,812**

1 After approval of the schemes by the Court, equity of $40M was raised by the issue of 8,000,807,935 fully paid ordinary shares on 24 December 2020 at $0.005 per share. The total number of shares on issue after the equity raising was 8,732,812,252.

2 On 23 March 2021, as part of the restructuring of the Ovato Group in connection with the Schemes, the company entered agreements with the note holders and a landlord to convert debt to equity. $15M for note holders and $2.4M for the landlord were converted to equity at 0.005c per share.

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 RSM Australia. 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 2021:

Description of non audit services <a>	Australia	New Zealand	Total non-audit services
Taxation and related compliance services	61,772	18,003	79,775
Corporate advisory services	—	—	—

<a> Unless otherwise specified all amounts have been paid or are due and payable to a member firm of RSM 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 RSM Australia met the standards of independence.

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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, RSM Australia. The Independent Auditor's Declaration has been attached to the Directors' Report on page 83.

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:

- **Sales of Retail Distribution (Australia and New Zealand) and Marketing Services (Australia)** - The Company completed the sale of its retail distribution businesses in Australia on 30 July 2021 and in New Zealand on 31 August 2021.
- **Sales of Marketing Services (Australia)** - The Company exercised its Put Option for the sale of its marketing services businesses on 29 July 2021 with the sale completing on 30 July 2021.
- **Closure of Residential Distribution** - The Ovato Residential Distribution business in Australia ceased operating on 30 July 2021.
- **Closure of Print Operations at Christchurch, New Zealand** On 7 September 2021 Ovato New Zealand announced the closure of its Christchurch operations with the closure effective on 30 September 2021.

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

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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 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 portion of executive remuneration at risk against performance benchmarks;
- Setting appropriate stretch performance hurdles to variable executive remuneration; and
- Linking short term incentives to both Company and personal performance.

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 in the Corporate Governance Statement. The Board believes well designed and managed incentive plans that provide incentives are important elements of employee remuneration, providing tangible incentives for employees to strive to improve Ovato's performance, and thereby aligning their interest with shareholders.

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

BASE SALARY

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

SUPERANNUATION

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

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

OTHER BENEFITS

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

SHORT TERM INCENTIVES

Short term incentives (STI) applies to key middle and senior personnel roles, directly linking variable remuneration to Ovato's corporate strategy. The employee's STI is generally up to 25% of their TEC.

The STI is dependent on achieving a number of targets. For eligible personnel, the targets are generally allocated between earnings, safety and personal objectives. 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. 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.

None of the Executive Management Team will be paid an STI under the STI plan for the 2021 financial year.

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7.4 Key Management Personnel (other than Directors)

Ovato's Key Management Personnel during the financial year are:

P Gardiner	MD - Ovato NZ Limited
G Stephenson	CFO (Resigned as CFO 1 February 2021)
A Stedwell	CFO (Appointed as CFO 1 February 2021)

7.5 Shareholder Return Performance Indicators

The table below shows total shareholder return performance indicators:

	FY2017	FY2018	FY2019	FY2020	FY2021
NPAT ($M)	(126.400)	(43.800)	(84.300)	(108.800)	(67.100)
Earnings per ordinary share ($ basic)	(0.330)	(0.086)	(0.160)	(0.150)	(0.012)
Dividends per share paid ($)	(0.024)	-	-	-	-
Closing Share Price ($)	0.745	0.235	0.089	0.011	0.003

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	Term of Agreement	Notice Period Ovato	Notice Period Employee	Termination Payments
J Hannan	3 years	6 months	6 months	No specific termination payment provided for.
A Stedwell	Open	6 months	6 months	No specific termination payment provided for.
P Gardiner	Open	6 months	6 months	No specific termination payment provided for.
G Stephenson	Open	3 months	3 months	No specific termination payment provided for.

Table 2. Executive Employment Contracts.

Remuneration of Key Management Personnel

The table below outlines the remuneration packages of Key Management Personnel ("KMP") (excluding Non-Executive Directors).

Key Management Personnel (excluding Non-Executive Directors)			Short Term			Long Term		Grand Total
			Salary	Non-Monetary benefits	Other	Post Employment Superannuation	LSL	
2021			**$**	**$**	**$**	**$**	**$**	**$**
J Hannan	**<a>**	**2021**	**38,022**	**—**	**—**	**1,408**	**17,671**	**57,101**
A Stedwell	**<b>**	**2021**	**187,251**	**—**	**—**	**10,666**	**—**	**197,917**
P Gardiner	**<c>**	**2021**	**348,588**	**—**	**—**	**10,458**	**—**	**359,046**
		2020	139,156	—	—	4,175	—	143,331
K Slaven	**<d>**	**2021**	**541,676**	**—**	**—**	**20,133**	**9,671**	**571,480**
		2020	568,957	—	—	21,003	10,475	600,435
G Stephenson	**<e>**	**2021**	**456,603**	**—**	**174,167**	**14,553**	**-**	**645,323**
		2020	410,661	—	419,583	21,003	7,510	858,757
S Ellis		2020	279,239	—	—	8,377	—	287,616
Total Remuneration KMP (excluding Non-Executive Directors) <f>		**2021**	**1,746,307**	**—**	**174,167**	**57,218**	**27,342**	**1,830,867**
		2020	1,398,013	—	419,583	50,320	17,985	1,890,139

Table 3. Key Management Personnel (excluding Non-Executive Directors) remuneration of the Company and the Group.

<a> Appointed MD and CEO on 4 June 2021 on a base salary including superannuation of $550,000, remuneration up until appointment $352,952.

<b> Appointed CFO on a base salary including superannuation $475,000.

<c> New Zealand dollar payment converted into Australian dollars at the average profit and loss exchange rate prevailing during 2021.

<d> Ceased as CEO & MD 3 June 2021 and took up the role of Transformation Manager, remuneration as CEO & MD $541,676. A maximum LTI award of $2,437,500 subject to satisfying a 3-year cumulative EBITDA performance target.

<e> Mr Stephenson received a retention payment of $174,167 (2020:$300,833) and ceased as CFO on 1 February 2021, with statutory termination benefits of $184,277 included as part of salary. In 2020 Mr Stephenson also received a bonus of $118,750 in respect of the completion of the bond and rights issue.

<f> In response to the financial impact of COVID-19, all KMP have taken a 20% reduction in salaries from 1 July 2020 to 31 October 2020 and had taken a 40% reduction in salaries from 1 April 2020 to 30 June 2020.

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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 FY21.

Shareholdings of Directors and Key Management Personnel

The following table sets out each director and each key management personnel and their relevant interest in shares, debentures, and rights options and shares or debentures of the Company or a related body corporate as at the date of this report:

		Balance 30 June 2020	Acquired	Disposed	Balance 30 June 2021
2021					
M Hannan	<a>	393,730,555	4,892,793,044	—	5,286,527,599
J Hannan	<a>	393,730,555	4,892,793,044	—	5,286,527,599
K Slaven		386,620	4,225,758	—	4,612,378
D Karai		221,428	2,420,210	—	2,641,638
Executives					
P Gardiner		—	—	—	—
A Stedwell		—	—	—	—
G Stephenson		780,378	—	—	780,378
Total		**788,849,536**	**9,792,232,056**		**10,581,081,592**

Table 4. Share holdings of Directors and Key Management Personnel.

<a> Michael Hannan and James Hannan are each the registered holders of 567,373,830 Ovato shares and have a relevant interest in the remainder.

7.6 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 $419,242 of this amount for Non-Executive Directors' remuneration - as shown in Table 5.

In the current financial year, the Board paid Non-Executive Director remuneration of $274,510.

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%.

7.7 Performance assessment

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

7.8 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 $	Grand Total $
Total Remuneration: Non-Executive Directors								
M Hannan (Board Chair)	<a>	**2021**	**37,500**	**—**	**3,675**	**—**	**—**	**41,175**
		2020	56,250	—	5,938	—	—	62,188
D Karai		**2021**	**106,400**	**—**	**10,108**	**—**	**—**	**116,508**
		2020	92,704	—	8,807	—	—	101,511
A McMaster		**2021**	**106,400**	**—**	**10,427**	**—**	**—**	**116,827**
		2020	97,699	—	9,281	—	—	106,980
M Bickford-Smith	<b>	2020	81,896	—	7,780	—	—	89,676
T Sinclair	<c>	2020	36,667	—	3,483	—	—	40,150
W Tang	<d>	2020	17,111	—	1,626	—	—	18,737
Total		**2021**	**250,300**	**—**	**24,210**	**—**	**—**	**274,510**
		2020	382,327	—	36,915	—	—	419,242
Total Remuneration: Executive Directors								
J Hannan (CEO)	**<e>**	**2021**	**38,022**	**—**	**1,408**	**—**	**17,671**	**57,101**
K Slaven	**<f>**	**2021**	**541,676**		**20,133**		**9,671**	**571,480**
		2020	568,957	—	21,003	—	10,475	600,435
Total		**2021**	**579,698**	**—**	**21,541**	**—**	**27,342**	**628,581**
		2020	568,957	—	21,003	—	10,475	600,435
Total Remuneration: Directors								
	<g>	**2021**	**829,998**	**—**	**45,751**	**—**	**27,342**	**903,091**
		2020	951,284	—	57,918	—	10,475	1,019,677

Table 5. Specified Director remuneration.

<a> From 1 Janaury 2021 he received fees for being a non-executive director.
<b> Resigned as Board Chair on 18 November 2019.
<c> Resigned on 18 November 2019.
<d> Resigned on 10 September 2019.
<e> Appointed CEO & MD 4 June 2021.
<f> Ceased as CEO & MD 4 June 2021.
<g> In response to the financial impact of COVID-19, Directors took a 20% reduction in fees from 1 July 2020 to 31 October 2020.

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

Michael Hannan
Chair

James Hannan
Managing Director and Chief Executive Officer

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RSM

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the Financial Report of Ovato Limited for the year ended 30 June 2021, 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.

RSM

RSM AUSTRALIA PARTNERS

Anthony Travers

Anthony Travers
Partner

Sydney, NSW
Dated: 30 September 2021

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

Andrew has had broad digital and print media experience having held senior roles across finance, publishing, operations, general management and marketing. Before Ovato he spent over 20 years at Are Media (Bauer), and before that, Australian Conslidated Press (ACP).

CFO review 2021

Andrew Stedwell

Chief Financial Officer ("CFO")
Appointed 1 February 2021

Sales Revenue

Sales revenue for the year ended 30 June 2021 was $442.7M down $96.6M or 17.9%, due mainly to lower Ovato Australia sales, down $90.5M. Ovato Australia sales of $358.8M were down 20.1% mostly from $67.1M lower print sales, with $49.5M reductions in print catalogues and $19.5M lower print magazine & newspapers. While tier 1 catalogue food & beverage revenues were down in H1, revenue in H2 was consistent on the previous corresponding period ("pcp") of FY20. Non-food & beverage catalogues were down 38.0% driven largely by a major retailer not returning to catalogue printing in FY21. Residential Distribution fell 35.8% or $21.7M on lower existing customer volumes as a result of very slow COVID-19 retail conditions. Ovato New Zealand sales were down $6M or 7.2% with lower print and residential distribution 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")

EBITDA (before significant items) was $31.1M, down $1.3M pcp. Ovato Australia EBITDA of $29.0M was down $2.2M or 7.7% due to the drop in revenue which was partially offset by the savings from the closure of the heatset print site in Victoria, tight cost controls and Government wage subsidies. Ovato New Zealand EBITDA at $2.1M was up $0.8M or 69.1% mostly due to tight cost controls and Government wage subsidies which offset the impact of lower print revenues.

Net Loss After Tax

A statutory net loss after significant items and tax of $67.1M was recorded for FY21 which was $41.7M improved on the $108.8M loss in the previous year, mostly due to lower significant items and depreciation expense, partially offset by higher income tax expense as a result of a non-cash impairment of the deferred tax asset.

Net Cash Flow[1]

The Group's net cash flow at negative $5.9M was $4.2M better compared to FY20, as lower cash receipts and higher supplier and employee payments were offset by higher Government grants received and lower capex spend.

Balance Sheet

At year end, net assets for the Group were $7.5M, down $10.3M from $17.8M in the previous year, mainly due to the $67.1M statutory loss in fiscal year 2021 (offset by increased capital of $56.4M). Current assets at $121.7M were down by $39.4M on lower debtor and inventory balances. Current liabilities at $126.3M were down $96.1M on lower trade payables and interest-bearing liability balances.

In fiscal year 2021, the company issued a new $50M Receivables Financing Facility ('RFF') with Scottish Pacific for 3 years to replace the previous Asset Secure facility.

Ovato also undertook a recapitalisation/restructure of its balance sheet. Elements of the restructuring included the closure of the Victoria heatset plant, debt forgiveness/deferrals and equity conversions, a new enterprise agreement for the Australian print business, a new $17M secured debt facility to replace the existing bank guarantee facility, the exit of various onerous leases, the reduction of the $40M corporate bond to $15M by way of debt forgiveness and the note holders consenting to the conversion of the $15M into equity by a further issue of shares in Ovato. This was largely complete by the 3rd quarter when the remaining $15M of the corporate bond and the surrender of an onerous lease were converted to equity through a further issue of shares in Ovato.

Recapitalisation and restructure activities throughout the year have improved the current ratio from 0.96 to 1.23 (0.72 in FY20) on a pro forma basis post the divestments of Retail Distribution and Marketing Services.

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

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Consolidated statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE 2021	NOTES	Consolidated 2021 $'000	2020 $'000
Revenue	4	**442,721**	539,270
Other income	5	**61,936**	23,960
Expenses			
Raw materials and consumables used		**(167,915)**	(210,568)
Cost of finished goods sold		**(8,613)**	(5,125)
Employee benefits expense		**(182,635)**	(230,592)
Outside production services		**(11,608)**	(12,241)
Freight		**(49,007)**	(59,666)
Repairs and maintenance		**(9,915)**	(12,863)
Occupancy costs		**(15,059)**	(7,770)
Impairment of goodwill		**—**	(37,244)
Impairment of plant and equipment		**(26,930)**	(6,670)
Other expenses		**(19,586)**	(20,231)
Depreciation and amortisation	6	**(32,573)**	(36,966)
Loss on sale of assets		**(379)**	—
Finance costs	6	**(18,160)**	(18,660)
Loss before income tax		**(37,723)**	(95,366)
Income tax expense	8	**(29,363)**	(13,384)
Loss after income tax expense for the year attributable to the owners of Ovato Limited	25	**(67,086)**	(108,750)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Defined benefit plan actuarial losses	27	**635**	(447)
Income tax relating to items that will not be reclassified subsequently		**(190)**	134
Other		**2**	—
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation		**(82)**	(435)
Loss on cash flow hedges taken to equity		**28**	(275)
Income tax relating to items that may be reclassified subsequently		**(8)**	83
Other comprehensive income for the year, net of tax		**385**	(940)
Total comprehensive income for the year attributable to the owners of Ovato Limited		**(66,701)**	**(109,690)**
Basic earnings per share (cents)	38	**(1.2)**	(14.9)
Diluted earnings per share (cents)	38	**(1.2)**	(14.9)

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

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Consolidated statement of financial position

AS AT 30 JUNE 2021	NOTES	Consolidated 2021 $'000	Consolidated 2020 $'000
Current assets			
Cash and cash equivalents	9	**16,652**	16,200
Trade and other receivables	10	**46,936**	50,654
Inventories	11	**20,169**	87,871
Derivative financial instruments	28	**—**	80
Other	13	**22,944**	6,278
		106,701	161,083
Assets classified as held for sale	14	**14,988**	—
Total current assets		**121,689**	161,083
Non-current assets			
Property, plant and equipment	15	**67,104**	105,952
Right-of-use assets	12	**41,957**	58,341
Intangibles	16	**—**	1,410
Deferred tax	17	**9,094**	41,559
Other	13	**5,930**	13,082
Total non-current assets		**124,085**	220,344
Total assets		**245,774**	381,427
Current liabilities			
Trade and other payables	18	**31,452**	131,394
Interest bearing liabilities	19	**7,597**	37,192
Lease liabilities	12	**18,687**	23,878
Derivative financial instruments	28	**—**	110
Current tax liabilities	20	**7**	8
Provisions	21	**29,349**	29,804
		87,092	222,386
Liabilities directly associated with assets classified as held for sale	22	**39,241**	—
Total current liabilities		**126,333**	222,386
Non-current liabilities			
Interest bearing liabilities	19	**46,866**	48,829
Lease liabilities	12	**57,998**	83,776
Provisions	21	**7,106**	8,678
Total non-current liabilities		**111,970**	141,283
Total liabilities		**238,303**	363,669
Net assets		**7,471**	17,758
Equity			
Issued capital	23	**553,937**	497,523
Reserves	24	**11,014**	11,076
Accumulated losses	25	**(557,480)**	(490,841)
Total equity		**7,471**	17,758

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

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Consolidated statement of changes in equity

YEAR ENDED 30 JUNE 2021	Consolidated ($'000)				
	Issued capital	Foreign currency translation reserve	Cashflow hedge reserve	Accumulated losses	Total equity
Balance at 1 July 2019	497,523	11,531	172	(367,353)	141,873
Change in accounting policy	—	—	—	(14,425)	(14,425)
Balance at 1 July 2019 - restated	497,523	11,531	172	(381,778)	127,448
Loss after income tax expense for the year	—	—	—	(108.750)	(108.750)
Other comprehensive income for the year, net of tax	—	(435)	(192)	(313)	(940)
Total comprehensive income for the year	—	(435)	(192)	(109,063)	(109,690)
Balance at 30 June 2020	497,523	(11,096)	(20)	(490,841)	17,758
Balance at 1 July 2020	497,523	11,096	(20)	(490,841)	17,758
Loss after income tax expense for the year	—	—	—	(67,086)	(67,086)
Other comprehensive income for the year, net of tax	—	(82)	20	447	385
Total comprehensive income for the year	—	(82)	20	(66,639)	(66,701)
Right issue[1]	40,004	—	—	—	40,004
Debt conversion to equity[2]	17,400	—	—	—	17,400
Transaction costs[3]	(990)	—	—	—	(990)
Balance at 30 June 2021	**553,937**	**11,014**	**—**	**(557,480)**	**7,471**

The above table represents the Ovato Group position.

1 On 1 December 2020, Ovato Ltd announced a conditional and partially underwritten pro-rata entitlement offer to existing shareholders. The offer consisted of 10.93 new fully paid ordinary shares in Ovato for every 1 share held at the record date at $0.005 cents per new share. Gross proceeds of $40M was raised. 8,000,807,935 shares were issued on 24 December 2020 and trading commenced on 29 December 2020.

2 On 23 March 2021, as part of the restructuring of the Ovato Group in connection with the Schemes, the company entered agreements with the note holders and a landlord to convert debt to equity. $15.0M for note holders and $2.4M for the landlord were converted to equity at 0.005c per share.

3 Transaction costs arising from the rights issues and debt conversion of $1.0M were accounted for as a deduction from equity during the financial period.

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

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Consolidated statement of cash flows

YEAR ENDED 30 JUNE 2021	NOTES	Consolidated 2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**838,159**	1,001,886
Payments to suppliers and employees (inclusive of GST)		**(849,695)**	(986,241)
Government grants received		**23,175**	9,013
Fee for early termination of corporate bond		**(173)**	—
Interest received		**752**	631
Dividends received		**—**	276
Interest and other costs of finance paid		**(9,165)**	(9,033)
Lease interest payments		**(8,217)**	(8,386)
Income tax paid		**(16)**	(57)
Net cash from/(used in) operating activities	37	**(5,180)**	8,089
Cash flows from investing activities			
Payments for property, plant and equipment	15	**(682)**	(20,151)
Payments for development and licence costs		**(129)**	(393)
Cash funds to liquidator for scheme		**(2,030)**	—
Proceeds from disposal of property, plant and equipment		**277**	1,124
Receipts from subleases, excluding the financing component		**1,835**	1,243
Net cash used in investing activities		**(729)**	(18,177)
Cash flows from financing activities			
Lease principal payments		**(22,810)**	(17,698)
Cash held on deposit for bank guarantees		**(17,249)**	—
Proceeds from close out of cross currency swap		**—**	1,866
Repayment of borrowings		**(11,858)**	(17,506)
Proceeds from new borrowings		**19,507**	21,197
Proceeds from issue of shares	23	**39,014**	—
Net cash from/(used in) financing activities		**6,604**	(12,141)
Net increase/(decrease) in cash and cash equivalents		**695**	(22,229)
Cash and cash equivalents at the beginning of the financial year		**16,200**	38,701
Effects of exchange rate changes on cash and cash equivalents		**(43)**	(272)
Cash and cash equivalents at end of the financial year	9	**16,852**	16,200
Cash and cash equivalents at end of the financial year		**16,852**	16,200
Cash held for resale		**(200)**	—
Reported Cash		**16,652**	16,200

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

Financial notes

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1 Significant accounting policies

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").

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business. The Directors believe this is appropriate based on the successful completion of restructuring activities during the financial period, the subsequent events referred to in note 36, and on cashflow forecasts prepared by management. There remains uncertainty in respect of the ongoing effects of the COVID-19 pandemic on the operations of the consolidated entity. Following the restructuring activities, the consolidated entity is in a much stronger financial condition and there exists a greater ability to manage costs in line with actual revenue generated.

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 34.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Ovato Limited ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Ovato Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Ovato Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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1 Significant accounting policies (continued)

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

2 Critical accounting judgements, estimates and assumptions

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 15 'Property, plant and equipment'
- Note 16 'Intangibles'
- Note 8 'Income tax expense'
- Note 29 'Financial instruments'

(i) 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 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 29.

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

In accordance with Ovato policy, impairment testing has been undertaken at 30 June 2021 for all cash generating units ("CGU's") where there is an indication of impairment. CGU testing undertaken did not include those business units held for sale at the end of June 2021 (nor did it include the Australian Residential Distribution business that closed on 31 July 2021).

Value in use

The testing has been conducted using the value in use method. 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.

Impairment

Based on testing carried out at 30 June 2021, the Ovato Australia business unit impairment analysis showed a surplus of $14.0M.

The impairment analysis for Ovato New Zealand is showing a deficit. Therefore, assets associated with this CGU were impaired by $7.5M at 30 June 2021.

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:

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

Sensitivities

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

Key Assumption	Assumption	Ovato Australia
EBITDA	(10%)	$13M - $15M impairment
EBITDA	(20%)	$42M - $44M impairment
WACC @ 10.0%	+ 0.5%	$4M - $6M impairment

(iii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and future deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the losses and deductions 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 Directors have written off the previously recognised tax losses of $5.9M and have impaired the amount of deductible temporary differences recognised as part of the deferred tax asset by $27.0M, given the losses and these impaired temporary differences are no longer forecast to be recouped over a reasonable recovery period of 6 years.

The deferred tax assets of $11.8M pertaining to the current financial year Australian tax loss and $1.5M pertaining to the current New Zealand tax loss were not recognised in the financial statements as at 30 June 2021, consistent with prior year treatment.

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2 Critical accounting judgements, estimates and assumptions (continued)

Despite the non-recognition of tax 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 (this test only applying to the Australian tax losses, which make up the majority of the groups unrecognised tax losses).

(iv) Fair value measurement and valuation process

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

(v) 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.

3 Operating segments

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 businesses in Australia and Corporate and the 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	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000
Revenue						
External sales	**346,943**	433,626	**77,439**	82,546	**424,382**	516,172
External sales significant items	**500**	(1,000)	**—**	—	**500**	(1,000)
Freight	**11,319**	16,645	**6,520**	7,453	**17,839**	24,098
Other revenue [1]	**22,101**	14,048	**2,093**	3,589	**24,194**	17,637
Other revenue significant items[2]	**37,742**	6,323	**—**	—	**37,742**	6,323
Total revenue	**418,605**	469,642	**86,052**	93,588	**504,657**	563,230
EBITDA ~ before significant items	**28,982**	31,202	**2,072**	1,225	**31,054**	32,427
Depreciation and amortisation	**(26,929)**	(31,069)	**(5,644)**	(5,897)	**(32,573)**	(36,966)
EBIT^ before significant items	**2,053**	133	**(3,572)**	(4,672)	**(1,519)**	(4,539)
Significant items before income tax	**(10,387)**	(68,960)	**(7,657)**	(3,207)	**(18,044)**	(72,167)
Segment EBIT after significant items	**(8,334)**	(68,827)	**(11,229)**	(7,879)	**(19,563)**	(76,706)
Significant items - Finance costs	**—**	—	**—**	—	**(2,382)**	(321)
Finance costs	**—**	—	**—**	—	**(15,778)**	(18,339)
Loss before income tax	**(8,334)**	(68,827)	**(11,229)**	(7,879)	**(37,723)**	(95,366)
Income tax expense	**—**	—	**—**	—	**(29,363)**	(13,384)
Net loss after income tax	**(8,334)**	(68,827)	**(11,229)**	(7,879)	**(67,086)**	(108,750)

1. Other revenue includes government assistance through the Australian Federal Government JobKeeper program of $18.3M (2020: $9.7M) and the New Zealand Government Employer Wage Subsidy Scheme of $1.6M (2020: $2.5M).

2. The income of $37.7M mainly arose from debt forgiveness, with $25M related to a partial forgiveness of the $40M corporate bond and a net $12.7M relating to the Creditors Scheme of Arrangement.

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

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

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3 Operating segments (continued)

(b) Significant items by operating segments	Ovato Australia Group 2021 $'000	Ovato Australia Group 2020 $'000	Ovato New Zealand Group 2021 $'000	Ovato New Zealand Group 2020 $'000	Consolidated 2021 $'000	Consolidated 2020 $'000
Significant items of revenue						
Scheme of Arrangement	**37,742**	—	**—**	—	**37,742**	—
Sales rebate	**500**	(1,000)	**—**	—	**500**	(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	**38,242**	5,323	**—**	—	**38,242**	5,323
Significant items of expenses						
Net loss on disposal of plant and equipment	**(292)**	—	**(61)**	—	**(353)**	—
Restructure initiatives and other one-off costs including Clayton site closure	**(16,655)**	(24,723)	**(505)**	(718)	**(17,160)**	(25,441)
Onerous leases and make good provisions	**(8,778)**	(1,326)	**—**	—	**(8,778)**	(1,326)
Relocation of presses	**(127)**	(4,219)	**—**	—	**(127)**	(4,219)
Impairment of goodwill	**—**	(35,203)	**—**	(2,041)	**—**	(37,244)
Impairment of plant and equipment	**(18,702)**	(6,670)	**(4,758)**	—	**(23,460)**	(6,670)
Impairment of ROU assets	**(747)**	—	**(2,723)**	—	**(3,470)**	—
Impairment of inventory	**(3,328)**	(2,142)	**390**	(448)	**(2,938)**	(2,590)
Total segment significant items of expense	**(48,629)**	(74,283)	**(7,657)**	(3,207)	**(56,286)**	(77,490)
Total segment significant items before income tax	**(10,387)**	(68,960)	**(7,657)**	(3,207)	**(18,044)**	(72,167)
Significant items - Finance costs						
Loss on cross currency swap realised	**—**	(133)	**—**	—	**—**	(133)
Fee for corporate bond covenant waivers	**(173)**	(188)	**—**	—	**(173)**	(188)
Unwind Bank Fees	**(2,209)**	—	**—**	—	**(2,209)**	—
Total segment significant items - finance costs	**(2,382)**	(321)	**—**	—	**(2,382)**	(321)

Revenue by product set

(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.

(c) Other segment information	Ovato Australia Group 2021 $'000	Ovato Australia Group 2020 $'000	Ovato New Zealand Group 2021 $'000	Ovato New Zealand Group 2020 $'000	Consolidated 2021 $'000	Consolidated 2020 $'000
Segment Revenue						
Commercial printing, marketing services and residential distribution	**265,186**	353,462	**67,435**	73,457	**332,621**	426,919
Book printing	**31,943**	28,987	**—**	—	**31,943**	28,987
Magazine distribution	**50,314**	50,177	**10,004**	9,089	**60,318**	59,266
Freight	**11,319**	16,645	**6,520**	7,453	**17,839**	24,098
Total sales revenue	**358,762**	449,271	**83,959**	89,999	**442,721**	539,270

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3 Operating segments (continued)

ii. Major customers

Included in the Ovato Australia Group and the Ovato New Zealand Group segments are sales revenue of approximately $82.6M (19% of Group gross sales) which arose from sales to the Group's largest customer (2020: The sales revenue from this customer was $105M, 19% of the Group's gross sales).

4 Revenue

	Consolidated	
	2021 $'000	2020 $'000
External sales	**424,882**	515,172
Freight	**17,839**	24,098
Revenue	**442,721**	539,270

Accounting policy for revenue recognition

(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 note3.

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 todate. Revenue is accrued for partly completed jobs in the month of service using the input method. This is calculated based on resources consumed (i.e. paper issued) relative to total resources expected to be consumed (i.e. paper allocated).
- Contracts can have separate transaction pricing for each service provided and includes fixed and variable pricing. Variable pricing includes discounts, revenue rebates and volume based rebates. The Group estimates the amount using a 'most likely method' and is included to the extent that it is highly probable that a significant reversal of revenue will not occur.

ii. Residential distribution

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

- Revenue is recognised when control of the goods is 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 10 as other receivables.

Contract liabilities primarily relate to consideration received in advance from customer contracts. The Group has an immaterial contract liability balance of $0.8M (2020: $1.0M) at 30 June 2021 which will be recognised in the next reporting period on performance of outstanding marketing service obligations. Contract liabilities are disclosed in note 18 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.

	Consolidated	
	2021 $'000	2020 $'000
Commercial and book printing	**3**	526
Distribution	**130**	—
Marketing services	**631**	478
	764	1,004

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4 Revenue (continued)

The Group expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2021 will be recognised as revenue during the next reporting period.

(f) Costs to obtain a contract

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

(g) Disaggregation of revenue

The Group derives revenue at a point in time and over time. At 30 June 2021 revenue earned over time is considered immaterial.

Note 3 provides details of revenue by major products and service offerings, by geographical segment and by operating segment.

5 Other income

Included in the loss before income tax are the following items of other revenue:

	Consolidated	
	2021 $'000	2020 $'000
Government grants[1]	**19,947**	12,172
Scheme of Arrangement[2]	**37,742**	—
Recoveries from the manufacturing process	**2,964**	3,867
Dividends	**—**	276
Interest income	**12**	151
Gain on de-recognition of ROU assets and recognition of finance lease receivables	**—**	5,976
Other income - external	**410**	336
Net gain on disposal of plant and equipment	**—**	501
Rental income	**121**	63
Unwind of discount on finance lease receivables	**740**	618
Other income	**61,936**	23,960

1 Other revenue includes government assistance through the Australian Federal Government Jobkeeper program of $18.3M (2020: $9.7M) and the New Zealand Government Employer Wage Subsidy Scheme of $1.6M (2020: $2.5M).

2 The income of $37.7M mainly arose from debt forgiveness, with $25M related to a partial forgiveness of the $40M corporate bond and a net $12.7M relating to the Creditors Scheme of Arrangement.

Accounting policy for revenue recognition

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.

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6 Expenses

	Consolidated 2021 $'000	Consolidated 2020 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	**1,123**	1,153
Plant and equipment	**16,087**	19,204
Right-of-use assets	**14,595**	15,804
Total depreciation	**31,805**	36,161
Amortisation		
Development and licence costs	**768**	805
Total depreciation and amortisation	**32,573**	36,966
Loss before income tax is arrived at after charging/(crediting) the following items:		
Lease rental expenses - operating leases	**9,316**	8,184
Net remeasurement of expected credit loss allowance (note 10)	**461**	1,734
Total	**9,777**	9,918
Finance costs		
Bank loans and overdraft	**7,449**	8,369
Unwind of discount on long term onerous lease and make good provisions	**112**	129
Interest on lease liabilities	**8,217**	9,841
Total interest expense	**15,778**	18,339
Loss on cross currency swap realised	**—**	133
Fee for corporate bond covenant waivers	**173**	188
Fee paid for early termination of corporate bond	**—**	—
Unwind Bank Fees	**2,209**	—
Total finance costs	**18,160**	18,660
Interest income	**(12)**	(151)
Unwind of discount on finance lease receivables	**(740)**	(618)
Net finance costs	**17,408**	**17,891**

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

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7 Significant items

	Consolidated 2021 $'000	Consolidated 2020 $'000
Included in net loss after income tax are the following significant items of income and expense:		
Scheme of Arrangement	**(37,742)**	—
Gain on de-recognition of ROU asset and recognition of finance lease receivable	**—**	(5,976)
Sale rebate	**(500)**	1,000
Restructure initiatives and other one-off costs	**17,133**	25,441
Onerous leases and make good provisions	**8,778**	1,326
Relocation of presses/property	**153**	4,219
Net (gain)/loss on disposal of plant and equipment	**353**	(347)
Impairment of goodwill	**—**	37,244
Impairment of ROU Asset	**3,470**	—
Impairment of plant and equipment	**23,460**	6,670
Impairment of inventory	**2,938**	2,590
Loss on cross currency swap realised	**—**	133
Fee for corporate bond covenant waivers	**173**	188
Unwind Bank Fees	**2,209**	—
Total significant items (included in loss before interest and tax)	**20,425**	72,488
Tax benefit associated with significant items	**(13,870)**	(10,550)
Adjustment of prior year losses not recognised to actual	**(1,242)**	(120)
Tax losses not brought to account	**13,279**	20,239
Impairment of deferred tax asset	**32,827**	10,000
Significant Tax expense included in net loss after tax	**30,994**	19,569

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

		2021 $'000	2020 $'000
External sales	- Sales rebate	**(500)**	1,000
Other revenue	- Scheme of arrangement	**(37,742)**	—
Other revenue	- Net gain on sale of equipment	**—**	(347)
Other revenue	- Gain on de-recognition of ROU asset and recognition of finance lease receivable	**—**	(5,976)
Raw materials and consumables used		**1,146**	1,486
Cost of finished goods sold		**2,938**	2,590
Employee expenses		**5,014**	20,289
Freight		**741**	571
Repairs and maintenance		**113**	136
Occupancy costs		**8,804**	1,326
Impairment of plant and equipment	- ROU assets	**3,470**	—
	- Plant and equipment	**23,460**	43,914
Other expenses	- Legal and professional fees	**10,098**	2,773
	- Relocation of presses	**127**	4,219
	- Net loss on disposal of plant and equipment	**353**	—
	- Other expenses	**21**	186
Finance costs		**2,382**	321
Total significant items (included in loss before interest and tax)		**20,425**	72,488

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8 Income tax expense

	Consolidated 2021 $'000	Consolidated 2020 $'000
(a) Reconciliation of income tax expense		
Loss before income tax	**(37,723)**	(95,366)
Tax at the statutory tax rate of 30%	**(11,317)**	(28,610)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Effect of differences in overseas tax rate	**252**	185
Income tax under/(over) provided in previous year	**508**	75
Net non assessable items for tax purposes	**(8,110)**	—
Non deductible items for tax purposes	**1,924**	11,495
Tax losses not brought to account	**13,279**	20,239
Impairment of deferred tax asset	**32,827**	10,000
Income tax expense	**29,363**	13,384
Major component of income tax expense:		
Current tax benefit	**(12,009)**	(20,039)
Deferred tax expense	**41,372**	33,423
Income tax expense attributable to loss	**29,363**	13,384

(b) Deferred tax assets and deferred tax liabilities

At 30 June 2021 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 (2020: $nil).

	Consolidated 2021 $'000	Consolidated 2020 $'000
(c) Franking credits		
The amount of franking credits available are:		
Franking account balance as at the end of the financial year at 30% (2020: 30%)	**62,559**	62,559

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

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

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

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

(e) Tax losses not brought to account	$'000 Gross	$'000 Tax effected
Revenue losses	473,443	141,750
Capital losses	282,942	84,883

The benefit of these revenue losses has not been brought to account as realisation is not probable. Refer to note 17 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 have been reduced for gains associated with the Scheme of Arrangement under the commercial debt forgiveness rules, but overall the losses have increased due to the current year losses not recognised and the impairment of tax losses previously recognised.

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(f) 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.

9 Cash and cash equivalents

	Consolidated	
	2021 $'000	2020 $'000
Current assets		
Cash at bank	**16,652**	16,200

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

10 Trade and other receivables

	Consolidated	
	2021 $'000	2020 $'000
Current assets		
Trade receivables*	**47,792**	46,290
Less: Allowance for expected credit losses	**(2,181)**	(2,197)
Total trade receivables	**45,611**	44,093
Other receivables	**1,325**	6,561
Total receivables	**46,936**	50,654

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

(a) Impaired trade receivables

Ovato Group:

At 30 June 2021 an allowance for expected credit losses of $2,181,000 (2020: $2,197,000) has been recognised. This relates to a variety of customers who are in unexpectedly difficult economic situations.

	Consolidated	
Movements in the allowance for expected credit losses are as follows:	**2021 $'000**	2020 $'000
Balance as at 1 July	**2,197**	1,211
Amounts written off	**(238)**	(746)
Net remeasurement of allowance	**461**	1,734
Net foreign currency translation difference	**(1)**	(2)
Held for Resale	**(238)**	—
Balance at 30 June	**2,181**	2,197

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.

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10 Trade and other receivables (continued)

Allowance for expected credit losses

The allowance for expected credit losses as at 30 June 2021 and 30 June 2020 was determined as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
Consolidated	**2021 %**	**2020 %**	**2021 $'000**	**2020 $'000**	**2021 $'000**	**2020 $'000**
Current	1.8%	0.5%	43,347	36,825	764	184
< 30 days	2.7%	1.4%	2,862	6,908	76	97
30 - 60 days	10.2%	8.0%	174	390	18	35
61 - 90 days	36.3%	35.0%	104	296	38	104
> 90 days	98.5%	95.0%	1,305	1,871	1,285	1,777
Total			**47,792**	**46,290**	**2,181**	**2,197**

(b) Past due but not impaired

At 30 June 2021 there were $3,028,000 (2020: $7,452,000) of trade receivables in the Ovato Group past due but not impaired.

The aging analysis of these trade receivables is as follows:

	Consolidated	
	2021 $'000	2020 $'000
Past due 1 - 30 days	**2,786**	6,811
Past due 31 - 60 days	**156**	355
Past due 61 - 90 days	**66**	192
Past due greater than 90 days	**20**	94
Total	**3,028**	7,452

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

(c) 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.

(d) 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.

11 Inventories

	Consolidated	
	2021 $'000	2020 $'000
Current assets		
Raw materials, spare parts and stores - at cost	**17,781**	49,356
Less: Provision for diminution	**(445)**	(627)
Net raw materials, spare parts and stores	**17,336**	48,729
Work in progress - at cost	**2,643**	2,681
Finished goods - at cost	**190**	36,461
Total	**20,169**	87,871

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11 Inventories (continued)

Accounting policy for inventories

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 $2.9M (2020: $2.6M) as a result of the write-down to net realisable value. The write-down was recognised as an expense in 2021, through Cost of finished goods sold.

12 Right-of-use assets

The Group's rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Property leases relating to other items are assessed on an individual basis, after evaluating the terms of the contact. 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 properties 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:

	Consolidated	
	2021 $'000	2020 $'000
Non-current assets		
Property - right-of-use	**118,935**	131,947
Less: Accumulated depreciation	**(81,915)**	(84,843)
Less: Impairment	**(1,828)**	—
Carrying amount of property	**35,192**	47,104
Other - right-of-use	**14,314**	15,195
Less: Accumulated depreciation	**(6,650)**	(3,958)
Less: Impairment	**(897)**	—
Carrying amount of other	**6,765**	11,237
Carrying amount	**41,957**	58,341

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	**Property $'000**	**Other $'000**	**Total $'000**
Balance at 1 July 2019	—	—	—
Recognition on initial application of AASB 16	64,874	14,115	78,989
Additions	287	1,071	1,358
Remeasurements	91	9	100
Depreciation expense	(11,841)	(3,963)	(15,804)
Impairment of assets	(250)	—	(250)
Derecognition due to sub-lease	(5,797)	—	(5,797)
Net foreign currency translation difference	(260)	5	(255)
Balance at 30 June 2020	47,104	11,237	58,341
Additions	—	1,733	1,733
Remeasurements	2,813	(4)	2,809
Depreciation expense	(10,471)	(4,124)	(14,595)

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12 Right-of-use assets (continued)

Reconciliations (continued)

Consolidated	Property $'000	Other $'000	Total $'000
Terminations	(9)	(26)	(35)
Impairment	(2,573)	(899)	(3,470)
Transfer to make good	(25)	—	(25)
Net foreign currency translation difference	(44)	(6)	(50)
Assets held for resale	(1,603)	(1,148)	(2,751)
Balance at 30 June 2021	35,192	6,765	41,957

(b) Lease liabilities

The carrying value of ROU assets is presented below:

	Consolidated 2021 $'000	2020 $'000
Lease liabilities - current	**18,687**	23,878
Lease liabilities - non-current	**57,998**	83,776
Total lease liabilities	**76,685**	107,654
Opening balance	**107,654**	—
Recognition on initial application of	**—**	122,874
Additions	**1,733**	1,311
Remeasurements	**2,809**	100
COVID - deferrals	**433**	—
Interest expense (note 6)	**8,217**	9,841
Payments for the interest component of lease liabilities	**(8,126)**	(8,386)
Repayment of lease liabilities	**(22,900)**	(17,698)
Terminations	**(10,132)**	(388)
Net foreign currency translation difference	**(72)**	—
Liabilities held for resale	**(2,931)**	—
Total lease liabilities	**76,685**	107,654

(c) Maturity profile of contractual undiscounted lease liability cashflows as at 30 June 2021

	Consolidated 2021 $'000	2020 $'000
- not later than one year	**24,541**	32,012
- later than one year but not later than five years	**55,852**	83,075
- later than five years	**14,215**	18,445
Total undiscounted lease liabilities	**94,608**	133,532

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12 Right-of-use assets (continued)

(d) Finance Lease Receivables

During the 2021 financial year, the Group surrendered the lease of two properties that had been sub-leased. The Group recognised a $6.2M expense as a result, and it was included in property expenses. Interest income of $0.7M on the unwind of the discount on finance lease receivables was recognised during the financial year (2020: $0.6M).

The carrying value of finance lease receivables is presented below:

	Consolidated	
	2021	2020
	$'000	$'000
Finance lease receivables - current	**1,991**	3,215
Finance lease receivables - non-current	**4,297**	11,576
Carrying amount	**6,288**	14,791
Opening balance	**14,791**	—
Recognition on initial application of AASB 16	**—**	4,123
Additions	**(3)**	11,772
Interest income (note 5)	**740**	618
Unearned income	**(435)**	—
Receipts	**(2,575)**	(1,722)
Lease surrender expense	**(6,230)**	—
Carrying amount	**6,288**	14,791

(e) Maturity profile of contractual undiscounted lease receivables

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 17, the Group did not have any finance leases as a lessor.

	Consolidated	
	2021	2020
	$'000	$'000
- not later than one year	**2,362**	4,046
- later than one year but not later than five years	**4,659**	12,940
Total undiscounted lease receivable	**7,021**	16,986

(f) Other amounts recognised in the Consolidated statement of profit or loss.

	Consolidated	
	2021	2020
	$'000	$'000
Depreciation expense on ROU assets	**14,595**	15,804
Impairment of ROU assets	**3,740**	—
Interest expense on lease liabilities	**(8,126)**	9,841
Expenses relating to short-term leases	**1,454**	1,948
Expenses relating to low value leases	**131**	142
Variable lease payments not included in the measurement of lease liabilities	**3,740**	3,982
Unwind of discount on finance lease receivables	**(740)**	(618)
Gain on de-recognition of ROU asset and recognition of finance lease receivable	**—**	(5,976)
Lease surrender	**(3,526)**	—
COVID-19 deferrals	**(335)**	—
Income from operating sub-leases	**—**	(63)

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12 Right-of-use assets (continued)

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

	Consolidated	
	2021	2020
	$'000	$'000
Lease interest payments	**(8,217)**	(8,386)
Lease principal payments	**(22,900)**	(17,698)
Receipts from subleases, excluding the financing component	**1,835**	1,243
Total net cash outflow for leases	**(29,282)**	(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 2021 the value of bank guarantees was $17.2M (2020: $16.4M).

(i) 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 15 and note 16.

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. Extension options are most common for property leases. At 30 June 2021, the weighted average lease expires for the portfolio of leases were:

	Weighted average expiry years* 2021	Weighted average expiry years* 2020
Ovato Australia Group	**4.24**	5.4
Ovato New Zealand Group	**3.71**	5.9
Group	**3.92**	5.4

* 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 9.08%.

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12 Right-of-use assets (continued)

(i) Significant accounting policies (continued)

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 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.

13 Other

	Consolidated	
	2021	2020
	$'000	$'000
Current assets		
Bank guarantees deposits	**17,128**	—
Prepayments	**3,825**	3,063
Finance lease receivables*	**1,991**	3,215
Total Other current assets	**22,944**	6,278
Non-Current assets		
Defined benefit assets**	**1,518**	1,093
Finance lease receivables*	**4,297**	11,576
Other non-current assets	**115**	413
Total Other non-current assets	**5,930**	13,082
Total Other assets	**28,874**	19,360

* Refer to note 12 for more information on finance lease receivables

** Refer to note 27 for more information on defined benefit plan asset

14 Assets classified as held for sale

On 4 June 2021, the Board & Management announced the following sales of their non core businesses:

• Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Limited ('Retail Distribution Australia and New Zealand') to Are Media Limited ("Are Media"); and

• Ovato Creative Services Pty Ltd, Ovato Technology Pty Ltd, Ovato Communications Pty Ltd and Ovato Creative Services Clayton Pty Ltd ('Marketing Services (Australia)') to Ballygriffin Holdings Pty Limited.

• The sales of Retail Distribution Australia and Marketing Services (Australia) were completed on 30 July 2021, and the sale of Retail Distribution NZ was completed on 31 August 2021.

The Board considered the subsidiaries to meet the criteria to be classified as held for sale at the end of the reporting date for the following reasons:

• The subsidiaries are available for immediate sale and can be sold to the buyer in its current condition;

• The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification; and

• The potential buyers have been identified and the Company entered into binding agreements to sell the subsidiaries prior to the financial year end.

As the operating results of these non core businesses were not material to the operational segments there is no separate disclosure of the profit or loss relating to these businesses for the year to 30 June 2021.

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14 Assets classified as held for sale (continued)

	Retail Distribution (Australia and New Zealand) 2021 $'000	Marketing Services 2021 $'000	Total 2021 $'000
As at 30 June 2021			
Current Assets			
Cash and cash equivalents	—	200	200
Receivables	1,446	3,926	5,372
Inventories	874	329	1,203
Other	85	204	289
Total current assets	2,405	4,659	7,064
Non-Current assets			
Property, plant and equipment	726	536	1,262
Right-of-use assets	1,490	1,261	2,751
Deferred tax assets	2,339	560	2,899
Goodwill and intangible assets	240	772	1,012
Total non-current assets	4,795	3,129	7,924
Total assets	7,200	7,788	14,988

Refer to note 22 for liabilities directly associated with assets classified as held for sales.

Accounting policy for assets or disposal groups classified as held for sale

Assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

15 Property, plant and equipment

	Consolidated	
	2021 $'000	2020 $'000
Non-current assets		
Leasehold improvements - at cost	**14,041**	16,237
Less: Accumulated amortisation	**(10,557)**	(10,665)
Less: Accumulated impairment	**(1,327)**	(1,844)
Carrying amount - Leasehold improvement	**2,157**	3,728
Plant and equipment - at cost	**369,945**	535,750
Less: Accumulated depreciation	**(253,512)**	(397,285)
Less: Accumulated impairment	**(51,486)**	(36,241)
Carrying amount - Plant and equipment	**64,947**	102,224
Lease plant and equipment	**—**	220
Less: Accumulated depreciation	**—**	(220)
Carrying amount - Lease plant and equipment	**—**	—
Total carrying amount	**67,104**	105,952

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15 Property, plant and equipment (continued)

(a) Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	**Leasehold improvements $'000**	**Plant and equipment $'000**	**Total $'000**
Balance at 1 July 2019	3,776	109,634	113,410
Additions	—	20,049	20,049
Disposals	(99)	(40)	(139)
Expensed to the profit and loss	—	(50)	(50)
Net foreign currency translation difference	(26)	(195)	(221)
Impairment of assets	—	(6,670)	(6,670)
Transfer to inventories	—	(70)	(70)
Transfers to other asset category	1,230	(1,230)	—
Depreciation expense	(1,153)	(19,204)	(20,357)
Balance at 30 June 2020	3,728	102,224	105,952
Additions	158	501	659
Disposals	(178)	(1,128)	(1,306)
Transfer from (to) other asset category	2	(2)	—
Depreciation expense	(1,123)	(16,087)	(17,210)
Impairment (charge)/reversal	(254)	(23,206)	(23,460)
Classified as held for sale (note 14)	(171)	(1,091)	(1,262)
Net foreign currency translation difference	(5)	(37)	(42)
Transfer from inventory	—	3,794	3,794
Expensed to the profit and loss	—	(21)	(21)
Balance at 30 June 2021	**2,157**	**64,947**	**67,104**

(b) Impairment

	Consolidated	
	2021 $'000	2020 $'000
Impairment of plant and equipment*	**23,460**	6,670

*In 2021 $18.7M of the impairment was due to the consolidation of Print Sites (2020: $0.7M) and $4.8M due to a deficit in the New Zealand cash generating unit (2020: $6.0M due to a deficit in the Australian cash generating unit)

Accounting policy for property, plant and equipment

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	7.5-20 years
Computer equipment	3-4 years

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15 Property, plant and equipment (continued)

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.

Value in use

The testing has been conducted using the value in use method. 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.

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:

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	- Print volumes declined in FY21 and are expected to stabilise in FY22 and the longer term; - Strategic cost saving initiatives; - An annual growth rate of 0% has been applied.
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% (2020: 10.0%).

Sensitivities

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

Key Assumption	Assumption	Ovato Australia
EBITDA	(10%)	$13M - $15M impairment
EBITDA	(20%)	$42M - $44M impairment
WACC @ 10.0%	+0.5%	$4M - $6M impairment

16 Intangibles

	Consolidated	
	2021 $'000	2020 $'000
Non-current assets		
Goodwill - at cost	**129,994**	133,963
Less: Accumulated impairment	**(136,867)**	(136,867)
Net foreign currency translation difference	**6,873**	2,904
Carrying amount - Goodwill	**—**	—
Development and licence costs - at cost	**—**	8,247
Less: Accumulated amortisation	**—**	(6,837)
Carrying amount - Development and licence costs	**—**	1,410
Carrying amount - Intangibles	**—**	1,410

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16 Intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Development and licence costs $'000	Total $'000
Balance at 1 July 2019	37,295	1,822	39,117
Additions	—	393	393
Exchange differences	(51)	—	(51)
Impairment of assets	(37,244)	—	(37,244)
Amortisation expense	—	(805)	(805)
Balance at 30 June 2020	—	1,410	1,410
Additions	—	129	129
Amortisation expense	—	(767)	(767)
Held for resale	—	(772)	(772)
Balance at 30 June 2021	—	—	—

In accordance with Ovato policy, impairment testing has been undertaken at 30 June 2021 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 CGU's remain unchanged from prior year.

Accounting policy for intangible assets

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 to 7 years

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

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17 Deferred tax

	Consolidated 2021 $'000	Consolidated 2020 $'000
Non-current assets		
Temporary differences:		
- Provisions/accruals	**2,515**	14,867
- Lease liabilities	**6,715**	30,747
- Property, plant and equipment	**2,397**	(4,581)
- Cash flow hedges	**—**	8
- Other assets	**(2,533)**	(5,341)
Tax losses	**—**	5,859
Total Deferred tax assets	**9,094**	41,559

(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 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	—	—	—	—	—	(10,000)	(10,000)
At 30 June 2020	14,867	30,747	(5,341)	(4,581)	8	5,859	41,559
(Charged)/credited							
- to profit or loss	**1,837**	**(7,538)**	**2,998**	**6,195**	**—**	**—**	**3,492**
- to other comprehensive income	**—**	**—**	**(190)**	**—**	**(8)**	**—**	**(198)**
- foreign currency translation reserve	**(6)**	**(24)**	**—**	**1**	**—**	**(4)**	**(33)**
Impairment	**(11,373)**	**(15,599)**	**—**	**—**	**—**	**(5,855)**	**(32,827)**
Held for resale	**(2,810)**	**(871)**	**—**	**782**	**—**	**—**	**(2,899)**
At 30 June 2021	**2,515**	**6,715**	**(2,533)**	**2,397**	**—**	**—**	**9,094**

(b) Deferred tax asset in respect of tax losses and deductible temporary differences

Deferred tax assets are recognised for all unused tax losses and future deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the losses and deductions 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 Directors have written off the previously recognised tax losses of $5.9M and have impaired the amount of deductible temporary differences recognised as part of the deferred tax asset by $27M, given the losses and these impaired temporary differences are no longer forecast to be recouped over a reasonable recover period of 6 years.

The deferred tax assets of $11.8M pertaining to the current financial year Australian tax loss and $1.5M pertaining to the current New Zealand tax loss were not recognised in the financial statements as at 30 June 2021, consistent with prior year treatment.

Despite the non-recognition of tax 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 (this test only applying to the Australian tax losses, which make up the majority of the group's unrecognised tax losses).

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17 Deferred tax (continued)

(c) 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.

18 Trade and other payables

	Consolidated	
	2021 $'000	2020 $'000
Current liabilities		
Trade payables and accruals*	**31,407**	130,695
Interest payable	**45**	699
Total Trade and other payables	**31,452**	131,394

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

Refer to note 29 for further information on financial instruments.

Accounting policy for trade and other payables

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.

19 Interest bearing liabilities

	Consolidated	
	2021 $'000	2020 $'000
Current liabilities		
Bank overdraft	**—**	4,280
Export financing - repayable in Euros*	**3,148**	4,887
Export financing - Australian dollars	**—**	4,229
Receivables financing	**—**	21,401
Corporate bond	**—**	3,750
ScotPac loan	**3,157**	—
Are Media loan	**2,300**	—
Prepaid finance costs	**(1,008)**	(1,355)
Total current interest bearing liabilities	**7,597**	37,192
Non-current liabilities		
Export financing - repayable in Euros*	**3,148**	1,628
Export financing - Australian dollars	**16,917**	12,688
Corporate bond	**—**	36,250
Receivables financing	**22,906**	—
ScotPac loan	**4,966**	—
Prepaid finance cost	**(1,071)**	(1,737)
Total non-current interest bearing liabilities	**46,866**	48,829
Total interest bearing liabilities	**54,463**	86,021

* Represents Euro denominated export financing facility of €4.0M (2020: €4.0M) measured at the exchange rate prevailing at balance date.

Refer to note 29 for further information on financial instruments.

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19 Interest bearing liabilities (continued)

(a) Interest bearing liabilities - facility details

	Facility $'000	Drawn $'000	Available $'000
2021			
Secured			
Euro export finance facility *	6,296	6,296	—
Export finance facility	16,917	16,917	—
Receivables financing facility #	22,906	22,906	—
ScotPac loan	8,123	8,123	—
Are Media loan	2,300	2,300	—
Ballygriffin Holdings loan	2,300	—	2,300
Total facilities	**58,842**	**56,542**	2,300
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

* 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.

(b) Terms and conditions

Australian Dollar Receivables financing facility with Scottish Pacific Business Finance Pty Ltd. ("ScotPac"). Floating interest rate + margin. Loan drawn to $19.5M. The drawn amount on the receivable financing facility 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. Matures August 2023. There is the ability to draw up to $50M under this facility, however there were not sufficient debtors to draw further amounts at 30 June 2021.

The Chattel Mortgage Facility with ScotPac (amortising) $8.1M secured by a charge over the assets of the Group. The facility matures December 2023.

New Zealand Dollar Receivables financing facility with ScotPac. Floating interest rate + margin. Loan drawn to A$3.4M. The drawn amount on the receivable financing facility 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. Matures February 2024. There is the ability to draw up to NZ$10M under this facility, however there were not sufficient debtors to draw further amounts at 30 June 2021.

Australian dollar floating interest rate export financing facility secured against a press. The lender is Aktiengesllschaft ("Commerzbank"). Loan drawn to $16.9M. Matures June 2027 (renegotiated new amortisation schedule). Euro denominated floating interest rate export financing facility secured against a press. Loan drawn to €4.0M (A$6.3M). Matures June 2023 (renegotiated new amortisation schedule).

Ovato Limited entered into a loan agreement with Are Media Holdco Pty Ltd dated 17 May 2021 to borrow $2.3M which was repaid on the completion of the sale of the shares in Ovato Retail Distribution Pty Ltd was completed on 30 July 2021 other than for $10,000 which was repaid on 16 August 2021. The loan had no ordinary interest payable. The loan was secured by a first ranking security over the shares of Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Ltd and the facility has now expired.

Ovato Limited entered into a loan agreement with Ballygriffin Holdings Pty Ltd dated 18 June 2021 to borrow $2.3M that was to be repaid on the completion of the sale of shares in the Marketing Services companies. The loan was not drawn against and the facility has now expired. The loan had no ordinary interest payable. The loan was secured by a first ranking security over the shares and assets of the Marketing Services companies.

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19 Interest bearing liabilities (continued)

(c) Net debt

	Consolidated	
	2021 $'000	2020 $'000
Cash	**(16,652)**	(16,200)
Cash held for resale	**200**	—
Overdraft	**—**	4,280
Corporate bond: Australian dollars	**—**	40,000
Export financing - repayable in Euros - measured at the exchange rate prevailing at balance date	**6,296**	6,515
ScotPac loan	**8,123**	—
Are Media loan	**2,300**	—
Export financing: Australian dollars	**16,917**	16,917
Receivables financing: Australian dollars	**22,906**	21,401
Net debt	**40,090**	72,913
Lease liabilities	**76,685**	107,654
Net lease adjusted debt	**116,775**	180,567

(d) Reconciliation of liabilities arising from financing activities

	Non-cash changes					
	2020	**Cash Flows**	**Other**	**Foreign Exchange Movement**	**Held for Sale**	**2021**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Overdraft	**4,280**	**(4,280)**	**—**	**—**	**—**	**—**
Corporate bond[1]	**40,000**	**—**	**(40,000)**	**—**	**—**	**—**
Export financing - EUR	**6,515**	**—**	**—**	**(219)**	**—**	**6,296**
Are Media loan	**—**	**2,300**	**—**	**—**	**—**	**2,300**
ScotPac loan	**—**	**8,123**	**—**	**—**	**—**	**8,123**
Export financing	**16,917**	**—**	**—**	**—**	**—**	**16,917**
Receivables financing	**21,401**	**1,505**	**—**	**—**	**—**	**22,906**
Total current & non-current interest bearing liabilities	**89,113**	**7,648**	**(40,000)**	**(219)**	**—**	**56,542**
Lease liabilities borrowings	**107,654**	**(31,027)**	**3,061**	**(73)**	**(2,930)**	**76,685**
Total liabilities from financing activities	**196,767**	**(23,379)**	**(36,939)**	**(292)**	**(2,930)**	**133,227**

1 The bond of $40M was discharged through $25M of debt forgiveness with the remaining $15M converted to equity.

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

20 Current tax liabilities

	Consolidated	
	2021 $'000	2020 $'000
Current liabilities		
Provision for income tax	**7**	8

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21 Provisions

	Consolidated 2021 $'000	Consolidated 2020 $'000
Current Provisions		
Employee entitlements	**20,716**	28,004
Other	**8,633**	1,800
Total current provisions	**29,349**	29,804
Non-current Provisions		
Employee entitlements	**772**	1,492
Other	**6,334**	7,186
Total non-current provisions	**7,106**	8,678
Total provisions	**36,455**	38,482

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

	Make good $'000	Onerous leases & contracts $'000	FBT $'000	Other $'000	Total $'000
Current					
Carrying amount at 1 July 2020	978	591	93	138	1,800
Charged/(credited) to profit or loss					
- additional provisions recognised	2,002	733	271	7,251	10,257
- unused amounts reversed	—	—	(91)	(50)	(141)
- discount unwind	5	7	—	—	12
Transfer (to)/from current/non-current	271	655	—	—	926
Amounts used during the period	(549)	(1,043)	(184)	(2,427)	(4,203)
Liabilities held for resale	—	—	(18)	—	(18)
Carrying amount at 30 June 2021	2,707	943	71	4,912	8,633

	Make good $'000	Onerous leases & contracts $'000	Other $'000	Total $'000
Non-Current				
Carrying amount at 1 July 2020	6,227	959	—	7,186
Charged/(credited) to profit or loss				
- additional provisions recognised	—	729	697	1,426
- unused amounts reversed	(946)	—	—	(946)
- discount unwind	101	—	—	101
Transfer (to)/from current/non-current	(271)	(655)	—	(926)
Transfered from ROU assets	(25)	—	—	(25)
Net foreign currency translation difference	(7)	—	—	(7)
Liabilities held for resale	(475)	—	—	(475)
Carrying amount at 30 June 2021	4,604	1,033	697	6,334

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21 Provisions (continued)

Accounting policy for provisions

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.

22 Liabilities directly associated with assets classified as held for sale

	Retail Distribution (Australia and New Zealand) 2021	Marketing Services 2021	Total 2021
	'000	'000	'000
As at 30 June 2021			
Current liabilities			
Payables	**29,695**	**1,880**	**31,575**
Lease liabilities	**473**	**465**	**938**
Income tax payable	**—**	**44**	**44**
Provisions	**2,053**	**1,810**	**3,863**
Total current liabilities	**32,221**	**4,199**	**36,420**
Non-Current liabilities			
Lease liabilities	**1,094**	**899**	**1,993**
Provisions	**350**	**478**	**828**
Total non-current liabilities	**1,444**	**1,377**	**2,821**
Total liabilities	**33,665**	**5,576**	**39,241**

Refer to note 14 for further details on assets classified as held for sales.

23 Issued capital

	Consolidated			
	2021 Shares	2020 Shares	2021	2020
	'000	'000	$'000	$'000
Ordinary shares - fully paid	12,212,812	732,004	553,937	497,523

Movements in ordinary share capital

Details	Date	Shares '000	Issue Price	$'000
Balance	1 July 2019	732,004		497,523
Balance	30 June 2020	732,004		497,523
Right issue [1]	24 December 2020	8,000,808	$0.005	40,004
Conversion of debt to equity - lease exit consideration [2]	23 March 2021	480,000	$0.005	2,400
Conversion of outstanding corporate bond to equity [2]	23 March 2021	3,000,000	$0.005	15,000
Share issue costs [3]		—	—	(990)
Balance	30 June 2021	12,212,812		553,937

Ordinary shares

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

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23 Issued capital (continued)

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1 On 1 December 2020, Ovato Ltd undertook a conditional and partially underwritten pro-rata entitlement offer to existing shareholders. The offer consisted of 10.93 new fully paid ordinary shares in Ovato for every 1 share held at the record date at $0.005 cents per new share. Gross proceeds of $40M was raised. 8,000,807,935 shares were issued on 24 December 2020 and trading commenced on 29 December 2020.

2 On 23 March 2021, as part of the restructuring of the Ovato Group in connection with the Schemes, the company entered agreements with the note holders and a landlord to convert debt to equity. $15.0M for note holders and $2.4M for the landlord were converted to equity at 0.005c per share.

3 Transaction costs arising from the rights issues and debt conversion of $1M were accounted for as a deduction from equity during the financial period.

24 Reserves

	Consolidated	
	2021 $'000	2020 $'000
Foreign currency translation reserve	**11,014**	11,096
Other reserves	**—**	(20)
Total reserves	**11,014**	11,076

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	**Foreign currency translation reserve**	**Cash flow hedge reserve**	**Total**
	$'000	**$'000**	**$'000**
Balance at 1 July 2019	11,531	172	11,703
Foreign currency translation	(435)	—	(435)
Cash flow hedge	—	(275)	(275)
Tax effect of cash flow hedge	—	83	83
Balance at 30 June 2020	11,096	(20)	11,076
Foreign currency translation	(82)	—	(82)
Cash flow hedge	—	28	28
Tax effect of cash flow hedge	—	(8)	(8)
Balance at 30 June 2021	**11,014**	**—**	**11,014**

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. Cash flow hedge reserve

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

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25 Accumulated losses

	Consolidated	
	2021 $'000	2020 $'000
Accumulated losses at the beginning of the financial year	**(490,841)**	(381,778)
Loss after income tax expense for the year	**(67,086)**	(108,750)
Actuarial gain on defined benefit plans, net of tax	**447**	—
Actuarial loss on defined benefit plans, net of tax	**—**	(313)
Accumulated losses at the end of the financial year	**(557,480)**	(490,841)

26 Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Accounting policy for dividends

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 2021 year (nor paid any interim dividends).

The dividend reserve of Ovato Limited has a balance of $33.0 million. Refer to note 34.

27 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 2021 totalled $8,796,024 (2020: $10,319,727).

Accumulation funds

Contribution obligations in respect of each accumulation fund for the year to 30 June 2021 was 9.5% (2020: 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.

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27 Pension plans (continued)

v. Description of significant events

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

	Consolidated	
	2021 $'000	2020 $'000
(a) Statement of financial position impact		
Defined benefit obligation	**(5,081)**	(10,051)
Less: fair value of plan assets	**6,599**	11,144
Net defined benefit plan asset (note 13)	**1,518**	1,093
(b) Movement in net defined benefit plan asset		
Net defined benefit plan asset at start of year	**1,093**	1,527
Defined benefit plan cost	**(320)**	(142)
Remeasurements recognised in other comprehensive income	**635**	(447)
Employer contributions	**110**	155
Net defined benefit plan asset (note 13)	**1,518**	1,093
(c) Reconciliation of the net defined benefit plan asset		
Net defined benefit plan asset at start of year	**1,093**	1,527
Current service cost	**(148)**	(177)
Net interest	**17**	35
Actual return on plan assets less interest income	**1,632**	(717)
Actuarial (losses) arising from changes in financial assumptions	**(28)**	(161)
Actuarial gains/(losses) arising from liability experience	**(969)**	431
Past service curtailment/cost	**(189)**	—
Employer contributions	**110**	155
Net defined benefit plan asset at end of year (note 13)	**1,518**	1,093

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) Actuarial assumptions

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

	Consolidated	
	2021 %	2020 %
Discount rate	**1.70%**	1.90%
Expected salary increase rate	**1.25%**	1.25%

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27 Pension plans (continued)

(e) 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.

28 Derivative financial instruments

	Consolidated	
	2021 $'000	2020 $'000
Current assets		
Forward currency contracts	**—**	80
Current liabilities		
Forward currency contracts	**—**	(110)
Total derivatives	**—**	(30)

Refer to note 29 for further information on financial instruments.

Hedges of a net investment

Hedges of a net investment in a foreign operation include monetary items that are considered part of the net investment. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity whilst gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

29 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:

	Consolidated	
	2021 $'000	2020 $'000
Financial assets		
Cash and cash equivalents (note 9)	**16,652**	16,200
Trade and other receivables (note 10)	**46,936**	50,654
Bank guarantees (note 13)	**17,128**	—
Finance lease receivables (note 13)	**6,288**	14,791
Derivative financial instruments (note 28)	**—**	80
Total financial assets	**87,004**	81,725
Financial liabilities		
Trade and other payables (note 18)	**31,452**	131,394
Interest bearing liabilities (note 19)	**54,463**	86,021
Lease liabilities (note 12(b))	**76,685**	107,654
Derivative financial instruments (note 28)	**—**	110
Total financial liabilities	**162,600**	325,179

Accounting policy for financial instruments

The Ovato Group trades internationally and used derivative financial instruments such as forward exchange contracts hedge its risks associated 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 Ovato group no longer uses forward exchange contracts to hedge its risk against currency fluctuations.

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.

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29 Financial instruments (continued)

(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.

(a) Hedging policy - overview

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

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

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

i. Interest rate risk exposure

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

	2021 Weighted average interest rate	2021 Balance	2020 Weighted average interest rate	2020 Balance
	%	$'000	%	$'000
Bank Loans - Overdraft	—	—	3.0%	(4,280)
ScotPac loan	8.8%	(8,123)	—	—
ScotPac Aus RFF loan	6.7%	(19,461)	4.7%	(21,401)
ScotPac NZ RFF loan	7.3%	(3,445)	—	—
Commerzbank loan	2.7%	(16,917)	2.8%	(16,917)
Commerzbank loan - EUR floating rate	2.0%	(6,296)	2.0%	(6,515)
Are Media loan	—	(2,300)	—	—
Corporate Bond	—	—	8.3%	(40,000)
Year end borrowing cost (excl. cash, fees & charges)	**5.0%**	**(56,542)**	**5.6%**	**(89,113)**
Cash and cash equivalents	**0.1%**	**16,652**	**0.1%**	**16,200**

As at balance date, the Group maintained floating rate borrowings of $54.2M (2020: $49.1M), 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 2021, the average borrowing rate excluding capitalised fees and charges was 6.2% (2020: 5.8%).

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

At 30 June 2021, no loss has been recorded in the Consolidated statement of profit or loss and other comprehensive income as the swap was closed out in the previous year (2020: $133,311 loss).

(c) 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.

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29 Financial instruments (continued)

	Consolidated Carrying amount	Consolidated Contractual cash flows	Consolidated Less than 1 year	Consolidated 1 to 2 years	Consolidated 2 to 5 years	Consolidated > 5 years
	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2021						
Interest bearing liabilities						
Bank loans - Australian dollars	16,917	19,018	448	448	13,753	4,369
Bank loans - Euros	6,296	6,650	3,340	3,310	—	—
ScotPac loan	8,123	9,029	3,736	3,736	1,557	—
ScotPac Aus RFF loan	19,461	22,139	1,284	1,284	19,570	—
ScotPac NZ RFF loan	3,445	4,095	250	250	3,595	—
Are Media loan	2,300	2,300	2,300	—	—	—
Lease liabilities	76,685	94,608	24,541	22,601	33,251	14,215
Prepaid finance costs	(2,079)	—	—	—	—	—
Payables	31,452	31,452	31,452	—	—	—
Total	**162,600**	**189,290**	**67,351**	**31,629**	**71,726**	**18,584**
30 June 2020						
Interest bearing liabilities						
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[1]						
- inflows	(69)	(1,404)	(1,404)	—	—	—
- outflows	99	6,791	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**

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

(d) 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 dependent 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 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.

i. Foreign currency borrowings

	Consolidated	
	2021 $'000	2020 $'000
Euro borrowings	**6,296**	6,515

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29 Financial instruments (continued)

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

		Average exchange rate		Consolidated	
		2021 $	2020 $	2021 $'000	2020 $'000
United States Dollars	- less than one year	—	0.669	—	1,703
UK Pounds receivables	- less than one year	—	0.530	—	(1,404)
Euro	- less than one year	—	0.630	—	4,510
Total		—	—	—	4,809

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

		Average exchange rate 2021	Average exchange rate 2020	Consolidated 2021 NZD	Consolidated 2020 NZD	Consolidated 2021 AUD	Consolidated 2021 AUD
		$	$	$'000	$'000	$'000	$'000
United States Dollars	- less than one year	—	0.637	—	628	—	587
Total		—	—	—	628	—	587

iv. Fair value of forward exchange contracts

	Consolidated	
	2021 $'000	2020 $'000
Australian entity - foreign exchange contracts relating to receipts	—	69
Australian entity - foreign exchange contracts relating to payments	—	(95)
New Zealand entity - foreign exchange contracts relating to payments	—	(4)
Total fair value of forward exchange contracts	—	**(30)**
Financial assets - current (note 28)	—	80
Financial liabilities - current (note 28)	—	(110)
Total fair value of forward exchange contracts	—	**(30)**

At 30 June 2021, a $44,000 credit (2020: $66,000 credit) has been recognised within the Consolidated statement of profit or loss and other comprehensive income, with Nil included in equity (2020: $29,000 debit pre tax) is included within the cash flow hedge reserve in equity. There was no transfer to inventory during the financial year ended 30 June 2021 (2020: $46,000 debit).

(e) 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 10).

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

(f) Fair values

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

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29 Financial instruments (continued)

(g) 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.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
30 June 2021				
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	—	—	—	—
Financial derivatives not hedge accounted				
Forward Foreign Exchange Contracts	—	—	—	—
Total financial derivatives	—	—	—	—

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
30 June 2020				
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)**

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.

h) Hedge Reserve Reconciliation

	Total	Cross Currency Swaps	Forward Exchange Contracts
	$'000	$'000	$'000
30 June 2021			
Opening balance	**(20)**	**—**	**(20)**
Gain/(Loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:			
- Other	28	—	28
- Tax effect	(8)	—	(8)
	20		20
Transfer out			
- Other	—	—	—
Total cash flow hedge reserve	—	—	—

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29 Financial instruments (continued)

	Total	Cross Currency Swaps	Forward Exchange Contracts
	$'000	$'000	$'000
30 June 2020			
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)
Total movement	**(20)**	—	**(20)**
Transfer out			
- Other	(245)	102	(347)
- Tax effect	73	(31)	104
Total transfer out	**(172)**	**71**	(243)
Total cash flow hedge reserve	**(20)**	—	**(20)**

30 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:

	Consolidated	
	2021	2020
	$	$
Short-term employee benefits	**1,996,607**	2,199,923
Other long-term employee benefits	**27,342**	17,985
Post-employment benefits	**81,428**	91,473
Total compensation	**2,105,377**	2,309,381

(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:

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Director / Executive	Transaction	Payments/ (receipts) transaction value for the year ended 30 June 2021 $'000	Payments/ (receipts) transaction value for the year ended 30 June 2020 $'000	Payable/ (receivable) balance outstanding as at 30 June 2021 $'000	Payable/ (receivable) balance outstanding as at 30 June 2020 $'000
M Hannan & J Hannan	Property leases (i)	**7,393**	10,789	**603**	2,003
M Hannan & J Hannan	Interest on corporate bond	**—**	407	**—**	44
D Karai	Whistle-blower reporting service (ii)	**7**	7	**—**	—

(i) Mesrs Hannan are beneficiaries of the Rathdrum Property Trust ("RPT"). Ovato Limited lease some properties from RPT. The Lidcombe lease was surrendered on 16 December 2020. The surrender fee of $2.4M was converted to shares at 0.005 cents per share. RPT is also a shareholder of Wicklow Properties Pty Limited of which $1.875M of corporate notes were converted to shares at 0.005 cents per share.

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

During the financial year Ovato Limited and its subsidiaries paid rentals in relation to RPT lease commitments of $7.4M (2020: $10.8M). The amounts disclosed includes $0.6M of agreed rental deferrals until August 2021 and does not include $0.8M of January 2020 deferred rent paid in 2021.

The maturity profile of total lease commitments to RPT to 30 June 2026 is as follows:

	2021* $'000	2020 $'000
- not later than one year	**6,251**	9,996
- later than one year but not later than five years	**21,326**	28,372
- later than five years	**13,363**	—
	40,940	38,368

* Does not include Offset Alpine Printing Pty Limited agreed lease deferral of $322K over 38 months.

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

Details of controlled entities are set out in note 35. 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.

31 Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the Company:

	Consolidated	
	2021 $'000	2020 $'000
RSM Partners and related network firms (2020: Deloitte and related network firms)		
Audit or review of financial reports		
- Australia	**302,000**	448,518
- New Zealand	**63,000**	106,267
Total	**365,000**	554,785
Other services		
- Corporate advisory services	**—**	237,115
- Taxation and related compliance services	**79,775**	199,752
Total	**79,775**	436,867

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32 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 35).

Related bodies corporate:

- Ovato Limited guarantees the borrowings of Ovato Finance Pty Ltd and Ovato NZ Limited (and until 22 December 2020 Ovato Print Pty Ltd (in liquidation) and Hannanprint NSW Pty Limited (in liquidation)) to facilitate banking arrangements.
- 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.

33 Commitments

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

	Consolidated	
	2021	2020
	$'000	$'000
Capital expenditure:		
- not later than one year	**118**	49

At 30 June 2021 the Group capital expenditure commitments relate to the acquisition of new plant and equipment.

34 Parent entity information

As at 30 June 2021, and throughout the 2021 financial year, the parent company of Ovato Group was Ovato Limited.

Statement of profit or loss and other comprehensive income

	Parent	
	2021	2020
	$	$
Loss after income tax	**(67,879)**	(19,511)
Other comprehensive income for the year, net of tax	**444**	(313)
Total comprehensive income	**(67,435)**	(19,824)

Statement of financial position

	Parent	
	2021	2020
	$	$
Total current assets	**80,398**	5,481
Total non-current assets	**127,468**	24,666
Total assets	**207,866**	30,147
Total current liabilities	**149,221**	8,662
Total non-current liabilities	**52,433**	4,252
Total liabilities	**201,654**	12,914
Net assets	**6,212**	17,233
Equity		
Issued capital	**553,937**	497,523
Accumulated losses	**(580,713)**	(513,278)
Dividend reserve	**32,988**	32,988
Total equity	**6,212**	17,233

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On 21 December 2020 the NSW Supreme court approved the Ovato Members scheme of arrangement. As part of the scheme of arrangement the parent assumed the contracts, assets and liabilities of four of its subsidiaries (other than certain assets and liabilities not transferred under the scheme) prior to those subsidiaries being placed into liquidation on 29 December 2020. Please refer to note 35 for more information with respect to these subsidiaries in liquidation.

Parent maturity profile of contractual undiscounted cash flows

	Consolidated	
	2021	2020
	$	$
- not later than one year	**16,178**	1,417
- later than one year but not later than five years	**46,870**	2,742
Total undiscounted lease liabilities	**63,048**	4,159

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 2021 (2020: $nil).

Investment in controlled entities

There were no capital commitments for the acquisition of property, plant and equipment as at 30 June 2021 (2020: $nil).

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 35.

Parent contingent liabilities

There were no contingent liabilities for the year ended 30 June 2021 (2020: $nil).

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35 Controlled entities

Name	Principal place of business / Country of incorporation	Interest held 2021 %	Interest held 2020 %
Pacific Publications Holdings Pty Limited [a]	Australia	**100%**	100%
Attic Futura Pty Limited [a]	Australia	**100%**	100%
Pacific O'Brien Publications Pty Limited [a]	Australia	**100%**	100%
Total Sampling Pty Limited [a]	Australia	**100%**	100%
PMP Publishing Pty Limited [a]	Australia	**100%**	100%
Ovato Print Pty Ltd (in liquidation) [a d]	Australia	**100%**	100%
PMP Property Pty Limited [a]	Australia	**100%**	100%
PT Pac-Rim Kwartanusa Printing	Indonesia	**95%**	95%
PMP Advertising Solutions Pty Limited [a]	Australia	**100%**	100%
PMP Home Media Pty Limited [a]	Australia	**100%**	100%
Shomega Pty Limited [a]	Australia	**100%**	100%
Show-Ads Pty Limited [a]	Australia	**100%**	100%
Linq Plus Pty Limited [a]	Australia	**100%**	100%
PMP Wholesale Pty Limited [a]	Australia	**100%**	100%
Ovato Creative Services Clayton Pty Ltd [a]	Australia	**100%**	100%
Pacific Intermedia Pty Limited [a]	Australia	**100%**	100%
The Argus & Australasian Pty Limited [a]	Australia	**100%**	100%
Ovato Retail Distribution Pty Ltd [a]	Australia	**100%**	100%
A.C.N. 128 266 268 Pty Limited [b]	Australia	**100%**	100%
Scribo Holdings Pty Limited [b]	Australia	**100%**	100%
The Scribo Group Pty Limited [b]	Australia	**100%**	100%
Tower Books Pty Limited [b]	Australia	**100%**	100%
Gary Allen Pty Limited [b]	Australia	**100%**	100%
ilovemagazines.com.au Pty Ltd [a]	Australia	**100%**	100%
PMP Directories Pty Limited [a]	Australia	**100%**	100%
Argyle Print Pty Limited [b]	Australia	**100%**	100%
Red PPR Holdings Pty Limited [a]	Australia	**100%**	100%
Ovato Finance Pty Lt [a]	Australia	**100%**	100%
PMP Share Plans Pty Limited	Australia	**100%**	100%
Manningtree Investments Pty Limited [a]	Australia	**100%**	100%
Canberra Press Pty Limited [a]	Australia	**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%
Ovato Print Cairns Pty Ltd [c]	Australia	**100%**	100%
Ovato Packaging Pty Ltd [c]	Australia	**100%**	100%
IPMG Holdco Pty Limited [c]	Australia	**100%**	100%
IPMG Subco Pty Limited [c]	Australia	**100%**	100%
Propsea Pty Limited [c]	Australia	**100%**	100%
MJV Pty Limited [c]	Australia	**100%**	100%
Tigerstone Pty Limited [c]	Australia	**100%**	100%
KTAR Pty Limited [c]	Australia	**100%**	100%
PMP Subco No.6 Pty Limited [c]	Australia	**100%**	100%
D. Livingstone Pty Limited [c]	Australia	**100%**	100%
PMP Subco No.2 Pty Limited [c]	Australia	**100%**	100%

35 Controlled entities (continued)

Name	Principal place of business / Country of incorporation	Interest held 2021 %	Interest held 2020 %
PMP Subco No.3 Pty Limited [c]	Australia	**100%**	100%
PMP Subco No.4 Pty Limited [c]	Australia	**100%**	100%
IPMG Pty Limited [c]	Australia	**100%**	100%
Hannan Finance Corporation Pty Limited [c]	Australia	**100%**	100%
IPMG Administration Pty Limited [c]	Australia	**100%**	100%
NDD Distribution Pty Limited [c]	Australia	**100%**	100%
Southern Independent Publishers Pty Limited [c]	Australia	**100%**	100%
The Federal Publishing Co Pty Limited [c]	Australia	**100%**	100%
PMP Subco No.1 Pty Limited [c]	Australia	**100%**	100%
IPMG Management (No.2) Pty Limited [c]	Australia	**100%**	100%
IPMG Digital Pty Limited [c]	Australia	**100%**	100%
Forty Two International Pty Limited [c]	Australia	**100%**	100%
Holler Australia Pty Ltd [c]	Australia	**100%**	100%
Holler Administration Pty Ltd [c]	Australia	**100%**	100%
IPMG Consulting Pty Limited [c]	Australia	**100%**	100%
Massmedia Studios Pty Ltd [c]	Australia	**100%**	100%
Max Australia Pty Ltd [c]	Australia	**100%**	100%
Ovato Creative Services Pty Ltd [c]	Australia	**100%**	100%
Ovato Creative Services Geebung Pty Ltd [c]	Australia	**100%**	100%
Ovato Communications Pty Ltd [c]	Australia	**100%**	100%
Ovato Communications Singapore Pte Ltd [e]	Singapore	**—**	100%
Spin Comm Syd Pty Limited [c]	Australia	**100%**	100%
The Gang of 4 Pty Limited [c]	Australia	**100%**	100%
Ovato Technology Pty Ltd [c]	Australia	**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 [c]	Australia	**100%**	100%
PMP Subco No.5 Pty Limited [c]	Australia	**100%**	100%
Offset Alpine Printing Group Pty Limited [c]	Australia	**100%**	100%
Kierle Investments Pty Limited [c]	Australia	**100%**	100%
Offset Alpine Printing Pty Limited [c]	Australia	**100%**	100%
Craft Printing Pty Limited [c]	Australia	**100%**	100%
Hannanprint NSW Pty Limited (in liquidation) [c,d]	Australia	**100%**	100%
Hannanprint Victoria Pty Limited (in liquidation) [c,d]	Australia	**100%**	100%
SYNC Communications Management Pty Limited [c]	Australia	**100%**	100%
Warwick Farm Business Park Pty Ltd [c]	Australia	**100%**	100%
Woodox Pty Limited [c]	Australia	**100%**	100%
Inprint Pty Limited (in liquidation) [c,d]	Australia	**100%**	100%

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35 Controlled entities (continued)

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] These companies were placed into liquidation by Court Order on 29 December 2020 and were removed from the Deed of Cross Guarantee on this date. As such these companies ceased to be reported as part of the closed group from this date.

[e] This company ceased trading in 2020 and was struck off the companies register in Singapore on 18 January 2021.

[f] Notes on the closed group:
- Ovato Limited is the ultimate parent company of the Ovato Group.
- All companies have ordinary share capital.

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	
	2021	2020
	$'000	$'000
Statements of profit or loss and other comprehensive income of the closed group		
- Sales revenue	**357,947**	448,359
- Other revenue	**62,735**	21,107
Revenue	**420,682**	469,466
Raw materials and consumables used	**(133,791)**	(171,790)
Cost of finished goods sold	**(9,023)**	(4,666)
Employee expenses	**(145,024)**	(190,756)
Outside production services	**(10,646)**	(11,394)
Freight	**(41,035)**	(50,420)
Repairs and maintenance	**(8,130)**	(10,642)
Occupancy costs	**(9,797)**	(7,005)
Other expenses	**(59,008)**	(73,563)
Loss before depreciation, amortisation, finance costs and income tax	**4,228**	(50,760)
Depreciation and amortisation	**(26,913)**	(31,060)
Loss before finance costs and income tax	**(22,685)**	(81,820)
Finance costs	**(16,849)**	(17,304)
Loss before income tax	**(39,534)**	(99,124)
Income tax expense	**(27,409)**	(13,082)
Net loss attributable to members of the closed group	**(66,943)**	(112,206)

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35 Controlled entities (continued)

Statement of financial position of the closed group

	Closed Group	
	2021	2020
	$'000	$'000
Current assets		
Cash and cash equivalents	**12,307**	10,783
Receivables	**41,031**	42,455
Inventories	**17,433**	71,008
Financial assets	**—**	80
Other	**20,519**	5,935
Disposal groups	**13,411**	—
Total current assets	**104,701**	130,261
Non-current assets		
Property, plant and equipment	**67,096**	97,394
Right-of-use assets	**36,036**	47,913
Deferred tax assets	**4,985**	35,387
Goodwill and intangible assets	**—**	1,404
Other	**6,334**	28,063
Total non-current assets	**114,451**	210,161
Total assets	**219,152**	340,422
Current liabilities		
Payables	**25,983**	110,642
Interest bearing liabilities	**14,706**	37,192
Lease liabilities	**16,160**	21,446
Financial liabilities	**—**	106
Provisions	**27,059**	27,403
Disposal groups	**32,159**	—
Total current liabilities	**116,067**	196,789
Non-current liabilities		
Interest bearing liabilities	**43,431**	48,829
Lease liabilities	**46,887**	70,371
Provisions	**5,563**	7,160
Total non-current liabilities	**95,881**	126,360
Total liabilities	**211,948**	323,149
Net assets	**7,204**	17,273
Equity		
Contributed equity	**553,937**	497,523
Reserves	**—**	(17)
Accumulated losses	**(546,733)**	(480,233)
Total equity	**7,204**	17,273

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36 Events after the reporting period

Sales of Retail Distribution (Australia and New Zealand) and Marketing Services (Australia)

On 4 June 2021, the Company announced the sales of its retail distribution business in Australia and New Zealand and its marketing business in Australia. The sales of its retail distribution and marketing services businesses in Australia were completed on 30 July 2021. The sale of the New Zealand retail distribution business was completed on 31 August 2021.

Retail Distribution Australia was sold for a cash consideration of $10M and the acceptance of a negative working capital position of a base $22.5M to Are Media Limited, and retail distribution New Zealand was sold to Are Media Limited for a cash consideration of $5.0M, and the acceptance of a base negative working capital position of $4.5M.

The marketing services businesses comprise of Ovato Creative Services Pty Ltd, Ovato Technology Pty Ltd, Ovato Communications Pty Ltd, Ovato Creative Services Clayton Pty Ltd, and a related entity in India (along with their subsidiaries), were sold for a cash consideration of $9M to Ballygriffin Holdings Pty Limited.

Closure of Residential Distribution

The Ovato Residential Distribution business in Australia ceased operating on 30 July 2021. The closure of the business will predominantly incur redundancy and leasing costs, all of which will be recovered well within the 2022 financial year as the company avoids on going trading losses in a business where volumes have continued to steeply decline.

Closure of Print Operations Christchurch

On 7 September 2021 the closure of the Print operation in Christchurch was announced with the closure to be completed by 30 September 2021.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

37 Reconciliation of loss after income tax to net cash from/(used in) operating activities

	Consolidated	
	2021	2020
	$'000	$'000
Loss after income tax expense for the year	**(67,086)**	(108,750)
Adjustments for:		
Depreciation and amortisation	**32,573**	36,966
Scheme of arrangement	**(22,315)**	—
Impairment of property, plant and equipment	**23,460**	6,670
Impairment of ROU assets	**3,470**	—
Impairment of goodwill	**—**	37,244
Impairment - deferred tax asset	**32,827**	10,000
Non-cash deferred tax	**(3,261)**	(2,747)
(Credit)/provision for doubtful debts/bad debts written off	**221**	986
Net loss/(gain) on disposal of property, plant and equipment	**379**	(501)
Gain on de-recognition of ROU assets and recognition of finance lease receivable	**—**	(5,976)
Lease adjustments	**(602)**	—
Non-cash superannuation expense	**—**	142
Other non-cash items	**(2,489)**	9
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**(1,876)**	30,142
Decrease in inventories	**66,500**	14,821
Decrease in other current assets	**797**	—
Decrease in non-current asset	**59**	6,091
Decrease/(increase) in prepayments	**(1,754)**	1,676
(Decrease) in liabilities	**(61,847)**	(19,693)
Increase/(Decrease) in provision for employee benefits	**(4,236)**	1,008
Net cash from/(used in) operating activities	**(5,180)**	8,089

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38 Earnings per share

	Consolidated 2021 $'000	2020 $'000
Loss after income tax attributable to the owners of Ovato Limited	**(67,086)**	(108,750)
Weighted average number of ordinary shares used in calculating basic earnings per share	**5,828,313**	732,004
Weighted average number of ordinary shares used in calculating diluted earnings per share	**5,828,313**	732,004
	2021 Cents	2020 Cents
Basic earnings per share	**(1.2)**	(14.9)
Diluted earnings per share	**(1.2)**	(14.9)

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Ovato Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

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

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

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

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

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

In the Directors' opinion there are reasonable grounds to believe that the company and the companies to which the ASIC Instrument applies, as detailed in Note 20 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

Chairman

James Hannan

Chief Executive Officer and Managing Director

30 September 2021

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INDEPENDENT AUDITOR'S REPORT

To the Members of Ovato Limited

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 2021, the consolidated statement of 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 2021 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 of 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.

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Key Audit Matter	How our audit addressed this matter
Going Concern Refer to Note 1 in the financial statements	
For the year ended 30 June 2021, Ovato Limited had incurred a net loss of $67.1 million, net cash outflows from operating activities of $5.2 million and net cash outflows from investing activities of $729k. The directors have prepared the financial report on the going concern basis. The directors' assessment of the Group's ability to continue as going concern is based on a cash flow budget. We determined this assessment of going concern to be a key audit matter due to the significant judgements involved in preparing the cashflow budget and the potential material impact of the results of management's assessment.	Our audit procedures included, among others: • Critically assessing the directors' reasons as to why they believe it appropriate to prepare the financial report on a going concern basis; • Reviewing the current financial position of the Group; • Assessing the appropriateness and mathematical accuracy of the cash flow forecasts and budgets prepared by management; • Challenging the reasonableness of key assumptions used; and • Assessing the adequacy of the going concern disclosures in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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.

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.

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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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 30 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Ovato Limited., for the year ended 30 June 2021, 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.

RSM

RSM Australia Partners

Anthony Travers

Anthony Travers
Partner

Sydney, NSW

Dated: 30 September 2021

Shareholder information

Alistair Clarkson

B Com LLB MBA FCIS GradDipACG

COMPANY SECRETARY

APPOINTED 24 APRIL 2009

The Ovato Limited Annual General Meeting.

Meeting will be held at 11.00am on Wednesday, 24 November 2021.

The meeting will be held virtually online via the Lumi platform at https://web.lumiagm.com with meeting ID 336-196-543.

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

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Investor Information

Shareholders requiring information should contact the share registry, or:

Andrew Stedwell
Chief Financial Officer

Telephone: 02 9412 6111

Email: andrew.stedwell@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

RSM Australia

Principal Bankers

ANZ Banking Group Limited
Commerzbank AG
Scottish Pacific Business Finance Pty Ltd

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Substantial shareholders of ordinary shares (as reported to the ASX)

	Number of Shares	% Voting Power
Lindsay Hannan and Sayman Pty Ltd in its capacity as trustee for the Lindsay Hannan Family Trust, Michael Hannan, James Hannan, Richard O'Connor and Adrian O'Connor.	4,431,527,599	43.29%
Are Media Pty Ltd	2,000,000,000	16.38%
Tozer & Co Pty Ltd	1,012,500,000	8.29%
Norfolk Enchants Pty Ltd ATF Trojan Retirement Fund	915,000,000	7.49%

Top Holders (Ungrouped) as at 1 September 2021

		Number of Shares	% of Total Issued
1	Sayman Pty Limited <Lindsay Hannan Family A/C>	2,201,275,796	18.02%
2	Are Media Pty Limited	2,000,000,000	16.38%
3	Tozer & Co Pty Ltd	1,012,500,000	8.29%
4	Norfolk Enchants Pty Ltd <Trojan Retirement Fund A/C>	915,000,000	7.49%
5	Mr James Michael Hannan	567,373,830	4.65%
5	Mr Michael Ashton Hannan	567,373,830	4.65%
7	Mr Richard Ashton Charles O'Connor	549,230,026	4.50%
8	Mr Adrian Thomas O'Connor	546,274,117	4.47%
9	Rathdrum Properties Pty Ltd <Rathdrum Property A/C>	480,000,000	3.93%
10	Wicklow Properties Pty Ltd	375,000,000	3.07%
11	Nine Investments Pty Ltd	330,000,000	2.70%
12	Trafalgar Custodians Pty Ltd	167,020,000	1.37%
13	Sporran Lean Pty Ltd <Sporran Lean S/F A/C>	147,999,999	1.21%
14	Mr Michael Jefferies + Mrs Julie Jefferies <Jefferies Super Fund A/C>	120,000,000	0.98%
15	Mr Jay Evan Dale Hughes <Inkese Family A/C>	65,000,000	0.53%
16	Mrs Elisabeth Fichter	52,500,000	0.43%
17	Beirne Trading Pty Ltd	50,847,572	0.42%
18	Inkese Pty Ltd	50,000,000	0.41%
18	Piama Pty Ltd <Fena Superannutaion Plan A/C>	50,000,000	0.41%
20	Jagsons Pty Ltd <Jaggi Family A/C>	49,938,000	0.41%
	Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (Total)	**10,297,333,170**	**84.32%**
	Total Remaining Holders Balance	**1,915,479,082**	**15.68%**

Distribution of Shareholders as at 1 September 2021

	Number of Shareholders	Number of Shares	% of Issued Capital
1 - 1,000	605	328,167	0.00%
1,001 - 5,000	1,157	3,174,234	0.03%
5,001 - 10,000	283	2,243,878	0.02%
10,001 - 100,000	894	37,829,487	0.31%
100,001 - 9,999,999,999	896	12,169,236,486	99.64%
Total Number	**3,537**	**12,212,812,252**	**100.00%**

Unmarketable Parcels	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.0030 per unit	**166,667**	**3,072**	**61,013,638**

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OVATO

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ovato.com.au