



ANNUAL
REPORT

2018

SDI

YOUR SMILE. OUR VISION.

Innovating
Dentistry for
better health.

**Pioneering
and driving
the science
of Dentistry.**

SDI's products are a combination of innovation and excellence to provide the ideal restorative materials for the dental profession.

SEPTEMBER 2018

ESTABLISHED 1972

SDI Limited

ABN 27 008 075 581

Annual Report - 30 June 2018

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Dear Shareholders,

On behalf of the Board of Directors of SDI Limited, it is my pleasure to present SDI Limited's Annual Report for the financial year ended 30 June 2018.

As Chairman, I am pleased with the results for the financial year, and in particular, with the strong second-half result showing the Company has returned to growth. The fundamentals of SDI are strong, with the Company having now transformed into an Aesthetics and Whitening business, with over two-thirds of sales coming from non-Amalgam products.

SDI is proud to be an Australian manufacturer, exporting around 90% of its products to over 100 countries. In constant currency terms our business continues to see strong growth in Aesthetics and Whitening products, which more than offset the decline in Amalgam products. The Company has a strong management team, generates strong cash flows, has no net debt and is well placed to capitalise on future opportunities. Reflective of this, the Board, with its continued confidence in the underlying strength of the business, has increased the dividends to shareholders.

Over the years, SDI has faced many challenges in its global business, such as currency fluctuations, volatile commodity prices and variable economic environments in many of the countries it operates in. The strong fundamentals of the Company built on continual investment in research and development, including patents and trademarks, and its global distribution network, has underpinned successful management of these challenges and has laid the foundations to ensure delivery of solid returns well into the future.

SDI is driven by its values of passion, accountability, respect, teamwork and innovation which are vital to the future growth of the Company. It is a credit to the Management who have adopted these values to build this great Australian company which is now positioned to address future challenges and embrace potential opportunities.

In closing, I wish to acknowledge the contribution made by the Board who have served with distinction by advising, encouraging and assisting Management. Additionally, I wish to express my appreciation to the managers and all the staff for their tremendous efforts. SDI is a great Australian manufacturing and exporting company, and we are very confident of continued growth in the business and rewards for shareholders.

Thank you for your ongoing support.



Jeffery Cheetham, OAM
Chairman

25 September 2018
Melbourne

Financial year 2018 ('FY18') was truly a year of two halves. In the first-half, we experienced a deterioration in the market for our Amalgam products causing sales and profits to dip. In the second-half, we returned to growth through increased sales of Aesthetics and Whitening products which more than offset the lower Amalgam sales. While Amalgam remains an important and profitable component for SDI, it now represents a smaller part of our business accounting for 26% of sales in FY18.

Net profit after tax ('NPAT') was up 1.5% to \$5.7 million, with the second-half NPAT up strongly, growing 27% on prior corresponding period. Non-amalgam sales grew 8.6% at a higher pace than the overall market indicating market share is being gained. We have implemented an ongoing focus on efficiency through LEAN manufacturing process. Improved efficiency in manufacturing and distribution together with product mix changes has lifted product margins to 61.1% up from 60.0% in the prior year.

Our aesthetic sales increased 10.5% during the year, in all key markets around the world. Our tooth whitening sales were up 2% for the year but grew at a rate of 5% in the second-half.

Our tooth coloured restoratives give us the highest margins and Pola is well recognised around the world as a key player in the tooth whitening market. Four new products in these categories will be released at the International Dental Show in Germany in March 2019, the largest trade show for the industry.

Going forward, we will see a shifting of the research expenditure from development to innovation, particularly focused on amalgam alternatives, whilst retaining our commitment to release 1-2 new products per annum. We will concentrate on our key strategic priorities of high product quality, a very focused product portfolio and, increase our innovation and speed to market through new product development.

SDI's commitment to new product development and product improvement have been a feature of its longevity as a specialist in the dental restoratives field and we are very encouraged with the Federal Drug Administration ('FDA') approval in the United States of America and Health Canada approval for Riva Star. As more studies promote the benefits of Riva Star and as it gains acceptance amongst dental professionals we expect that Riva Star will become a key product in our portfolio and one that will reduce public dental health costs with better patient outcomes.

The Company is in a strong financial position with net cash of \$6.0 million as at 30 June 2018. This strong position enables us to invest in product development and more efficient machines. As a reflection of the Board's confidence for the future, dividends for the year were up 8.7% or 2.5 cents per share and debt was further reduced by \$1.9 million.

Our management is strong and our teams around the world are dedicated, knowledgeable and experienced. SDI is no longer just an amalgam company and has been evolving to be a well-recognised dental innovator. We are very motivated and have a solid pathway to long-term sustainable growth.



Samantha Cheetham
Managing Director

25 September 2018
Melbourne

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of SDI Limited (referred to hereafter as the 'Company', 'SDI' or 'parent entity') and the entities it controlled at the end of, or during, the financial year ended 30 June 2018.

Directors

The following persons were Directors of SDI Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Jeffery James Cheetham OAM - Chairman
 Samantha Jane Cheetham
 John Joseph Slaviero
 Dr Geoffrey Macdonald Knight
 Gerald Allan Bullon
 Cameron Neil Allen
 Gerard Desmond Kennedy

Alternate Director

Pamela Joy Cheetham (alternate for Jeffery James Cheetham)

Principal activities

During the financial year the principal activities of the consolidated entity consisted of the manufacture and distribution of dental restorative materials, whitening systems, other dental materials and product research and development.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Final dividend for the year ended 30 June 2017 of 1.3 cents (2016: 1.2 cents) per ordinary share	1,545	1,426
Interim dividend for the year ended 30 June 2018 of 1.1 cents (2017: 1.0 cents) per ordinary share	1,308	1,189
	<u>2,853</u>	<u>2,615</u>

On 20 August 2018, the Directors declared a final franked dividend of 1.4 cents per share to be paid on 21 September 2018. This equates to a total estimated distribution of \$1,664,000, based on the number of ordinary shares on issue as at 30 June 2018. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2018 financial statements and will be recognised in subsequent financial reports.

Total dividends for the 2018 financial year increased by 8.7% to 2.5 cents compared to 2.3 cents in the previous year. The Directors decided that the Company's Dividend Reinvestment Plan ('DRP') will not be offered to Shareholders for this dividend payment.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$5,661,000 (30 June 2017: \$5,576,000).

Highlights of the results from operations for the financial year ended 30 June 2018 are provided below:

Net profit after tax increased by 1.5% to \$5,661,000 compared to \$5,576,000 for the previous year. Profit before tax decreased by 0.6% to \$8,145,000 compared to \$8,191,000 for the previous year. Net currency movements had no material impact on the profit result.

Earnings per share for the year ended 30 June 2018 increased by 0.07 cents to 4.76 cents compared to 4.69 cents for the same period last year.

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for specific items.

The following table summarises key reconciling items between statutory profit after tax and EBITDA:

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit after tax	5,661	5,576
Add: taxation	2,484	2,615
Add: interest expense	163	219
Less: interest income	(28)	(9)
Add: depreciation and amortisation	3,868	4,094
	<u>12,148</u>	<u>12,495</u>
EBITDA	<u>12,148</u>	<u>12,495</u>

Sales reported in Australian dollars increased by 0.6% to \$74,535,000 for the current year compared to \$74,066,000 for the corresponding period last year. SDI exports approximately 90% of its products and when adjusted for currency movements, sales increased by 0.6%.

In local currencies, Australian sales including direct exports (excluding inter-company sales) increased by 4.9%. After allowing for the redirection of Brazilian export sales to Australia, sales increased by 0.2%. These exports include the price competitive markets of Latin America, Africa, and Asia where Amalgam represents 19.7% of sales.

SDI North America's sales decreased 1.7% in local currency. The ongoing restructuring of a major distributor has negatively impacted sales in this market.

Sales in SDI Europe increased by 0.6% in local currency. This result was impacted by the lower sales from its export markets driven by the Turkish market, and the continual decline of Amalgam sales.

Brazilian sales decreased by 9.0% in local currency. After allowing for the redirection of its export sales to Australia, Brazilian domestic sales increased by 0.8%. SDI Brazil continues to expand its packing operations, with the view of eventually manufacturing some product lines. This will reduce the cost of imports and will lead to a more aggressive pricing model to compete with local manufacturers.

Aesthetics sales performed strongly, up 9.3% in local currency, offset by the continuing trend of declining Amalgam sales, down 12.7% in local currency, which represented 26.1% of the Company's total sales.

Total product margins increased by 1.1% to 61.1%, compared to 60.0% for the corresponding period last year. This was primarily due to product and market sales mix, and costs savings through the continual implementation of efficiencies in the Australian manufacturing plant.

Total operating expenses in Australian dollars increased by 3.2% when compared to the previous year. Approximately 54% of SDI's total operating expenses relate to its offshore subsidiaries and are subject to currency movements when reporting in Australian dollars. When adjusted for currency movements, expenses increased by 2.1%.

The Company's total cash holdings for the financial year increased by \$2,492,000 after decreasing debt by \$1,923,000 and decreasing inventories by \$2,577,000, highlighting continued improvements in inventory management due to improved manufacturing processes and higher than expected sales for May and June. Expenditure on property, plant and equipment decreased by \$854,000 as 2017 included \$677,000 relating to the purchase of adjoining land. Capitalised product development expenditure, including development work in progress decreased by \$442,000 while product research activities expensed in profit or loss increased by \$332,000.

SDI has a Risk Management Framework that is reviewed annually by the Audit Committee. The Risk Management Process that underlies this Framework sets a process for identifying, assessing, evaluating and monitoring SDI's key risks, primarily achieved via internal six-monthly Risk Workshops. Material business risks that could have an adverse impact on SDI's future financial prospects include the following:

Sales of Amalgam products Amalgam sales currently represent approximately 26% of total sales and continues to show a decreasing sales trend as markets are moving to Aesthetic products. SDI has existing strategies and controls in place to increase the Company's focus on replacement products, but also to continue to promote its Amalgam products to lower socio-economic markets.

Foreign exchange risk SDI exports approximately 90% of its products which are invoiced in various foreign currencies. The foreign currency exchange exposure is partially offset as SDI incurs approximately 54% of its operating expenses in foreign currencies. In addition to this, where possible the Company purchases raw materials in foreign currencies to further increase its natural hedge. Hedging instruments are considered when net foreign currency cash flows are in surplus.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations has been included, where applicable, in the 'Review of operations' section above.

Environmental regulation

The consolidated entity holds licences issued by the Environmental Protection Authority, which specify limits for discharges to the environment arising from the consolidated entity's operations. These licences regulate the management of discharges to the air and stormwater run-off associated with the manufacturing operations as well as the storage of hazardous materials. The Directors are not aware of any breaches of the licence conditions during the year ended 30 June 2018 and up to the date of this report.

Information on Directors

Name: Jeffery James Cheetham OAM
Title: Chairman (from 1 July 2017) (Former Executive Chairman)
Experience and expertise: Founder of SDI Limited.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chairman of the SDI Limited Board
Interests in shares: 5 ordinary shares held directly and 54,470,242 ordinary shares held indirectly

Name: Samantha Jane Cheetham
Title: Managing Director and Chief Executive Officer
Qualifications: Bachelor of Business (Banking and Finance), Master of Business Administration
Experience and expertise: Extensive experience in sales and marketing in Australia and overseas
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Responsible for marketing and sales activities of the consolidated entity
Interests in shares: 333,565 ordinary shares held directly and 25,708 ordinary shares held indirectly

Name: John Joseph Slaviero
Title: Executive Director, Chief Operating Officer, Chief Financial Officer and Company Secretary
Qualifications: Bachelor of Business, Certified Practising Accountant, Fellow of the Association of Taxation and Management Accountants
Experience and expertise: John has been the Chief Financial Officer and Company Secretary of SDI Limited since 2002 and has extensive finance and accounting experience in both the commercial and professional fields. Much of this experience was gained from working in senior finance and accounting roles in large multinational and medium size manufacturing companies
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Company Secretary
Interests in shares: 2,689 ordinary shares held directly

Name: Dr Geoffrey Macdonald Knight
Title: Non-Executive Director
Qualifications: Bachelor of Dental Science, Master of Business Administration, Master of Science (London University), Doctor of Philosophy (Adelaide University)
Experience and expertise: Geoffrey is an experienced and world recognised dental scientist as well as a practicing dentist. He has published numerous technical dentistry papers both locally and internationally and has held senior positions with the Australian Dental Association (Victorian Branch), Australian Society of Periodontology (Victorian Branch), Australian Society of Dental Aesthetics, the Society of Occlusal Studies and other professional groups
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit Committee and member of the Remuneration Committee
Interests in shares: 165,516 ordinary shares held directly and 1,215,790 ordinary shares held indirectly

Name: Gerald Allan Bullon
Title: Non-Executive Director
Qualifications: Fellow of the Australian Institute of Company Directors
Experience and expertise: Gerald has managed his own Investor Relations consultancy firm, Insor Pty Ltd, since 1996. He has been involved with several ASX initial public offerings including Australian Hospital Care Limited, Sigma Pharmaceuticals Limited and Nick Scali Limited. He has also held senior executive roles in a number of public companies
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit Committee and Chairman of the Remuneration Committee
Interests in shares: 272,716 ordinary shares held indirectly

Name: Cameron Neil Allen
Title: Non-Executive Director
Qualifications: Master of Taxation (University of Melbourne), Bachelor of Business (Accounting) (Deakin University), Chartered Tax Adviser and Member of The Tax Institute (Australia)
Experience and expertise: Cameron is currently the Managing Partner of A&A Tax Legal Consulting (formerly WTS Australia), which he established in 2010. A&A is a founding member firm of the FTI Consulting Global Tax Network. Prior to A&A, Cameron was a tax partner at Deloitte Touche Tohmatsu and BDO, as well as holding a senior role at Ernst & Young. He has over 25 years' experience in advising large and small corporate organisations on domestic and international taxation and 'best practice' processes. In addition to his extensive career, Cameron also sits on the global board of FTI Consulting Global Tax Network which coordinates its network activities in over 100 countries
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chairman of the Audit Committee and member of the Remuneration Committee
Interests in shares: None

Name: Gerard Desmond Kennedy
Title: Non-Executive Director
Qualifications: Law Institute of Victoria Accredited Business Law Specialist, Barrister and Solicitor of the Supreme Court of Victoria and the High Court of Australia, Postgraduate Diploma in Commercial Law (Monash University) majoring in International Trade Law and International Banking and Finance Law, Notary Public and a Member of the Victorian Lawyers RPA Ltd
Experience and expertise: Gerard is a Special Council in the Law firm of Macpherson and Kelley Lawyers and has spent many years in advising clients on matters of mergers and acquisitions, contract, licensing, joint ventures, tenders, corporate governance and compliance, Corporation law and international trade
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit Committee and member of the Remuneration Committee
Interests in shares: 65,000 ordinary shares held directly

Name: Pamela Joy Cheetham
Title: Alternate Director for Jeffery James Cheetham
Experience and expertise: Co-founder of SDI Limited
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: Co-holder of shares shown for Jeffery James Cheetham

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company Secretary

John Joseph Slaviero is an Executive Director and Company Secretary. Details of John's experience and expertise are detailed in the 'Information on Directors' section above.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

	Full Board		Remuneration Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Jeffery James Cheetham	7	10	1	1	1	2
Samantha Jane Cheetham	10	10	-	-	-	-
John Joseph Slaviero	10	10	-	-	-	-
Dr Geoffrey Macdonald Knight	9	10	1	1	1	2
Gerald Allan Bullon	10	10	1	1	2	2
Cameron Neil Allen	10	10	1	1	2	2
Gerard Desmond Kennedy	10	10	1	1	2	2

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Remuneration report (audited)

The Remuneration Report, which has been audited, outlines the key management personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purposes of this report, KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional information
- Additional disclosures relating to KMP

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is market competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for delivery of reward.

The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its Directors and executives. The performance of the consolidated entity depends on the quality of its Directors and executives. The remuneration philosophy is to attract, motivate and retain high-performance and high-quality personnel.

The Remuneration Committee has structured an executive remuneration framework based on external remuneration reports that is market competitive and complementary to the reward strategy of the consolidated entity. The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executives on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of Non-Executive Directors and Executive Directors remuneration are separate.

Non-Executive Directors remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, these Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. Non-Executive Directors do not receive share options or other incentives.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 17 November 2017, where the shareholders approved an aggregate maximum remuneration of \$450,000 per annum.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has the following components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- long-term performance incentives; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits are reviewed annually by the Remuneration Committee based on individual responsibilities, the overall performance of the consolidated entity and comparable market remunerations. Executives may receive their fixed remuneration in the form of cash or other fringe benefits.

Consolidated entity performance and link to remuneration

The short-term incentives ('STI') program is designed to link the achievement of the consolidated entity's operational targets with the remuneration received by the executives responsible with meeting those targets.

- A maximum STI value of 10% of each executive's fixed remuneration is granted depending on the extent to which specific targets set at the beginning of the financial year are met.
- STI payments are made if the executive team achieve 95% or greater of budgeted Net Profit After Tax 'NPAT' for the full year, and the executives meet their individual key performance indicators (KPI's) for the full year.
- If the executive team exceeds 100% of budgeted NPAT they may receive an extraordinary payment at the discretion of the Board.
- All STI payments are made in the form of cash.

The aggregate pool of potential STI payments is approved by the Remuneration Committee. The Board, at its discretion, determine whether events which are uncontrollable by management have impacted on the actual earnings and therefore should be excluded from the calculation of NPAT in the year's STI hurdles.

The long-term incentives ('LTI') is designed to align executives and shareholder interests by linking reward with key performance drivers that underpin long term sustainable growth.

- A maximum yearly LTI value of 20% of each executive's fixed remuneration is granted depending on the extent to which specific targets set at the beginning of the financial year are met.
- Once the eligibility criteria has been met and the incentive has been approved, a three-year restriction period is enforceable before the employee can receive the cash payment.
- The cash payment will be indexed by the weighted average share price over twenty-one days prior to the date of eligibility and the date that the restriction period ends (3 years).
- If an executive leaves the Company for any reason apart from retirement or death, all incentives that fall within the restriction period are forfeited.

In determining the eligibility of the LTI, the following is also considered:

- The overall performance of the Company
- The executives must have had at least 6 months employment prior to being eligible.
- The executives must have achieved their individual objectives and complied with the Company's values of passion, accountability, respect, teamwork and innovation for the year.

Once confirmation is received by the Board and the Audit Committee of the results for the relevant reporting period, any proposed executive STI and LTI payments are referred to the Remuneration Committee for final approval prior to any payments being made.

During the financial year the Company did not engage any remuneration consultants.

Voting and comments made at the Company's 2017 Annual General Meeting ('AGM')

At the 2017 AGM, 78.9% of the eligible votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

The KMP of the consolidated entity consisted of the Directors of SDI Limited.

Details of the remuneration of the KMP of the consolidated entity are set out in the following tables:

2018	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Employee benefits	Equity-settled	
	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors:</i>							
Dr G M Knight	54,795	-	-	5,205	-	-	60,000
G A Bullon	63,927	-	-	6,073	-	-	70,000
C N Allen	70,000	-	-	-	-	-	70,000
G D Kennedy	54,795	-	-	5,205	-	-	60,000
J J Cheetham *	150,000	-	-	-	-	-	150,000
<i>Executive Directors:</i>							
S J Cheetham **	436,409	-	34,748	41,459	7,855	-	520,471
J J Slaviero **	383,995	-	39,461	36,480	7,223	-	467,159
	<u>1,213,921</u>	<u>-</u>	<u>74,209</u>	<u>94,422</u>	<u>15,078</u>	<u>-</u>	<u>1,397,630</u>

* On July 1, 2017 Jeffery James Cheetham position changed from Executive Chairman to Chairman of the Board.

** Increase in cash salary is offset by a decrease in short term non-monetary benefits

2017	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus*	Non-monetary	Super-annuation	Employee benefits	Equity-settled	
	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors:</i>							
Dr G M Knight	50,038	-	-	4,754	-	-	54,792
G A Bullon	55,365	-	-	5,260	-	-	60,625
C N Allen	64,792	-	-	-	-	-	64,792
G D Kennedy	50,038	-	-	4,754	-	-	54,792
<i>Executive Directors:</i>							
J J Cheetham	289,231	54,880	105,681	32,691	5,333	-	487,816
S J Cheetham	424,860	37,920	48,165	43,964	7,081	-	561,990
J J Slaviero	373,566	34,130	48,181	38,731	6,449	-	501,057
	<u>1,307,890</u>	<u>126,930</u>	<u>202,027</u>	<u>130,154</u>	<u>18,863</u>	<u>-</u>	<u>1,785,864</u>

* Bonus payments detailed in the table above relate to the prior financial year's performance.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
Dr G M Knight	100%	100%	-	-	-	-
G A Bullon	100%	100%	-	-	-	-
C N Allen	100%	100%	-	-	-	-
G D Kennedy	100%	100%	-	-	-	-
J J Cheetham	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
S J Cheetham	70%	80%	10%	20%	20%	-
J J Slaviero	70%	80%	10%	20%	20%	-

Share-based compensation

Issue of shares

There were no shares issued to Directors and other KMP as part of compensation during the year ended 30 June 2018.

Options

There were no options over ordinary shares issued to Directors and other KMP as part of compensation that were outstanding as at 30 June 2018.

There were no options over ordinary shares granted to or vested by Directors and other KMP as part of compensation during the year ended 30 June 2018.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Sales revenue and other income	74,571	74,166	74,335	68,881	65,444
Profit before income tax	8,145	8,191	11,098	8,700	7,469
Profit after income tax	5,661	5,576	7,566	6,200	6,467

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	0.50	0.58	0.52	0.50	0.43
Total dividends declared (cents per share)	2.50	2.30	2.00	1.40	0.70
Basic earnings per share (cents per share)	4.76	4.69	6.37	5.22	5.44
Diluted earnings per share (cents per share)	4.76	4.69	6.37	5.22	5.44

Additional disclosures relating to KMP

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of KMP of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
J J Cheetham	54,470,247	-	-	-	54,470,247
S J Cheetham	359,273	-	-	-	359,273
J J Slaviero	2,689	-	-	-	2,689
Dr G M Knight	1,381,306	-	-	-	1,381,306
G A Bullon *	252,716	-	-	-	252,716
G D Kennedy **	40,000	-	-	-	40,000
	<u>56,506,231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,506,231</u>

* On 24 August 2018 Mr Bullon purchased an additional 20,000 share increasing his holding from 252,716 shares at 30 June 2018 to 272,716 shares

** On 21 August 2018 Mr Kennedy purchased an additional 25,000 share increasing his holding from 40,000 shares at 30 June 2018 to 65,000 shares

Other transactions with KMP and their related parties

Sale of goods to:

- Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight amounted to \$20,130 (30 June 2017: \$19,197).

Provision of consulting services by:

- A&A Tax Legal Consulting formerly (WTS Australia Consulting Pty Ltd), a company controlled by Director, Cameron Neil Allen amounted to \$13,066 (30 June 2017: \$16,691).
- Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight amounted to \$463 (30 June 2017: \$2,935).
- Director, Dr Geoffrey Macdonald Knight amounted to \$5,739 (30 June 2017: nil).
- Director, Gerard D Kennedy amounted to \$200 (30 June 2017: \$8,606).

Payments for the lease of property owned by Silver Glades Pty Ltd, a company controlled by Director Jeffery James Cheetham amounted to \$90,000 (30 June 2017: \$90,000).

This concludes the remuneration report, which has been audited.

Shares under option

There were no unissued ordinary shares of SDI Limited under option outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of SDI Limited issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Deloitte Touche Tohmatsu

There are no officers of the Company who were former audit partners of Deloitte Touche Tohmatsu. Cameron Neil Allen was a former tax partner of Deloitte Touche Tohmatsu. Refer to 'Information on Directors' for further details.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



Samantha Jane Cheetham
Managing Director

25 September 2018
Melbourne

25 September 2018

The Board of Directors
SDI Limited
5-7 Brunsdon Street
BAYSWATER VIC 3153

Dear Board Members

SDI Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of SDI Limited.

As lead audit partner for the audit of the financial statements of SDI Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Anneke du Toit
Partner
Chartered Accountants

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SDI Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2018



	Note	Consolidated 2018 \$'000	2017 \$'000
Revenue			
Sales revenue		74,535	74,066
Cost of goods sold		<u>(28,966)</u>	<u>(29,625)</u>
Gross profit		<u>45,569</u>	<u>44,441</u>
Other income	5	36	100
Expenses			
Selling and administration expenses		(34,231)	(32,829)
Research and development costs		(1,253)	(921)
Other expenses		(1,813)	(2,381)
Finance costs	6	<u>(163)</u>	<u>(219)</u>
Profit before income tax expense		8,145	8,191
Income tax expense	7	<u>(2,484)</u>	<u>(2,615)</u>
Profit after income tax expense for the year attributable to the owners of SDI Limited		5,661	5,576
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of foreign controlled entities		<u>403</u>	<u>(397)</u>
Other comprehensive income for the year, net of tax		<u>403</u>	<u>(397)</u>
Total comprehensive income for the year attributable to the owners of SDI Limited		<u><u>6,064</u></u>	<u><u>5,179</u></u>
		Cents	Cents
Basic earnings per share	8	4.76	4.69
Diluted earnings per share	8	4.76	4.69

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

	Note	Consolidated 2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents		8,246	5,754
Trade and other receivables	9	16,225	15,451
Inventories	10	14,558	17,135
Prepayments		750	818
Total current assets		<u>39,779</u>	<u>39,158</u>
Non-current assets			
Other receivables	11	885	1,124
Property, plant and equipment	12	17,569	18,121
Intangibles	13	23,657	22,859
Total non-current assets		<u>42,111</u>	<u>42,104</u>
Total assets		<u>81,890</u>	<u>81,262</u>
Liabilities			
Current liabilities			
Trade and other payables	14	3,957	4,551
Borrowings	15	214	1,137
Derivative financial instruments		-	62
Provision for income tax	7	182	248
Employee benefits		3,363	3,506
Total current liabilities		<u>7,716</u>	<u>9,504</u>
Non-current liabilities			
Borrowings	16	2,000	3,000
Deferred tax liability	7	2,437	2,206
Employee benefits		183	209
Total non-current liabilities		<u>4,620</u>	<u>5,415</u>
Total liabilities		<u>12,336</u>	<u>14,919</u>
Net assets		<u>69,554</u>	<u>66,343</u>
Equity			
Issued capital	17	12,890	12,890
Reserves	18	1,166	763
Retained profits		55,498	52,690
Total equity		<u>69,554</u>	<u>66,343</u>

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

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016	12,890	1,160	49,729	63,779
Profit after income tax expense for the year	-	-	5,576	5,576
Other comprehensive income for the year, net of tax	-	(397)	-	(397)
Total comprehensive income for the year	-	(397)	5,576	5,179
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 19)	-	-	(2,615)	(2,615)
Balance at 30 June 2017	<u>12,890</u>	<u>763</u>	<u>52,690</u>	<u>66,343</u>
	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2017	12,890	763	52,690	66,343
Profit after income tax expense for the year	-	-	5,661	5,661
Other comprehensive income for the year, net of tax	-	403	-	403
Total comprehensive income for the year	-	403	5,661	6,064
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 19)	-	-	(2,853)	(2,853)
Balance at 30 June 2018	<u>12,890</u>	<u>1,166</u>	<u>55,498</u>	<u>69,554</u>

	Note	Consolidated 2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		74,000	73,110
Payments to suppliers and employees		<u>(60,264)</u>	<u>(60,454)</u>
		13,736	12,656
Other revenue		36	100
Interest and other finance costs paid		(163)	(219)
Income taxes paid		<u>(2,319)</u>	<u>(3,165)</u>
Net cash from operating activities	27	<u>11,290</u>	<u>9,372</u>
Cash flows from investing activities			
Payments for property, plant and equipment	12	(1,824)	(2,678)
Payments for intangibles	13	(2,346)	(2,920)
Proceeds from disposal of property, plant and equipment		<u>43</u>	<u>275</u>
Net cash used in investing activities		<u>(4,127)</u>	<u>(5,323)</u>
Cash flows from financing activities			
Proceeds from borrowings		78	346
Dividends paid	19	(2,853)	(2,615)
Repayment of borrowings		<u>(2,001)</u>	<u>(1,939)</u>
Net cash used in financing activities		<u>(4,776)</u>	<u>(4,208)</u>
Net (decrease)/increase in cash and cash equivalents		2,387	(159)
Cash and cash equivalents at the beginning of the financial year		5,754	6,001
Effects of exchange rate changes on cash and cash equivalents		<u>105</u>	<u>(88)</u>
Cash and cash equivalents at the end of the financial year		<u><u>8,246</u></u>	<u><u>5,754</u></u>

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

Note 1. General information

The financial statements cover SDI Limited as a consolidated entity comprising of SDI Limited ('Company' or 'parent entity') and its subsidiaries (collectively referred to as the 'consolidated entity'). The financial statements are presented in Australian dollars, which is SDI Limited's functional and presentation currency.

SDI Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

5 - 9 Brunson Street
Bayswater VIC 3153

Principal place of business

3 - 15 Brunson Street
Bayswater VIC 3153

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 25 September 2018. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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 and amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all new and amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

New and amended Accounting Standards or Interpretations that are not yet mandatory and have not been early adopted by the consolidated entity are disclosed in note 29.

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 derivative financial instruments which are measured at fair value.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 30.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SDI Limited as at 30 June 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 consolidated entity. They are de-consolidated from the date that control ceases.

Note 2. Significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity 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 consolidated entity.

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 consolidated entity 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 consolidated entity 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 SDI Limited's functional and presentation currency. The functional currencies of foreign operations are the currencies where they operate, being Euro, United States dollar, Brazilian real and New Zealand dollar.

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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sales revenue

Sales revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Research and development expense

Expenditure during the research phase of a project is expensed to profit or loss when incurred. Expenditure incurred in the development phase of a project is capitalised as an intangible asset when the criteria for capitalisation has been satisfied (refer to accounting policy for intangible assets). Development costs are expensed to profit or loss when it cannot be demonstrated that it is probable that the expenditure results in the control of future economic benefits.

Current and non-current classification

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

Note 2. Significant accounting policies (continued)

An asset is current when it is expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading if 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 current when it is expected to be settled in the consolidated entity'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.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to the particular risk associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

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.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Note 2. Significant accounting policies (continued)

Impairment of non-financial assets

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.

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.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date is measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave, long service leave and other long term employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) 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.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or related dentistry techniques. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated, whereas technically obsolete or non-strategic assets that have been abandoned or sold are impaired or written down.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Impairment of finite life non-financial assets

The consolidated entity assesses impairment of finite life non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Capitalisation of development costs

Expenditure incurred on the development phase of the consolidated entity's research projects are capitalised as intangible assets when the recognition criteria detailed in the accounting policy for intangible assets has been met. Significant judgement is involved in assessing whether the carrying value of such assets can be recovered through subsequent commercialisation and involves consideration as to the ability to patent or trademark the intellectual property and successfully market related products in a competitive market. The carrying values of such assets are continually reviewed for indicators of impairment which also requires judgement.

Note 4. Operating segments

Identification of reportable operating segments

The consolidated entity's operations consist of the manufacture of dental restorative products, tooth whitening systems and small dental equipment for sale to dental distributors, dental dealers and dentists worldwide.

Operating segments are determined using the 'management approach', where the information presented is on the same basis as the internal reports reviewed by the Board of Directors (identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The consolidated entity comprises four separate reportable operating segments which are primarily identified on the basis of subsidiary companies in different geographical markets.

Reportable segments

The consolidated entity's reportable segments are as follows:

Australia:	SDI Limited
Europe:	SDI Germany GmbH (Germany)
USA:	SDI (North America), Inc.
Brazil:	SDI Brasil Industria e Comercio Ltda

SDI New Zealand Limited's segment result has been included under other segments as the results were judged as being immaterial for separate inclusion in the segment report.

Intersegment transactions

The segment revenues, expenses and results include transfers between segments. The pricing of the intersegment transactions is based on cost plus an appropriate mark-up, which reflects market conditions of the segment into which the sales are made. These transfers are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

The consolidated entity has a number of customers to whom it sells products. No single customer represents 10% or more of the consolidated entity's revenue.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 2018	Australia \$'000	Europe \$'000	USA \$'000	Brazil \$'000	Other segments \$'000	Total \$'000
Revenue						
Sales to external customers	26,067	24,750	17,980	5,637	101	74,535
Intersegment sales	21,386	-	-	47	-	21,433
Total sales revenue	47,453	24,750	17,980	5,684	101	95,968
Total segment revenue	47,453	24,750	17,980	5,684	101	95,968
Intersegment eliminations						(21,433)
Total revenue						74,535
Segment results before tax						
Intersegment eliminations	10,510	806	598	(289)	33	11,658
Depreciation and amortisation	490	-	-	-	-	490
Interest revenue	(3,636)	(64)	(59)	(101)	(8)	(3,868)
Finance costs	1	-	-	27	-	28
	(160)	-	-	(3)	-	(163)
Profit/(loss) before income tax expense	7,205	742	539	(366)	25	8,145
Income tax expense						(2,484)
Profit after income tax expense						5,661
Assets						
Segment assets	78,160	7,657	7,608	6,469	84	99,978
Intersegment eliminations						(18,088)
Total assets						81,890
Liabilities						
Segment liabilities	11,214	5,403	1,539	6,800	580	25,536
Intersegment eliminations						(13,200)
Total liabilities						12,336

Note 4. Operating segments (continued)

Consolidated - 2017	Australia \$'000	Europe \$'000	USA \$'000	Brazil \$'000	Other segments \$'000	Total \$'000
Revenue						
Sales to external customers	25,330	23,156	18,851	6,632	97	74,066
Intersegment sales	23,744	-	-	-	-	23,744
Total sales revenue	49,074	23,156	18,851	6,632	97	97,810
Total segment revenue	49,074	23,156	18,851	6,632	97	97,810
Intersegment eliminations						(23,744)
Total revenue						74,066
Segment results before tax						
Intersegment eliminations	13,469	863	618	(57)	(100)	14,793
Depreciation and amortisation	(2,298)	-	-	-	-	(2,298)
Interest revenue	(3,723)	(211)	(52)	(103)	(5)	(4,094)
Finance costs	1	-	-	8	-	9
	(214)	-	-	(5)	-	(219)
Profit/(loss) before income tax expense	7,235	652	566	(157)	(105)	8,191
Income tax expense						(2,615)
Profit after income tax expense						5,576
Assets						
Segment assets	78,088	8,493	7,542	8,087	112	102,322
Intersegment eliminations						(21,060)
Total assets						81,262
Liabilities						
Segment liabilities	13,123	6,853	2,035	8,088	652	30,751
Intersegment eliminations						(15,832)
Total liabilities						14,919

Note 5. Other income

	Consolidated	
	2018 \$'000	2017 \$'000
Interest revenue	28	9
Other income	8	91
Other income	36	100

Note 6. Expenses

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Land and buildings	117	118
Plant and equipment	2,203	2,382
Total depreciation	<u>2,320</u>	<u>2,500</u>
<i>Amortisation</i>		
Product development costs	973	1,023
Intellectual property	575	571
Total amortisation	<u>1,548</u>	<u>1,594</u>
Total depreciation and amortisation	<u>3,868</u>	<u>4,094</u>
<i>Employee benefit expense</i>		
Employee costs other than superannuation expense	26,341	26,891
Superannuation expenses	1,335	1,378
Total employee benefit expense	<u>27,676</u>	<u>28,269</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	163	219
<i>Net loss on disposal</i>		
Net loss on disposal of property, plant and equipment	13	116
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	526	518
<i>Other</i>		
Foreign exchange losses - realised	55	462
Foreign exchange losses - unrealised	252	479
Bad and doubtful debts	167	5
	<u>474</u>	<u>946</u>

Accounting policy for 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.

Note 7. Income tax

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Income tax expense</i>		
Current tax	2,166	1,476
Deferred tax - origination and reversal of temporary differences	231	718
Adjustment recognised for prior periods	87	421
	<u>2,484</u>	<u>2,615</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Increase in deferred tax liabilities	231	718
	<u>231</u>	<u>718</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	8,145	8,191
	<u>8,145</u>	<u>8,191</u>
Tax at the statutory tax rate of 30%	2,444	2,457
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Research and development concession	(229)	(335)
Other deductible / non-deductible items	18	25
	<u>(211)</u>	<u>(310)</u>
Adjustment recognised for prior periods	87	421
Difference in overseas tax rates	164	47
	<u>251</u>	<u>468</u>
Income tax expense	<u>2,484</u>	<u>2,615</u>

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Deferred tax liability</i>		
Net deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss for (deferred tax asset)/deferred tax liability		
Property, plant and equipment	(911)	(1,041)
Intangible assets	5,254	5,219
Accrued expenses	(1,180)	(1,253)
Elimination of profit held in stock sold to subsidiaries	(457)	(602)
Other	(269)	(117)
	<u>2,437</u>	<u>2,206</u>
Deferred tax liability		
Movements:		
Opening balance	2,206	1,488
Charged to profit or loss	231	718
	<u>2,437</u>	<u>2,206</u>
Closing balance	<u>2,437</u>	<u>2,206</u>

Note 7. Income tax (continued)

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Provision for income tax</i>		
Provision for income tax	182	248

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 8. Earnings per share

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit after income tax attributable to the owners of SDI Limited	5,661	5,576
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	118,865,530	118,865,530
Weighted average number of ordinary shares used in calculating diluted earnings per share	118,865,530	118,865,530
	Cents	Cents
Basic earnings per share	4.76	4.69
Diluted earnings per share	4.76	4.69

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 SDI 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.

Note 9. Current assets - trade and other receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade receivables	15,322	13,682
Less: Provision for impairment of receivables	(274)	(85)
	<u>15,048</u>	<u>13,597</u>
Other receivables	<u>1,177</u>	<u>1,854</u>
	<u><u>16,225</u></u>	<u><u>15,451</u></u>

Impairment of receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Over two months past due	<u>274</u>	<u>85</u>

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Opening balance	85	101
Additional provisions recognised	190	-
Receivables written off during the year as uncollectable	(1)	(16)
Closing balance	<u>274</u>	<u>85</u>

Past due but not impaired

As at 30 June 2018 and 30 June 2017 there were no material balances in existence that are considered to be past due and not impaired.

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 - 90 days from invoice date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 10. Current assets - inventories

	Consolidated	
	2018	2017
	\$'000	\$'000
Raw materials - at cost	7,462	8,843
Finished goods - at cost	7,310	8,442
Less: Provision for inventory obsolescence	(214)	(150)
	<u>14,558</u>	<u>17,135</u>

Accounting policy for inventories

Inventories are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 11. Non-current assets - other receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade and other receivables	<u>885</u>	<u>1,124</u>

Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2018	2017
	\$'000	\$'000
Land and buildings - at cost	10,410	10,157
Less: Accumulated depreciation	(1,558)	(1,441)
	<u>8,852</u>	<u>8,716</u>
Plant and equipment - at cost	32,303	30,822
Less: Accumulated depreciation	(23,586)	(21,417)
	<u>8,717</u>	<u>9,405</u>
	<u>17,569</u>	<u>18,121</u>

Note 12. Non-current assets - property, plant and equipment (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	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2016	8,157	10,177	18,334
Additions	677	2,001	2,678
Disposals	-	(391)	(391)
Depreciation expense	(118)	(2,382)	(2,500)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2017	8,716	9,405	18,121
Additions	253	1,571	1,824
Disposals	-	(56)	(56)
Depreciation expense	(117)	(2,203)	(2,320)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2018	<u>8,852</u>	<u>8,717</u>	<u>17,569</u>

Property, plant and equipment secured under finance leases

Also refer to note 16 for property, plant and equipment used as security for borrowings.

Accounting policy for property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	50 years
Plant and equipment	2.5 - 10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 13. Non-current assets - intangibles

	Consolidated	
	2018 \$'000	2017 \$'000
Product development costs - at cost	24,957	23,753
Less: Accumulated amortisation	(9,461)	(8,488)
	<u>15,496</u>	<u>15,265</u>
Intellectual property - at cost	7,363	6,930
Less: Accumulated amortisation	(4,040)	(3,500)
	<u>3,323</u>	<u>3,430</u>
Development work in progress - at cost	<u>4,838</u>	<u>4,164</u>
	<u><u>23,657</u></u>	<u><u>22,859</u></u>

Reconciliations

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

Consolidated	Product development costs \$'000	Intellectual property \$'000	Development work in progress \$'000	Total \$'000
Balance at 1 July 2016	12,960	3,401	5,172	21,533
Additions	283	600	2,037	2,920
Transfers in/(out)	3,045	-	(3,045)	-
Amortisation expense	(1,023)	(571)	-	(1,594)
	<u>15,265</u>	<u>3,430</u>	<u>4,164</u>	<u>22,859</u>
Balance at 30 June 2017	15,265	3,430	4,164	22,859
Additions	1,204	468	674	2,346
Amortisation expense	(973)	(575)	-	(1,548)
	<u>15,496</u>	<u>3,323</u>	<u>4,838</u>	<u>23,657</u>

Impairment testing was undertaken on the consolidated entity's capitalised project development costs and intellectual property.

The recoverable amount of each cash-generating unit by product group to which such assets are allocated is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period plus the terminal value. The cash flows are discounted using a pre-tax discount rate of 10.75% (2017: 10.8%) and are adjusted to incorporate risks associated with a particular cash generating unit.

These budgets use historical weighted average growth rates and average exchange rates and silver costs for the previous 12 months to project future revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period.

Based on the value-in-use calculations the recoverable amount exceeded the carrying amounts of the cash generating units and therefore no impairment charge was required.

Any reasonable change in the key assumptions on which the value-in-use calculations are based would not cause the carrying value to exceed the recoverable amount.

Note 13. Non-current assets - intangibles (continued)

Accounting policy for intangible assets

Intangible assets acquired are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. Amortisation commences when the asset is available for use in the manner intended by management.

Product development costs

Development costs are capitalised when it is probable that the project will be a success, considering its commercial and technical feasibility, the consolidated entity will be able to use or sell the asset, the consolidated entity has sufficient resources and intent to complete the development and its costs can be measured reliably. The majority of additions to development work in progress are developed internally. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit being their finite useful lives of between 10 and 30 years. The useful life is determined based on past experience and an assessment of the projected life cycle of the product. Amortisation commences when the asset is available for use, ie. when it is in the location and condition necessary for it to be capable of operating in a manner intended by management.

Intellectual property

Intellectual property consists of patents, trademarks, licences and other technical know-how which has a benefit to the consolidated entity of greater than one year. Intellectual property is recognised at cost of acquisition. Intellectual property with a finite life is carried at cost less any accumulated amortisation and any impairment losses. It is amortised over its useful life of up to 10 years.

Note 14. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade payables	2,939	2,457
Other payables and accrued expenses	1,018	2,094
	3,957	4,551

Refer to note 20 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The average credit period on the purchases of goods and services ranges from 7 to 60 days. No interest is charged on trade payables and the amounts are unsecured.

Note 15. Current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans	214	1,137

Refer to note 20 for further information on financial instruments.

Note 16. Non-current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans	<u>2,000</u>	<u>3,000</u>

Refer to note 20 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans	<u>2,214</u>	<u>4,137</u>

Assets pledged as security

The bank loans are secured by a registered first mortgage debenture over the assets of the parent entity and a registered first mortgage over its freehold properties. The consolidated entity has a loan facility of \$10,000,000 and an export line facility of \$450,000. The facilities allow for both fixed and variable rate loans. The loan period does not exceed 5 years. Finance is provided under all facilities, which are reviewed annually, provided the parent entity is within the terms and conditions of the Agreement.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2018	2017
	\$'000	\$'000
Freehold land and buildings	8,852	8,716
Other assets	<u>36,039</u>	<u>40,009</u>
	<u>44,891</u>	<u>48,725</u>

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2018	2017
	\$'000	\$'000
Total facilities		
Bank loans	<u>10,450</u>	<u>10,450</u>
Used at the reporting date		
Bank loans	<u>2,214</u>	<u>4,137</u>
Unused at the reporting date		
Bank loans	<u>8,236</u>	<u>6,313</u>

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 17. Equity - issued capital

	2018 Shares	2017 Shares	Consolidated 2018 \$'000	2017 \$'000
Ordinary shares - fully paid	118,865,530	118,865,530	12,890	12,890

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short-term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy has not changed from the 2017 Annual Report.

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.

Note 18. Equity - reserves

	Consolidated 2018 \$'000	2017 \$'000
Foreign currency reserve	803	400
Capital profits reserve	363	363
	<u>1,166</u>	<u>763</u>

Note 18. Equity - reserves (continued)

Foreign currency reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Capital profits reserve

The reserve is used to recognise non-taxable capital profits arising from the disposal of investments.

Movements in reserves

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

Consolidated	Foreign currency \$'000	Capital profits \$'000	Total \$'000
Balance at 1 July 2016	797	363	1,160
Foreign currency translation	(397)	-	(397)
Balance at 30 June 2017	400	363	763
Foreign currency translation	403	-	403
Balance at 30 June 2018	<u>803</u>	<u>363</u>	<u>1,166</u>

Note 19. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2018 \$'000	2017 \$'000
Final dividend for the year ended 30 June 2017 of 1.3 cents (2016: 1.2 cents) per ordinary share	1,545	1,426
Interim dividend for the year ended 30 June 2018 of 1.1 cents (2017: 1.0 cents) per ordinary share	1,308	1,189
	<u>2,853</u>	<u>2,615</u>

On 20 August 2018, the Directors declared a final franked dividend of 1.4 cents per share to be paid on 21 September 2018. This equates to a total estimated distribution of \$1,664,000, based on the number of ordinary shares on issue as at 30 June 2018. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2018 financial statements and will be recognised in subsequent financial reports.

Total dividends for the 2018 financial year increased by 8.7% to 2.5 cents compared to 2.3 cents in the previous year. The Directors decided that the Company's Dividend Reinvestment Plan ('DRP') will not be offered to Shareholders for this dividend payment.

Franking credits

	Consolidated 2018 \$'000	2017 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>9,039</u>	<u>8,466</u>

Note 19. Equity - dividends (continued)

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 20. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity'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 consolidated entity. The consolidated entity uses derivative financial instruments such as cash flow hedges to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a regular basis.

Market risk

Foreign currency risk

The consolidated entity invoices international customers in various currencies and is therefore exposed to foreign currency risk through foreign exchange rate fluctuations. Where considered appropriate, hedging against currency movements is undertaken to protect margins using forward foreign exchange contracts.

It is the consolidated entity's policy that net foreign exchange exposure, be hedged where deemed appropriate. At the reporting date, there were no unexpired foreign currency hedge contracts as at 30 June 2018. (2017: the fair value loss on unexpired foreign currency hedges was \$62,000).

The following table shows the foreign currency risk on the financial assets and liabilities of the consolidated entity's operations denominated in currencies other than the functional currency of the operations.

Consolidated	Assets		Liabilities	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
US dollars	5,169	4,748	587	656
Euros	4,525	4,444	1,073	1,070
Brazilian Real	3,861	5,594	156	430
Other	39	56	4	20
	<u>13,594</u>	<u>14,842</u>	<u>1,820</u>	<u>2,176</u>

Sensitivity analysis

The following table illustrates sensitivities to the consolidated entity's exposure to changes in exchange rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variables that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

Note 20. Financial instruments (continued)

Consolidated - 2018	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US dollars	10%	550	385	10%	(550)	(385)
Euros	10%	484	339	10%	(484)	(339)
Brazilian Real	10%	119	83	10%	(119)	(83)
Other	10%	3	2	10%	(3)	(2)
		<u>1,156</u>	<u>809</u>		<u>(1,156)</u>	<u>(809)</u>

Consolidated - 2017	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US dollars	10%	484	339	10%	(484)	(339)
Euros	10%	456	319	10%	(456)	(319)
Brazilian Real	10%	185	130	10%	(185)	(130)
Other	10%	3	2	10%	(3)	(2)
		<u>1,128</u>	<u>790</u>		<u>(1,128)</u>	<u>(790)</u>

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year.

Price risk

The consolidated entity is exposed to commodity price risk due to the use of Silver in its Amalgam products. The consolidated entity has no hedges in place at the reporting date due to the requirement for silver reducing, making the benefit of hedging silver uneconomical.

Interest rate risk

The consolidated entity's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate borrowings outstanding:

Consolidated	2018		2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	4.24%	<u>2,214</u>	3.35%	<u>4,137</u>
Net exposure to cash flow interest rate risk		<u>2,214</u>		<u>4,137</u>

Sensitivity analysis

The following table illustrates sensitivities to the consolidated entity's exposure to changes in interest rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variables that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

Note 20. Financial instruments (continued)

Consolidated - 2018	Basis points change	Basis points increase Effect on		Basis points change	Basis points decrease Effect on	
		profit before tax \$'000	Effect on equity \$'000		profit before tax \$'000	Effect on equity \$'000
Bank loans	50	<u>(11)</u>	<u>(8)</u>	(50)	<u>11</u>	<u>8</u>

Consolidated - 2017	Basis points change	Basis points increase Effect on		Basis points change	Basis points decrease Effect on	
		profit before tax \$'000	Effect on equity \$'000		profit before tax \$'000	Effect on equity \$'000
Bank loans	50	<u>(21)</u>	<u>(14)</u>	(50)	<u>21</u>	<u>14</u>

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2018 \$'000	2017 \$'000
Bank loans	<u>8,236</u>	<u>6,313</u>

Note 20. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2018	Weighted average interest rate %	Less than 1 month \$'000	Between 1 and 3 months \$'000	Between 3 months to 1 year \$'000	Between 1 to 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	2,318	7	614	-	2,939
Other payables	-	1,018	-	-	-	1,018
<i>Interest-bearing - variable</i>						
Bank loans	4.24%	-	214	-	2,000	2,214
Total non-derivatives		3,336	221	614	2,000	6,171

Consolidated - 2017	Weighted average interest rate %	Less than 1 month \$'000	Between 1 and 3 months \$'000	Between 3 months to 1 year \$'000	Between 1 to 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	2,344	92	21	-	2,457
Other payables	-	1,676	-	-	-	1,676
<i>Interest-bearing - variable</i>						
Bank loans	3.35%	-	137	1,000	3,000	4,137
Total non-derivatives		4,020	229	1,021	3,000	8,270

Derivatives

Forward foreign exchange contracts outflow	-	62	-	-	-	62
Total derivatives		62	-	-	-	62

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Note 21. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company, and unrelated firms:

	Consolidated 2018 \$	2017 \$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	218,700	202,600
<i>Other services - Deloitte Touche Tohmatsu</i>		
Taxation services	59,250	51,825
	<u>277,950</u>	<u>254,425</u>
<i>Audit services of subsidiaries - unrelated firms</i>		
Audit or review of the financial statements	<u>30,486</u>	<u>37,082</u>

Remuneration of auditors for unrelated firms relate to the audit of subsidiaries by:

- Crowe Horwath LLP. (USA)
- Fickus & Fickus, (Germany)

Note 22. Contingent liabilities

The consolidated entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Note 23. Commitments

	Consolidated 2018 \$'000	2017 \$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	465	391
One to five years	836	923
	<u>1,301</u>	<u>1,314</u>

Operating lease commitments includes contracted amounts for various warehouses and offices under non-cancellable operating leases expiring within one to five years with, in some cases, options to extend. On renewal, the terms of the leases are renegotiated.

At the reporting date the consolidated entity did not have any commitments relating to hire purchase leases for plant and equipment (2017: \$nil). All hire purchase commitments for plant and equipment were paid out during the previous financial year. The consolidated entity exercised its option to acquire the leased assets for predetermined residual values during the previous financial year under the terms of the leases.

Note 24. Related party transactions

Parent entity

SDI Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 26.

Note 24. Related party transactions (continued)

Key management personnel

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the Directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2018	2017
	\$	\$
Sale of goods and services:		
Sale of goods to director controlled companies	20,130	19,197
Payment for goods and services:		
Provision of consulting services by director controlled companies	13,530	29,916
Provision of consulting services by a director	5,939	8,606
Payment for other expenses:		
Payments for the lease of property to a director controlled company	90,000	90,000

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated 2018	2017
	\$	\$
Current receivables:		
Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight.	-	1,090
Current payables:		
Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight.	322	-

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 25. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 2018	2017
	\$	\$
Short-term employee benefits	1,288,130	1,637,347
Post-employment benefits	94,422	130,154
Long-term benefits	15,078	18,363
	<u>1,397,630</u>	<u>1,785,864</u>

Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
SDI (North America), Inc.	United States of America	100%	100%
SDI Holdings Pty Ltd	Australia	100%	100%
SDI Germany GmbH	Germany	100%	100%
SDI Brasil Industria e Comercio Ltda	Brazil	100%	100%
SDI New Zealand Limited	New Zealand	100%	100%

Note 27. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2018 \$'000	2017 \$'000
Profit after income tax expense for the year	5,661	5,576
Adjustments for:		
Depreciation and amortisation	3,868	4,094
Net loss on disposal of non-current assets	13	116
Foreign currency differences	298	(309)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(535)	(956)
Decrease in inventories	2,577	1,230
Decrease/(increase) in prepayments	68	(268)
Increase/(decrease) in trade and other payables	(594)	176
Increase/(decrease) in derivative liabilities	(62)	62
Decrease in provision for income tax	(66)	(1,268)
Increase in deferred tax liabilities	231	718
Increase/(decrease) in employee benefits	(169)	201
Net cash from operating activities	<u>11,290</u>	<u>9,372</u>

Note 28. Changes in liabilities arising from financing activities

Consolidated	Bank loans \$'000	Hire purchase liabilities \$'000	Total \$'000
Balance at 1 July 2016	5,319	411	5,730
Repayment of bank loans and lease liabilities	(1,528)	(411)	(1,939)
Loans received	346	-	346
Balance at 30 June 2017	4,137	-	4,137
Net cash from financing activities	78	-	78
Repayment of bank loans	(2,001)	-	(2,001)
Balance at 30 June 2018	<u>2,214</u>	<u>-</u>	<u>2,214</u>

Note 29. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' model to recognise an allowance. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that the main financial assets recognised represent cash and cash equivalent and trade receivables that do not carry a significant financing component and involve a single cash flow representing the repayment of principal, which in the case of trade receivables is the transaction price. Both asset classes will continue to be measured at face value. Other financial asset classes are not material to the consolidated entity. There will be minimal impact on financial liabilities on adoption of the standard.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that most of the consolidated entity's revenue is recognised at the time of transfer of goods and services to customer which represents the satisfaction of the primary performance obligation.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019. Information on the undiscounted amount of the consolidated entity's operating lease commitments under AASB 117, the current leasing standard, is disclosed in note 23. The consolidated entity is considering the available options for transition. To date, work has focused on the identification of the provisions of the standard which will most impact the consolidated entity and the next phase is a detailed review of the contracts and the financial reporting impact of AASB 16.

IASB revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies. The consolidated entity will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

Other amending accounting standards

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the consolidated entity as their amendments provide either clarification of existing accounting treatment or editorial amendments.

Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2018 \$'000	2017 \$'000
Profit after income tax	4,825	7,547
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income	4,825	7,547

Statement of financial position

	Parent	
	2018 \$'000	2017 \$'000
Total current assets	33,828	33,955
Total non-current assets	44,330	44,134
Total assets	78,158	78,089
Total current liabilities	6,138	7,096
Total non-current liabilities	5,077	6,022
Total liabilities	11,215	13,118
Net assets	<u>66,943</u>	<u>64,971</u>
Equity		
Issued capital	12,890	12,890
Capital profits reserve	363	363
Retained profits	53,690	51,718
Total equity	<u>66,943</u>	<u>64,971</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2017.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 31. Events after the reporting period

Apart from the dividend declared as disclosed in note 19, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the Directors



Samantha Jane Cheetham
Managing Director

25 September 2018
Melbourne

Independent Auditor's Report to the members of SDI Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of SDI Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Company's financial position as at 30 June 2018 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 Company 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 for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Capitalisation of Development Costs</p> <p>As at 30 June 2018 the Group has capitalised development costs of \$1.9M as disclosed in Note 13.</p> <p>Judgment is required by management in determining if the internal labour and external supplier costs incurred are directly attributable to develop the existing product development projects and the appropriateness of these costs to be capitalised.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Holding discussions with the department heads involved in product development to understand the basis and rationale for capitalising internal labour and external supplier costs, • Assessing the status of the current ongoing projects and understanding the nature of the internal labour and external supplier costs capitalised during the period to ensure they are in accordance with the criteria for capitalisation under the relevant accounting standards, • Obtaining an understanding of the status of the projects in progress that have not incurred any development costs during the year assess as to whether the assets exhibit indicators of impairment, • Testing on a sample basis, capitalised costs by reviewing the supplier invoice, project budgets and/or employee timesheets, and • Challenging management’s key assumptions in the internal labour cost capitalisation calculation. <p>We also assessed the appropriateness of the disclosure in Note 13 to the financial statements.</p>
<p>Amortisation of Intangible Assets</p> <p>SDI has three major categories of finite life intangible assets being capitalised product development costs of \$15.5M, along with patents and trademarks costs totalling \$3.3M as disclosed in Note 13.</p> <p>The determination of the useful lives in relation to capitalised development costs and patents & trademarks is subject to management judgement including:</p> <ul style="list-style-type: none"> • Estimations of the product lifecycle of general dental products based on historical experience, • Assessing the impact of changes in technological and market trends, and • Review of historical and forecasted sales of product ranges supporting the appropriateness of the useful life determined. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing the estimated useful lives of the intellectual property and capitalised development costs, ensuring the amortisation period applied and the assumptions used for patents and trademarks are appropriate, • Assessing amortisation rates used by comparing with industry benchmarks, • Assessing the product life cycle and market demand for the underlying products including assessing the possibility of product obsolescence or cannibalisation as a result of recently released products or products that are likely to be released in the near term, and • Evaluating the legal rights and period of the patents and trademarks. <p>We also assessed the appropriateness of the disclosure in Note 13 to the financial statements.</p>

<p>Impairment of Intangible Assets</p> <p>As at 30 June 2018 the carrying amount of the intangible assets is \$23.7M as disclosed in Note 13.</p> <p>SDI has finite life intangible assets being capitalised product development costs and patents and trademarks along with development work in progress.</p> <p>Capitalised product development costs and patents and trademarks are subject to impairment testing whenever an impairment indicator is identified. However, development work in progress is subject to impairment testing annually.</p> <p>The determination of the recoverable amount is subject to management judgement including:</p> <ul style="list-style-type: none"> • Cash flow projections • Estimated future growth in the product market • The likelihood of future economic benefits, and • Discount rates 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Engaging our internal experts to assess the appropriateness of management’s processes and policies in the development of the cash flow model as well as testing the mathematical accuracy and the reasonableness of the assumptions used, • Evaluating the present value of future cash-flows derived from the sale of the products that the development costs relate to, • Assessing the possibility of product obsolescence or cannibalisation as a result of recently released products or products that are likely to be released in the near term, and • Assessing the product life cycle and comparison of actual sales to budget for the underlying products. <p>We also assessed the appropriateness of the disclosure in Note 13 to the financial statements.</p>
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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company’s annual report for the year ended 30 June 2018, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Company 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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 13 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of SDI Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Anneke du Toit

Partner

Chartered Accountants

Melbourne, 25 September 2018

The shareholder information set out below was applicable as at 31 August 2018.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	295	-
1,001 to 5,000	739	-
5,001 to 10,000	417	-
10,001 to 100,000	570	-
100,001 and over	92	-
	<u>2,113</u>	<u>-</u>
Holding less than a marketable parcel	<u>123</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
CURRANGO PASTORAL COMPANY PTY LTD	50,691,328	42.65
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,529,669	3.81
MR NICHOLAS BARRY DEBENHAM & MRS ANNETTE CECILIA DEBENHAM	3,564,533	3.00
GARRETT SMYTHE LTD	2,559,600	2.15
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,530,863	2.13
SILVERGLADES PTY LTD	2,357,829	1.98
INDCORP CONSULTING GROUP PTY LIMITED (SUPERANNUATION FUND A/C)	1,957,309	1.65
NATIONAL NOMINEES LIMITED	1,920,002	1.62
MR NICHOLAS BARRY DEBENHAM	1,468,769	1.24
JEFFNPAM SUPERANNUATION FUND PTY LTD	1,421,085	1.20
DR GEOFFREY MACDONALD KNIGHT & MS ANNELI KAARINA KNIGHT	1,215,790	1.02
MR GERARD JAMES VAN PAASSEN	1,104,348	0.93
MR BRENDAN FRANCIS CARROLL	1,040,490	0.88
MR MICHAEL LAZZARIN	1,018,888	0.86
DR MARTIN JAMES GREHAN & DR PENELOPE JANE SPRING	931,500	0.78
CHARLOTTE B PTY LTD	800,000	0.67
MR NEIL PETER GOOSEN	763,142	0.64
MDF SUPERANNUATION PTY LIMITED (MDF SUPER FUND A/C)	755,909	0.64
BRANKA NOMINEES PTY LTD	750,220	0.63
AA LAM PTY LIMITED	550,000	0.46
	<u>81,931,274</u>	<u>68.94</u>

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
CURRANGO PASTORAL COMPANY PTY LTD *	50,691,328	42.65

* Registered holder of the relevant interest but may not be registered holder of the securities.

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Directors	Jeffery James Cheetham OAM - Chairman Samantha Jane Cheetham John Joseph Slaviero Dr Geoffrey Macdonald Knight Gerald Allan Bullon Cameron Neil Allen Gerard Desmond Kennedy
Alternate director	Pamela Joy Cheetham (alternate for Jeffery James Cheetham)
Company secretary	John Joseph Slaviero
Registered office	5 - 9 Brunsdon Street Bayswater VIC 3153 P: (03) 8727 7111 or 1800 337 003 F: (03) 8727 7222
Share register	Link Market Services Limited Tower 4 727 Collins Street Docklands VIC 3008 P: (03) 9615 9800 or 1300 554 474 F: (03) 9615 9900
Auditor	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne VIC 3000
Bankers	HSBC Bank Australia Limited Level 10 333 Collins Street Melbourne VIC 3000
Stock exchange listing	SDI Limited shares are listed on the Australian Securities Exchange (ASX code: SDI)
Website	www.sdi.com.au
Email	info@sdi.com.au

Corporate governance statement ('CGS') SDI's Directors and management are committed to conducting its business in an ethical manner and in accordance with the highest standards of corporate governance. SDI has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of its business.

In accordance with Listing Rule 4.10.3, the Company has prepared a CGS which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any recommendations that have not been followed, and provides reasons for not following such recommendations.

The Company's CGS has been approved at the same time as the Annual Report, can be found on its website: <http://www.sdi.com.au/en-au/corporate-governance.html>

In accordance with Listing Rules 4.7.4 and 4.7.3, the CGS and the Appendix 4G has been lodged with the ASX at the same time as this Annual Report. The Appendix 4G details the Recommendations that the Company needs to report against and provides shareholders with information regarding where the Company's disclosures in relation to the Recommendations can be found.

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