Ovato Limited
(formerly PMP Limited)

ABN 39 050 148 644

Preliminary final report of Ovato Limited
for the year ended 30 June 2019

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

Current reporting period:	Financial year ended 30 June 2019
Previous corresponding period:	Financial year ended 30 June 2018

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

For more information about Ovato Limited, please visit our website at:
www.ovato.com.au

Ovato Limited
ABN 39 050 148 644
Preliminary final report
for the year ending 30 June 2019

Results for announcement to the market

Extracts from this report for announcement to the market.

Change of company name

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

Revenue, EBITDA and net loss

		Percentage Change %		Amount $'000
Sales revenue	up/(down)	(8.8%)	to	669,236
Revenue	up/(down)	(8.9%)	to	679,990
EBITDA (including significant items)	up/(down)	-	to	(32,110)
EBITDA (excluding significant items)	up/(down)	(24.1%)	to	30,847
Net loss after income tax for the year	up/(down)	(92.4%)	to	(84,251)

Dividends (Distributions)

No dividend was declared or paid during the year ended 30 June 2019.

Brief explanation of financial results

FY19 resulted in a statutory loss after tax of $84.3M vs a prior period loss of $43.8M mainly due to higher significant items post tax up $34.9M (due to higher non-cash impairments) and $7.1M lower EBIT (before significant items) from $64.7M lower sales.

For the year ended 30 June 2019, Ovato's sales at $669.2M were down $64.7M or 8.8% after a $59M sales reduction at Ovato Australia with Print revenues down $53.2M. EBITDA (before significant items) at $30.8M is a 24.1% decline year on year mainly due to lower print sell prices at Ovato NZ and lower print and distribution volumes at Ovato Australia.

Ovato Australia sales at $554.9M were down $59.0M or 9.6% on the previous corresponding period ("pcp") mostly from $53.2M lower print sales with $29.0M reductions in property related newspaper titles and magazines. While tier 1 catalogue sales were consistent pcp, tier 2-3 catalogue sales were down $13.0M and catalogue contract losses/cessation were $11.0M. Residential Distribution sales fell 6.3% or $5.4M on lower existing customer volumes on slow retail conditions and a customer loss which impacted second half sales.

Ovato Australia EBITDA (before significant items) at $26.3M was down $3.7M or 12.5% pcp as improved profits at Retail Distribution and Marketing Services were offset by lower outcomes at Print (where lower volumes offset strong cost savings). Residential Distribution profit fell as lower revenues offset lower costs. Retail Distribution had reduced costs, higher price/mix and new products which offset lower volumes.

Ovato NZ sales at $114.3M were down $5.8M or 4.8% with $3.7M lower print sales as volumes fell by 4.0%. Overcapacity in the NZ print market resulted in continued intense pricing pressure on contract renewals. EBITDA (before significant items) at $4.6M was down 57.0% mostly due to lower print sell prices and volumes.

Net cashflow in FY19 at ($12.4M) was better by $0.1M pcp as $5.5M lower cash significant items and $15.1M equity proceeds (net of fees) offset lower EBITDA, higher interest paid and unfavourable working capital movements pcp. Net debt to EBITDA (before significant items) was up from 0.8x to 1.4x. Net debt at June 2019 at $44.7M is in line with revised guidance and up $11.9M vs June 2018.

In FY19, the company issued a new $40M corporate bond for 4 years at 8.25% coupon with second ranked security to replace the previous bond. In addition, a $15.5M equity rights issue took place in May 2019 and June 2019 to strengthen the balance sheet and a new Commerzbank ECA loan was finalised for the new press payments in FY20. This was not drawn at 30 June 2019.

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

Net tangible assets per security	2019 $	2018 $
Net tangible assets per security	0.14	0.34

Details of entities over which control has been gained or lost

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

Information on audit

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

There are no likely disputes or qualifications to the accounts.

Statement of profit or loss and other comprehensive income

Ovato Limited and its controlled entities
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YEAR ENDED 30 JUNE 2019	NOTES	Ovato Group 2019 $'000	2018 $'000
Continuing operations			
Sales revenue	2(a), 9	**669,236**	733,968
Other revenue	2(a), 9	**10,754**	12,527
Raw materials and consumables used		**(257,788)**	(273,486)
Cost of finished goods sold		**(1,475)**	(986)
Employee expenses		**(275,669)**	(303,477)
Outside production services		**(13,417)**	(14,492)
Freight		**(68,807)**	(78,355)
Repairs and maintenance		**(15,203)**	(18,436)
Occupancy costs		**(39,953)**	(35,550)
Other expenses		**(39,788)**	(20,446)
Depreciation and amortisation	2(e), 9	**(28,635)**	(31,276)
Finance costs	3	**(9,046)**	(7,449)
Loss before income tax		**(69,791)**	(37,458)
Income tax expense:			
Current tax benefit in respect of the current period		**15,810**	15,737
Deferred tax expense in respect of the current period		**(30,270)**	(22,074)
Income tax expense	4	**(14,460)**	(6,337)
Net loss after income tax		**(84,251)**	(43,795)
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss:			
Defined benefit plan actuarial (losses)/gains		**(642)**	145
Income tax relating to items that will not be reclassified subsequently		**193**	(44)
		(449)	101
Items that may be reclassified subsequently to profit or loss:			
Exchange gains/(losses) arising on translation of foreign operations		**1,654**	(1,273)
Other		**-**	(4)
(Loss)/Gain on cash flow hedges taken to equity		**(181)**	391
Income tax relating to items that may be reclassified subsequently		**51**	(112)
		1,524	(998)
Other comprehensive income/(expense) for the period (net of tax)		**1,075**	(897)
Total comprehensive loss for the year		**(83,176)**	(44,692)
Basic earnings per share (cents)	10	**(16.0)**	(8.6)
Diluted earnings per share (cents)	10	**(16.0)**	(8.6)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share ('000)	10(a)	**526,955**	509,460
Total significant items	2(b)	**(63,588)**	(39,359)
EBITDA excluding significant items	9(a)	**30,847**	40,626

Statement of financial position

Ovato Limited and its controlled entities
ABN 39 050 148 644

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

Statement of cash flows

Ovato Limited and its controlled entities
ABN 39 050 148 644

YEAR ENDED 30 JUNE 2019	NOTES	Ovato Group 2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		**1,185,560**	1,319,127
Payments to suppliers and employees		**(1,195,496)**	(1,319,473)
Fee paid for early termination of corporate bond	2(b), 3	**(400)**	-
Interest received		**488**	488
Interest and other costs of finance paid		**(9,330)**	(6,171)
Income tax paid		**(45)**	(56)
Net cash flow (used in)/provided by operating activities	11(a)	**(19,223)**	(6,085)
Cash flows from investing activities			
Payments for property, plant and equipment		**(7,796)**	(9,031)
Payments for development and licence costs		**(607)**	(16)
Proceeds from sale of property, plant and equipment		**95**	2,571
Net cash flow (used in)/provided by investing activities		**(8,308)**	(6,476)
Cash flows from financing activities			
Repayment of corporate bond	5(d)	**(40,000)**	-
Proceeds from corporate bond	5(d)	**40,000**	-
Repayments of borrowings		**(15,260)**	(5,550)
Proceeds from borrowings		**11,451**	18,407
Proceeds from issue of shares	6	**15,090**	-
Net cash flow provided by/(used in) financing activities		**11,281**	12,857
Net (decrease)/increase in cash held		**(16,250)**	296
Cash at the beginning of the financial year		**54,418**	54,340
Effects of exchange rate changes on cash		**533**	(218)
Cash and cash equivalents at the end of the financial year	11(b)	**38,701**	54,418

Statement of changes in equity

Ovato Limited and its controlled entities
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YEAR ENDED 30 JUNE 2019

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

The above table represents the Ovato Group position.

~ Cumulative effect of the initial application of *AASB 9 Financial Instruments* on 1 July 2019. Refer to Change in Accounting Policies in Note 1.

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

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

Notes to the financial statements

1 Summary of significant accounting policies

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

The financial report does not include all notes of the type normally included within the annual financial report. As a result it should be read in conjunction with the 30 June 2018 annual financial report of Ovato Limited (formerly PMP Limited) together with any public announcements made by Ovato Limited during the financial year ended 30 June 2019.

Statement of compliance
Compliance with IFRS
The financial statements comply with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that financial statements, comprising the financial statements and notes, thereto comply with International Financial Reporting Standards ('IFRS').

Adoption of new and revised accounting standards

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

- *AASB 9 Financial Instruments* and the relevant amending standards

- *AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions.* Amendments to *AASB 2 Share-based Payment.*

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

Change in segment reporting

The Group applies a 'management approach' to identify its segments, based on the information provided to the Group's chief operating decision-makers. During the financial year the Group changed its internal reporting structure due to a number of changes made to the way the Group sells to its customers by making bundled offers under a rebranded company and revised management structure.

This has resulted in a change to how the Group defines its segments. The Group has combined Marketing Services Australia (includes Retail Distribution and the digital businesses), Residential Distribution Australia, Print Group Australia and Corporate into one discrete segment, Ovato Australia Group. There has been no change to the Ovato New Zealand Group segment. The 2018 comparatives have been restated.

Change in accounting policies

AASB 9 Financial Instruments

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

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

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

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

1 Summary of significant accounting policies (continued)

Change in accounting policies (continued)

AASB 9 Financial Instruments (continued)

The impact on the financial statements is a follows:

i. Classification and measurement of financial assets

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

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

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

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

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

ii. Classification and measurement of financial liabilities

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

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

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

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

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

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

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

1 Summary of significant accounting policies (continued)

Change in accounting policies (continued)

AASB 9 Financial Instruments (continued)

iii. Hedge accounting

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

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

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

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

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

iv. Impairment of financial assets

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

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

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

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

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

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

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

1 Summary of significant accounting policies (continued)

Standards and Interpretations issued not yet adopted

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

AASB 16 Leases

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

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

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

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

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

i. Transition

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

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

ii. Leases in which the Group is lessee

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

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

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

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

- The Group has used hindsight when determining the lease term where the agreement contains options to extend the lease. These have been included when calculating the ROU asset as if AASB 16 has always applied.

1 Summary of significant accounting policies (continued)

Standards and Interpretations issued not yet adopted (continued)

AASB 16 Leases *(continued)*

- Not to bring on to the balance sheet short-term leases (remaining lease term 12 months or less at 1 July 2019 including reasonably certain options to extend). These leases will continue to be expensed directly to the income statement on a straight-line basis.

- The Group will adjust the ROU asset carrying amount by the amount of any existing onerous lease provisions at 1 July 2019. An impairment review must be performed on ROU assets at initial application of the standard. The group has elected to rely on its onerous lease assessments under *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* , as at 30 June 2019 as permitted by AASB 16.

- The Group has elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

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

- Ovato has elected not to record leases, entered into post 1 July 2019, which have a short-term (less than 12 months from lease commencement) or are low-value (fair value of less than $10,000 when new) as a ROU asset and lease liability. The payments for these leases will be expensed on a straight-line basis.

- The Group has elected not to combine lease and non-lease components for property leases. The Group will calculate the lease liability for property leases excluding outgoings. The standalone outgoings price will be determined by separate identification on the rental invoice.

- The Group has excluded from the measurement of the lease liability and ROU asset, variable lease payments linked to future use of the leased item. These costs are expensed to the profit or loss as incurred.

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

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

iv. Estimated impact on adoption of AASB 16

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

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

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

1 Summary of significant accounting policies (continued)

Critical accounting estimates, assumptions and judgements

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

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

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

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

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

While the Ovato Australia business unit impairment analysis shows a surplus which is lower than at 30 June 2018, the Directors estimate, that if forecast EBITDA reflected in the model were to decrease by 10%, it could result in the aggregate carrying value of this cash generating unit exceeding the recoverable amount in the range of approximately $10 million to $15 million. This model includes benefits from the new Manroland press from late 2019 onwards. In addition, the company will continue to respond to lower volumes by addressing the fixed cost base as applicable.

Refer to the Annual Report of Ovato Limited as at 30 June 2019 for further details of these assumptions.

(ii) Deferred tax assets

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

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

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

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

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

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

(iii) Fair value measurement and valuation process

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

Details of the inputs to the fair value of financial instruments are included in Note 12.

Notes to the financial statements

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

		2019 $'000	2018 $'000
2b Significant items			
Included in net loss after income tax are the following significant items of income and expense:			
Net loss/(gain) on disposal of plant and equipment		**749**	(1,904)
Restructure initiatives and other one-off costs		**24,689**	27,015
Onerous leases and make good provisions		**14,483**	9,614
Relocation of presses		**5,019**	5,502
Impairment/(reversal) of plant and equipment due to restructure initiatives	2(c), 9(b)	**18,017**	(868)
Fee paid for early termination of corporate bond	3	**400**	-
Write off of prepaid financing costs	3	**231**	-
Aggregate significant items (included in loss before interest and tax)		**63,588**	39,359
Tax benefit associated with significant items		**18,733**	11,581
Adjustment of prior year losses not recognised to actual		**(270)**	(217)
Tax losses not brought to account		**(14,912)**	(16,935)
Impairment of deferred tax asset		**(19,821)**	-
Tax expense		**(16,270)**	(5,571)

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

		2019	2018
Other revenue	- Net gain on sale of equipment	**-**	(1,904)
Raw materials and consumables used		**782**	68
Cost of finished goods sold		**-**	431
Employee expenses		**20,540**	23,749
Freight		**447**	993
Repairs and maintenance		**186**	229
Occupancy costs		**14,483**	9,614
Other expenses	- Impairment/(reversal of impairment)	**18,017**	(868)
	- Legal and professional fees	**2,291**	1,378
	- Relocation of presses	**5,019**	5,502
	- Net loss on disposal of plant and equipment	**749**	-
	- Other expenses	**443**	167
Finance costs		**631**	-
		63,588	39,359

YEAR ENDED 30 JUNE 2019		NOTES	Ovato Group 2019 $'000	2018 $'000
2c Loss before income tax				
Loss before income tax is arrived at after charging/(crediting) the following items:				
Lease rental expenses - operating leases			**44,070**	38,990
Share-based payment plans		7	**15**	83
Net loss/(gain) on disposal of plant and equipment			**775**	(1,961)
Impairment/(reversal) of plant and equipment		2(b)	**18,017**	(868)
Net remeasurement of expected credit loss allowance			**89**	283

		2019 $	2018 $
2d Auditors' remuneration			
Auditing the accounts			
Chief entity auditors:	Deloitte Touche Tohmatsu	**514,129**	494,615
Other services			
Deloitte Touche Tohmatsu:	Taxation and related advisory services	**204,960**	174,401
Total auditors' remuneration		**719,089**	669,016

	2019 $'000	2018 $'000
2e Depreciation and amortisation		
Depreciation		
Leasehold improvements	**1,165**	969
Plant and equipment	**26,945**	29,727
Total depreciation	**28,110**	30,696
Amortisation		
Development and licence costs	**525**	580
Total amortisation	**525**	580
Total depreciation and amortisation	**28,635**	31,276

		2019 $'000	2018 $'000
3 Finance costs			
Interest expense			
Bank loans and overdraft		**7,179**	6,784
Unwind of discount on long term onerous lease and make good provisions		**1,236**	665
Total interest expense		**8,415**	7,449
Fee paid for early termination of corporate bond	2(b)	**400**	-
Write off of prepaid financing costs	2(b)	**231**	-
Total finance costs		**9,046**	7,449
Interest income	2(a)	**(487)**	(490)
Net finance costs		**8,559**	6,959

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

(b) Deferred tax assets and deferred tax liabilities

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

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

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

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

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

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

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

The benefit of these revenue losses has not been brought to account as realisation is not probable. Refer to Note 1 for further details. In addition, capital losses are only able to be used against capital gains and so are not recognised until used in any tax year. The revenue losses above have increased substantially in the current year due to the impairment of the deferred tax asset therefore increasing tax losses not recognised (in addition to the current year loss not recognised).

YEAR ENDED 30 JUNE 2019		Ovato Group 2019 $'000	2018 $'000
5 Interest bearing liabilities			
(a) Current interest bearing liabilities			
Secured			
Bank loans - Working Capital Facility:	Australian dollars	**-**	10,000
Bank loans - repayable in:	Euros*	**3,230**	3,138
Equipment Financing:	Australian dollars	**1,409**	2,819
Receivables Financing:	Australian dollars	**34,556**	23,233
Other			
Other:	Australian dollars	**1,314**	1,186
Prepaid finance costs		**(774)**	(477)
Total current interest bearing liabilities		**39,735**	39,899
(b) Non-current interest bearing liabilities			
Secured			
Bank loans - repayable in:	Euros*	**4,846**	7,844
Equipment Financing:	Australian dollars	**-**	1,409
Corporate bond:	Australian dollars	**40,000**	-
Unsecured			
Corporate bond:	Australian dollars	**-**	40,000
Other			
Prepaid finance costs		**(1,603)**	(466)
Total non-current interest bearing liabilities		**43,243**	48,787

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

(c) Interest bearing liabilities - facility details

Facility details:	Facility $'000s	Drawn $'000s	Available $'000s
2019			
Secured			
Overdraft facility	**9,788**	**-**	**9,788**
Export finance facility *	**8,076**	**8,076**	**-**
Equipment Financing Facility	**1,409**	**1,409**	**-**
Receivables Financing Facility	**40,000**	**34,556**	**5,444**
Corporate Bond	**40,000**	**40,000**	**-**
Unsecured			
Other	**1,314**	**1,314**	**-**
Total facilities	**100,587**	**85,355**	**15,232**
2018			
Secured			
Overdraft facility	9,591	-	9,591
Export finance facility *	10,982	10,982	-
Equipment Financing Facility	4,228	4,228	-
Receivables Financing Facility	40,000	23,233	16,767
Working Capital Facility	10,000	10,000	-
Unsecured			
Corporate Bond	40,000	40,000	-
Other	1,186	1,186	-
Total facilities	115,987	89,629	26,358

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

Notes to the financial statements

5 Interest bearing liabilities (continued)

(d) Terms and conditions

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

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

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

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

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

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

(e) Net debt

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

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

Notes to the financial statements

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5 Interest bearing liabilities (continued)

(f) Reconciliation of liabilities arising from financing activities

	NOTES	2018 $000	Cash flows $000	Non-cash changes: Other $000	Non-cash changes: Foreign Exchange Movement $000	Non-cash changes: Fair Value Changes $000	2019 $000
Corporate Bond	5(b)	**40,000**	**-**	**-**	**-**	**-**	**40,000**
Bank Loans - Working Capital	5(a)	**10,000**	**(10,000)**	**-**	**-**	**-**	**-**
Bank Loans - EUR	5(a) & 5(b)	**10,982**	**(2,441)**	**-**	**(465)**	**-**	**8,076**
Equipment Financing	5(a) & 5(b)	**4,228**	**(2,819)**	**-**	**-**	**-**	**1,409**
Receivables Financing	5(a)	**23,233**	**11,323**	**-**	**-**	**-**	**34,556**
Other	5(a)	**1,186**	**128**	**-**	**-**	**-**	**1,314**
Total current & non-current interest bearing liabilities [#]		**89,629**	**(3,809)**	**-**	**(465)**	**-**	**85,355**
Asset held to hedge long-term borrowings [##]	12	**(2,252)**	**-**	**-**	**-**	**353**	**(1,899)**
Total liabilities from financing activities		**87,377**	**(3,809)**	**-**	**(465)**	**353**	**83,456**

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

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

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

6 Contributed equity

Issued and paid up capital

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

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

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

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

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

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

7 Reserves

	NOTES	**Ovato Group 2019 $'000**	Ovato Group 2018 $'000
Foreign currency translation reserve			
Opening balance		**9,877**	11,150
Movement in reserve relating to:			
- Exchange fluctuation on translation of overseas controlled entities		**1,654**	(1,273)
Total foreign currency translation reserve		**11,531**	9,877
Share-based payment reserve			
Opening balance		**257**	849
Movement in reserve relating to:			
- Share-based payment expense	2(c)	**15**	83
- Transfer to retained earnings		**(272)**	-
- Issue of shares on exercise		**-**	(675)
Total share-based payment reserve		**-**	257
Cash flow hedge reserve			
Opening balance		**302**	23
Movement in reserve relating to:			
- Cash flow hedge		**(181)**	391
- Tax effect of cash flow hedge		**51**	(112)
Total cash flow hedge reserve		**172**	302
Total reserves		**11,703**	10,436

8 Dividends

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

9 Segmental information

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

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

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

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

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

Segment revenue and results

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

(a) Operational and Geographic Segments

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

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

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

YEAR ENDED 30 JUNE 2019

9 Segmental information (continued)

(b) Significant items by Operational and Geographical segments

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

10 Earnings per share

	2019 Number '000	2018 Number '000
(a) Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**526,955**	509,460

(b) Earnings

	2019 $'000	2018 $'000
Net loss after income tax	**(84,251)**	(43,795)
Loss used in calculating basic and diluted earnings per share	**(84,251)**	(43,795)

YEAR ENDED 30 JUNE 2019		NOTES	Ovato Group 2019 $'000	2018 $'000
11 Cash flow statement notes				
(a) Reconciliation of cash flow from operating activities to operating loss after income tax				
Operating loss after income tax			**(84,251)**	(43,795)
Adjustments for non-cash items:				
Depreciation		2(e)	**28,110**	30,696
Amortisation		2(e)	**525**	580
Impairment/(reversal) of plant and equipment		2(b), 2(c)	**18,017**	(868)
(Credit)/provision for doubtful debts/bad debts written off			**(69)**	(44)
Movement in provision for tax			**3**	(24)
Net loss/(gain) on disposal of plant and equipment		2(c)	**775**	(1,961)
Share-based payment plans		2(c), 7	**15**	83
Non-cash superannuation expense			**117**	147
Other non-cash items			**(761)**	(879)
Change in assets and liabilities:				
Accounts receivable	Decrease		**10,211**	25,400
Inventories	Decrease		**2,323**	1,815
Liabilities	(Decrease)		**(9,217)**	(19,760)
Non-current assets	Decrease		**14,151**	4,304
Provision for employee benefits	(Decrease)		**(582)**	(2,195)
Prepayments	Decrease		**1,410**	416
Net cash flow (used in)/provided from operating activities			**(19,223)**	(6,085)

(b) Reconciliation of cash and cash equivalents

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

	Ovato Group 2019 $'000	2018 $'000
Cash and cash equivalents	**38,701**	54,418
Total cash and cash equivalents	**38,701**	54,418

12 Fair value measurement of financial instruments

The fair value measurement principles adopted in this report are consistent with those applied in the Ovato Limited (formerly PMP Limited) Annual Report for the year ended 30 June 2018.

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

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 30 June 2019			
	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	**-**	**369**	**-**	**369**
Cross Currency Swaps	**-**	**1,899**	**-**	**1,899**
Total financial derivatives	**-**	**2,268**	**-**	**2,268**

	As at 30 June 2018			
	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	-	865	-	865
Cross Currency Swaps	-	2,252	-	2,252
Total financial derivatives	-	3,117	-	3,117

13 Contingent liabilities

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

The Company:

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

Related bodies corporate:

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

- Wholly owned entities in the Ovato Group have provided guarantees to banks, in respect of debt and foreign currency management.

- Entities in the Ovato Group contribute to a number of defined benefit superannuation funds and have undertaken to contribute annually such amounts as the actuaries consider necessary to secure the rights of members.

14 Subsequent events

Other than the refinancing arrangements as set out in Note 5 (d), the Directors are not aware of any matters or circumstance arising since balance date not otherwise dealt with in this report or the financial statements, that has significantly affected or may significantly affect the operations of the Ovato Group, the results of those operations or the state of affairs of the Ovato Group in subsequent years.