25 YEARS KONEKT 1992 – 2017

KONEKT LIMITED AND CONTROLLED ENTITIES

A.C.N. 009 155 971

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

KONEKT LIMITED
A.C.N. 009 155 971

ASX Code: KKT

CORPORATE DIRECTORY

Directors

Douglas Flynn (Chairman)
Philip Small (Non-Executive Director)
Anthony Crawford (Non-Executive Director)
Damian Banks (Chief Executive Officer and Managing Director)

Company Secretary

Reena Minhas

Registered Office and Principal Place of Business

Level 3
33 Erskine Street
SYDNEY NSW 2000
Tel: (02) 9307 4000
Fax: (02) 9307 4044

Auditors

BDO East Coast Partnership
Level 11
1 Margaret Street
SYDNEY NSW 2000
Tel: (02) 9251 4100
Fax: (02) 9240 9821

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067
Tel: (03) 9415 5000
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CONTENTS

ABOUT KONEKT 4
CHAIRMAN AND MANAGING DIRECTOR'S REPORT 7
DIRECTORS' REPORT 14
AUDITOR'S INDEPENDENCE DECLARATION 28
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 29
STATEMENT OF FINANCIAL POSITION 30
STATEMENT OF CASH FLOWS 31
STATEMENT OF CHANGES IN EQUITY 32
NOTES TO THE FINANCIAL STATEMENTS 33
DECLARATION BY DIRECTORS 65
INDEPENDENT AUDITOR'S REPORT 66
ASX ADDITIONAL INFORMATION 70

ABOUT KONEKT

Our Purpose	**With the belief that work is good for all, our purpose is to maximise workforce participation and safety**
Our Values	**Integrity, Personal Impact, Innovation, Customer Focus, Financial Sustainability**
Our Mission	**To be number 1 in Care by any measure**

We are an Australian Human Services company delivering New Employment, Return to Work, Mentally Healthy Workplace, Safe Employment and Consulting solutions.

We help Individuals and organisations prevent and minimise workplace injuries and their impact. Our purpose is to maximise workforce participation and safety, thereby reducing social and employment costs.

We have 400 employees, with over 350 allied health professionals providing New Employment and Return to Work from injury/illness same employment management activities to individuals and employers. Our heritage in injury prevention and injury management services to our clients and their employees allows us to deeply understand workplaces, job roles and work requirements to enable successful re-integration of non or partially working employees returning to workplaces.

Our Businesses include Konekt, SRC Solutions, CommuniCorp Group, Applied Innovative Solutions, Insight Services Group, Innovative Training & Recruitment and Insite Injury Management.

ASX Listed (ASX code: KKT).

Key Facts + Figures

- More than 25 years' experience
- In FY17, provided more than 45,000 services to assist Individuals in their New and Existing work placement programs.
- Konekt's clients include major employers, in both public and private sectors, and Australia's largest insurance companies
- Market leader (c.11-12% National market share) in Workplace Return to Work from injury/illness, c.6% in Pre-Employment and c.15% in Mental Health (chosen niche)
- National coverage - 44 offices in all capital cities and across major Australian regional centres
- 400 employees
- $53.5 million revenue (underlying - $53.1m) in FY17
- $6.2m million EBITDA (underlying -$5.8m) in FY17
- 4.90 cents EPS (underlying – 4.40 cents) in FY17

ABOUT KONEKT (CONTINUED)

Our Goals

1. #1 in Care

To be #1 in Care for the Individuals we are assisting.

2. Customer Focus

A resolute commitment to deliver outstanding customer service and outcomes for Employers we work with.

3. Product & Services

Continually provide customers with best in market products and data services.

4. Trusted Advisor

Develop trusted relationships with our customers and add value to their businesses, particularly through understanding their role requirements and opportunities.

5. Strong Sales Culture

Expand our reach and customer relationships through a strong sales focus and culture.

6. People & Culture

Attract, retain and develop the best consultants for our customers - continually investing in our culture and people to strengthen our capabilities, position and performance.

7. Grow Shareholder Value

To sustain and grow value for our shareholders.

Konekt and our Community

Konekt is proud of the work we do to help those who are doing it tough. Our significant national relationship with Soldier On, now in its fourth year, gives us the opportunity to continue our support of the physical and mental health of returned services people, their family and their community. Locally, our teams across Australia are supported by Konekt to engage in community initiatives designed to make a difference – be it walking up and down hills for 24 hours in ‘Hit the Hill’ Townsville (raising funds and awareness for Mental Health initiatives), enjoying a team night out at one of the many fundraising balls held across the country (from small community events to big city galas), or conducting pro-bono work for important community initiatives.

In recognising the importance of supporting our staff in their philanthropic endeavours and, as part of Konekt’s 25th Year Anniversary, we also donated generously to five key charities as chosen by our staff. In addition to the financial and volunteer support Konekt currently provides to a variety of charities throughout Australia, we asked our staff in July to tell us the top five charities they would like us to donate to on their behalf. Our team voted on those charities which hold significant importance to them, and those which hold personal and professional meaning.

ABOUT KONEKT (CONTINUED)

Konekt's commitment to training and development

Konekt drives excellence through leader led development and cascaded training to all staff. Core to engagement is our group of enterprise leaders who underwent significant communication and leadership behavioural training. All operational leaders participate in weekly Leader Learning Forums and have come together at national training conferences to develop their professional skills around resilience, emotional intelligence, and leading customer conversations as well as enhance product and service knowledge to support key initiatives rollouts.

Our leaders have then applied these learnings and training to all staff across the country, followed by tailored individual development which includes external technical training for a large number of our consultants.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Konekt delivered strong growth in the financial year ended 30 June 2017 (FY17), with solid improvements in financial and operational performance.

We are pleased to report that the five acquisitions completed in FY16 are performing well, and contributed a first full-year impact to our FY17 performance.

We continued to drive organic growth at above Return to Work market growth rates from our existing businesses. At the same time, our focus on productivity and cost control once again continues to deliver improved operating margins and profit growth at a faster rate than revenue growth.

In May 2007, we executed a new contract with Medibank Health Solutions which involved a significant realignment of our service delivery to them, including the methods and locations of much of the Service Delivery. The new contract commenced on 9 May 2017, with a bedding –in period taking 3 to 4 months. Konekt saw some distraction in developing, training and commencing these services, with further enhancements expected in Q1FY18, with the "one-off" impact of these changes seen in the half as part of the ordinary course of trading.

In addition, icare NSW announced significant changes in the practical operation of Workers' Compensation Claims in NSW, with the changes likely taking 12 months to be fully implemented. Konekt was awarded an icare Deed to provide services to them in FY18; one of a reduced number of providers to achieve this outcome. Konekt saw softer conditions throughout Q4FY17 with the "one-off" impact of these changes also seen in the half as part of the ordinary course of trading.

Our performance in FY17 reflects the dedication of our staff and the support of our customers. We are committed to delivering the best in industry services to our customers and continue to invest in enhancing our services, capabilities and people.

Post year end, on 10 August 2017 (at the date of this report) Konekt executed an Agreement to acquire 100% of Mission Providence for a cash consideration of $24.0m, subject to certain purchase price adjustments (including working capital) on completion. The acquisition is subject to the consent of the Federal Government Department of Employment and is expected to complete at the end of September 2017.

Mission Providence is a leading provider of Employment Services (c80% of revenues) and the New Enterprise Incentive Scheme (NEIS) under the Federal Government's *jobactive* program. This is a significant acquisition which will double our scale. Mission Providence enables Konekt to expand into an adjacent market, consistent with Konekt's RTW focus and purpose of maximising workforce participation for individuals. It is in-line with our strategy and skill set and provides a significant additional avenue for future growth. Please refer to page 64 for further details.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

Summary financial results for the year ended 30 June 2017

	2017	2016	Change
Revenue ($m)	53.47	43.92	22%
Revenue – underlying ($m)(1)	**53.10**	**43.92**	**21%**
EBITDA ($m)	6.20	4.02	55%
EBITDA margin (%)	11.63%	9.15%	+248 bp
EBITDA – underlying ($m)(1)(2)	**5.83**	**4.41**	**32%**
EBITDA Margin – underlying (%)(1)(2)	**11.0%**	**10.0%**	**+100 bp**
Interest ($m)(3)	(0.31)	(0.16)	94%
Depreciation & Amortisation ($m)	(1.07)	(0.68)	57%
Net profit before Tax ($m)	4.84	3.18	52%
Tax ($m)	(1.25)	(0.67)	87%
Net Profit after Tax ($m)	3.59	2.51	43%
Net Profit after Tax – underlying ($m)(1)(2)	3.22	2.78	16%
EPS (cents)	4.90	3.45	42%
EPS – underlying (cents) (1)(2)	**4.40**	**3.82**	**15%**
DPS (cents - fully franked)	**0.75**	**0.50**	**50%**

1. *Underlying Revenue/EBITDA FY17: deducts full year write back of $367,000 of deferred consideration in accordance with Accounting standards*
2. *Underlying EBITDA FY16: after one-off acquisition related costs of $570,000 less estimated acquired EBITDA from SRC and CommuniCorp of $180,000*
3. *Interest expense unwind for deferred consideration in relation to acquisitions in accordance with accounting standards FY17: $315,000 (FY16: $186,000).*

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

FY17 Financial Highlights (based on Underlying results)

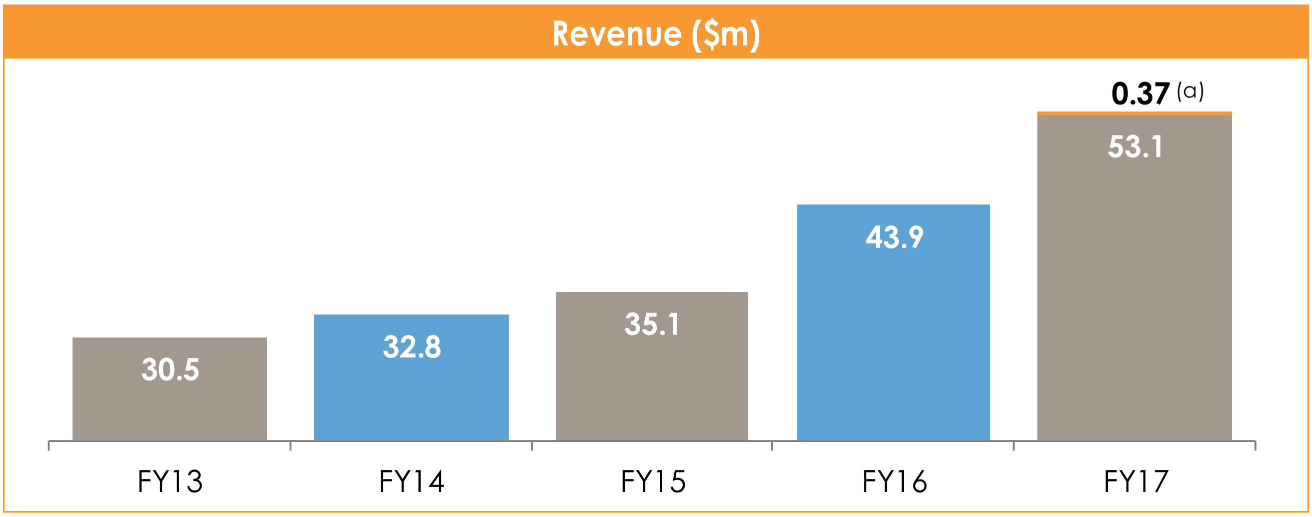
- Revenue and margin growth delivered 16% increase in NPAT and 15% increase in EPS
- Revenue growth of 21% vs pcp - at upper end of guidance
- EBITDA margin increased to 11% from 10% in pcp
- Share buyback of 513,688 shares (representing 0.7% of issued capital – cost of $0.26m)
- Strong balance sheet – net cash of $2.5m at year end and largely undrawn $5 million acquisition finance facility
- Strong operating cash flow of $4.9m due to EBITDA growth and working capital management
- EPS up 15% to 4.40 cps vs 3.82 cps in pcp
- Fully franked dividend declared of 0.75 cps (0.50 cps in pcp)

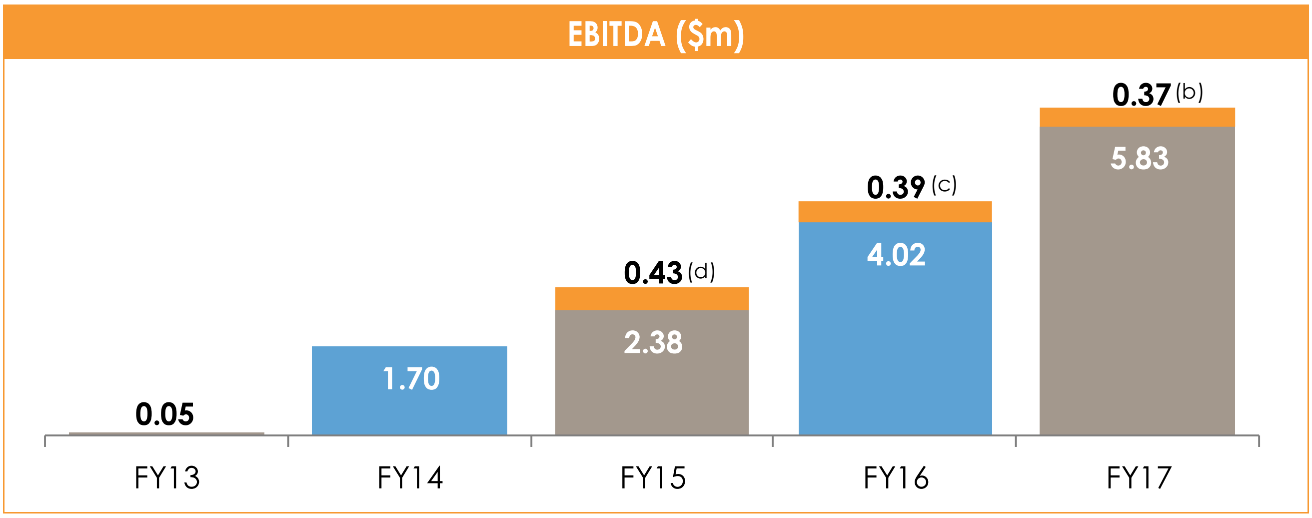
FY17 Operational Highlights

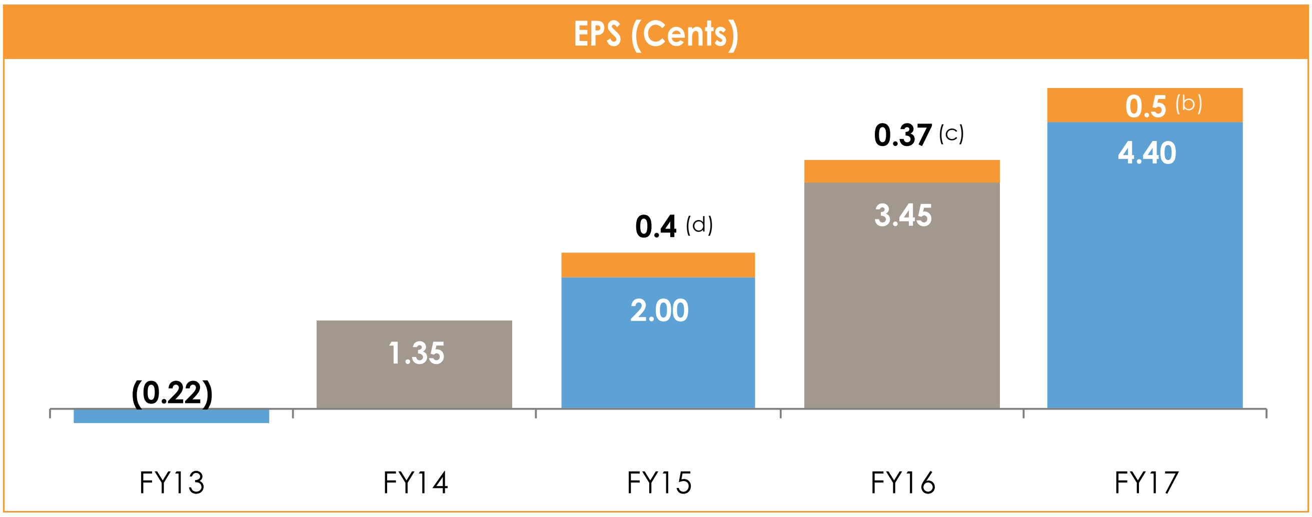
- Executed new *Medibank Health Solutions* contract in May 2017, term to October 2018
- Appointed to *icare* NSW workers' compensation panel and a significant panel appointment in the Commonwealth Government sector
- Expanded customer base - organic growth with 30+ new employer customers
- The contribution of Konekt's top five customers grew in line with overall revenue performance, with the full year impact of Konekt's acquisitions contributing to a redistribution of the customer profile.
- FY16 acquisitions achieved expected first full year performance
- Very solid Return to Work (RTW) rates achieved - 94% level maintained for the past two years
- Successful New Employer model launched based on Konekt's leading position in South Australia in the Job Placement Services (New Employer) sector
- Capex of $1.3m invested in product development and technology platforms, continuing our data driven thematic resulting in new insights being delivered to the market
- Improvement in staff retention, excellent engagement scores: including from acquired businesses

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

Year in Review







a) FY17 Revenue includes write back of $367.000 of deferred consideration in accordance with Accounting standards
b) Underlying EBITDA / EPS FY17 Revenue includes write back of $367.000 of deferred consideration in accordance with Accounting standards
c) Underlying EBITDA / EPS FY16 after one-off acquisition related costs of $570,000 less estimated acquired EBITDA from SRC and CommuniCorp of $180,000
d) Underlying EBITDA / EPS in FY15 after Strengthening the Core investment of $425,000 fully expensed in FY15

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

Year in Review (continued)

Commentary

Whilst the vast majority of our work and performance is done with individuals, Konekt recognises that revenue is generated from the entities commissioning our services. To that end, our revenue is spread between Corporate, Insurance and Government clients – our 3 target groups of customers.

The Medibank Health Solutions (MHS) contract for the Australian Defence Force (ADF) continued to perform well, with revenues growing over the prior year.

For the fourth year running, the Company achieved several new business wins during the year, as well as retaining significant accounts and reflecting the increased capability we have built into the business.

Interestingly, we saw excellent year on year growth in Pre-employments reflecting the investment we made in our Jobscreen product being responded to by our customers. Whilst not returning to the 2010 High Point (Mining driven), Pre-employment volumes are healthy and reflecting a far more diversified customer and industry grouping.

Underlying EBITDA margins grew by 100 basis points to 11% in FY17. The growth in margin performance was driven by a combination of increased scale, tight expense management and productivity improvements during the year. The leverage in our business by increased staff utilisation rates is evident in our operating margins growing at a faster rate than revenue growth.

Underlying EPS increased 15% to 4.40 cps (2016: 3.82 cps),

Acquisitions

The performance of our FY16 acquisitions was a pleasing element of the FY17 results. As an aggregate, the performance was as expected at the time of acquisition. Pleasingly, the attributes we saw in the business prior to the acquisitions have added to the entire Konekt business. Specific examples of this are the extension of the acquired New Employer capability in South Australia, across the country and our CommuniCorp business showing very strong growth into existing Konekt customer groups.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

Year in Review (continued)

People

Konekt continues to build a strong culture of performance, engagement and retention in differentiating ourselves as an employer, and in making a difference across Australian workplaces. We positively impact peoples' lives, and our people actively participate in improving our Company. We believe in nurturing an exceptional work environment. Our employee values focus on five core areas being leadership, career diversity, personal impact, collaboration, and providing best-in-class services. As a result, our voluntary turnover has fallen by 9% as a result of higher levels of engagement, retention and individual growth.

Balance Sheet

The Company's balance sheet had net cash of $2.5m as at 30 June 2017 ($0.1m net debt at 30 June 2016). The increase in cash balances during the year followed strong operating cashflow of $4.9m. We invested a further $1.3m in capital expenditure and product development during the year. We also paid deferred consideration of $423,000 and a dividend payment and share buyback totalling $622,000. Shareholders' equity was $15.7m at year end (FY16: $12.6m).

On 15 November 2016, Konekt Limited signed a new acquisition finance facility agreement with the Commonwealth Bank of Australia. The initial facility limit is $5m is available to be used for acquisition payments and deferred consideration payments related to past and future acquisitions. An additional $5m accordion facility will be extended at the banks discretion.

Cash Flow

Operating cash flow was $4.9m (2016: $2.3m), largely due to EBITDA growth and timing of working capital payments.

Capital management

The company completed a small on-market buy-back of shares during the year. A total of 513,688 shares were bought-back prior to 30 June 2017 at an average price of 50 cents and have been cancelled.

The Board actively considers capital management initiatives and weighs the ongoing needs of the Company, possible acquisitions under consideration, possible dividends and taxation when considering the optimal capital needs for the company.

Dividend

The Board is pleased to advise that it has resolved to declare a fully franked final dividend for the year of 0.75 cents per share. The record date for the dividend is 17 August 2017 (ex-dividend 16 August 2017) and payable on 8 November 2017.

The company's approach to dividends is to balance shareholder dividends with franking credits and company's need to fund continued growth. The Board will consider future dividends on a NPAT before amortisation (NPATA) basis.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

FY18 focus

Our intent in the year ahead is to continue to be #1 in Care and drive further growth. Specifically, we will focus on:

- Continuing to develop new sales opportunities, retain existing clients and deepen existing customer relationships – enhanced through Konekt's expanded geographic and product footprint
- Leveraging our Data capability into new Customer and Product insight
- Improving productivity and maintaining cost discipline
- Continuing to target acquisitions that accelerate growth, strengthen our position and add value
- Strengthening our leadership capabilities and continued improvements in staff development and employee retention

Growth strategy

We are committed to growing both our scale within the return to work solutions industry and adjacent markets to diversify and expand revenue streams. We continue to expand our services for our clients where this adds value, whilst continuing to pursue further productivity enhancements and our cost disciplines.

There has been continued activity from major national and international companies for competitors during the year and we believe smaller market participants will face continued pressure on their market position.

Outlook

We believe that the Injury Management Market will continue growing at low to mid-single digits in FY18, after a softer start in NSW in the first half. The pre-employment market segment is exhibiting strength.

We are well positioned going into FY18 with good momentum in our business. We will remain focused on cost control and extracting further productivity gains.

On behalf of the Board, we would like to sincerely thank all our staff, customers and shareholders for their commitment and continued support.

Douglas Flynn
Chairman

Damian Banks
Chief Executive Officer

10 August 2017, Sydney

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Konekt Limited ("the Company"), being the Company and its subsidiaries ("the consolidated entity"), for the year ended 30 June 2017 ("the financial year") and the auditors' report thereon.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

MR DOUGLAS FLYNN – Chairman

Mr Flynn has held senior management roles and directorships in major media organisations in Australia and overseas including News Corporation Limited subsidiaries. He was appointed a Non-Executive Director of Aegis Group plc Board in 1996. Aegis Group is a marketing services Company operating in some sixty countries. After being appointed Chief Executive of Aegis Group in 1999 Doug was instrumental in doubling the size of the Company and established a global market research business Synovate and internet services business Isobar. In April 2005 he joined Rentokil Initial plc, a global business services company, as Chief Executive and after an extensive restructuring of the Company's portfolio, balance sheet and organisation left the Company in 2008.

From 2008 to early 2012 he was a Director of Hong Kong listed Qin Jia Yuan Media Services Ltd, a private television Company in China. In mid-2008 Doug returned to Australia and in August that year he became a Director of West Australian Newspapers Holdings Limited ("WAN") and later Seven West Media Limited.

Doug graduated in chemical engineering from the University of Newcastle, New South Wales. He received an MBA with distinction from Melbourne University in 1979.

He also currently holds the positions of chairman of iSentia Group Limited, APN Outdoor Limited and NEXTDC Limited.

Mr Flynn is a member of the Audit, Risk and Compliance, and Nomination and Remuneration Committees.

Date of appointment: 19 July 2012

DIRECTORS' REPORT (CONTINUED)

MR DAMIAN BANKS BEc – Chief Executive Officer, Managing Director

Mr Banks has had a wide variety of roles across Banking, Finance, Health and Consulting in a career spanning over 25 years in Australia. Mr Banks has been CEO of Konekt since April 2012. During his tenure at Konekt, Mr Banks has led the significant growth within the company both through acquisitions and from organic expansion.

Prior to Konekt, Mr Banks had a 15 year career in Banking where he led a number of businesses, including Equities, Corporate and Institutional Banking and Transactional Banking.

Date of appointment: 12 September 2011

MR PHILIP SMALL BEc (Syd), MSc (Lond), FCPA, GAICD – Non-Executive Director

Mr Small is an experienced executive and has worked in Australia, New Zealand and Europe for companies in financial services technology and professional services.

He has held a number of senior management positions and was President of Computer Sciences Corporation's (CSC) Financial Services Group in Asia Pacific.

Prior to CSC, Philip worked for Continuum and was responsible for their operations in Asia Pacific. He worked for Paxus Corporation where he was an executive director, headed up their European division and led their expansion, through internal growth and acquisition, to become the leading provider of insurance software in Europe.

Philip is an experienced advisor and has worked with companies in the technology, professional services and outsourced business services.

Mr Small is a member of the Audit, Risk and Compliance Committee and Chair of the Nomination and Remuneration Committee.

Date of appointment: 19 November 2009

DIRECTORS' REPORT (CONTINUED)

MR ANTHONY CRAWFORD BA, LLB (UNSW), GAICD – Non-Executive Director

Mr Crawford is the Independent Chairman of accounting and advisory firm Grant Thornton Australia. He is also Chairman of Hospitals Benefits Fund of Australia Ltd and Heart Research Australia. Tony has had an extensive career of over 30 years with leading Australian commercial law firm, DLA Phillip Fox. As a partner for 25 years, he served as that firm's Chief Executive between 1999 and 2010 and prior to that, Chairman of its Board.

Mr Crawford is Chairman of the Audit, Risk and Compliance Committee and is a member of the Nomination and Remuneration Committee.

Date of appointment: 16 July 2013

Company Secretary

MS REENA MINHAS – Chief Financial Officer, Company Secretary

Ms Minhas is a commercially and strategically focused senior finance executive with over 15 years' experience gained working in both a corporate environment and for leading professional services companies in Australia and the UK.

Ms. Minhas is an experienced CFO and Company Secretary of ASX Listed businesses with a background in due diligence and capital markets projects.

Date of appointment: 2 March 2015

DIRECTORS' REPORT (CONTINUED)

Directors' Interests in shares and options of the Company as at 30 June 2017

The relevant interest of each Director in shares and options of the Company at the date of this report is as follows:

	Fully Paid Ordinary Shares		Performance Rights	Options Over Ordinary Shares
Director	Direct	Indirect	Direct	Direct
Douglas Flynn	-	3,047,752	-	-
Philip Small	-	1,200,000	-	-
Anthony Crawford	-	243,700	-	-
Damian Banks	-	13,500,000	-	930,000

Performance Rights

There were nil performance rights outstanding at the date of this report.

Meetings of Directors

During the year, the following meetings were held. Attendances were:

	Board Meetings		Audit, Risk and Compliance Committee		Nomination and Remuneration Committee	
Director	No. of meetings held whilst a Director	No. of meetings attended	No. of meetings held whilst a Member	No. of meetings attended	No. of meetings held whilst a Member	No. of meetings attended
Douglas Flynn	17	17	2	2	3	3
Philip Small	17	17	2	2	3	3
Anthony Crawford	17	17	2	2	3	3
Damian Banks	17	17	-	-	-	-

Principal Activities

The Company operates in workplace health services, conducting activities of injury prevention, injury management and consulting.

Operating Results

The consolidated net profit after income tax of the Company for the financial year was $3.6m (2016: $2.5m). Total Revenue and Other Income was $53.5m (2016: $43.9m).

DIRECTORS' REPORT (CONTINUED)

Review of Operations

A review of operations of the Company during the year is contained in the Chairman's and Managing Director's Report on page 7.

Dividends Paid or Recommended

The Board is pleased to advise that it has resolved to declare a fully franked final dividend for the year of 0.75 cents per share (2016: 0.50 cents).

Significant Changes in State of Affairs

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

Likely Developments – Outlook

FY17 was a strong year with continued growth in operational and underlying financial performance.

We believe that the Injury Management Market will continue growing at low to mid-single digits in FY18, after a softer start in NSW in the first half. The pre-employment market segment is exhibiting strength.

We are well positioned going into FY18 with good momentum in our business. We will remain focused on cost control and extracting further productivity gains.

Remuneration Report – Audited

The Directors are pleased to present the Company's 2017 Remuneration Report. This Report sets out remuneration details for Non-Executive Directors, the Managing Director and other key management personnel ("KMP").

Remuneration Policies

The remuneration structures set out below are designed to attract and retain suitably qualified candidates, reward the achievement of strategic objectives, align executive interests with the creation of value for shareholders, to be acceptable to shareholders and to be consistent with the Company's capital management strategy.

Non-Executive Directors' Remuneration

Fees paid to Non-Executive Directors are reviewed annually. Information comes from an independent survey and the benchmark is the median payments to Directors of comparable companies.

Non-Executive Directors do not receive performance related remuneration or any retirement benefits.

DIRECTORS' REPORT (CONTINUED)

Executive Remuneration

Remuneration for executives is a combination of fixed and variable components. The variable component is divided into short and long-term performance based incentives.

Fixed Remuneration

Fixed remuneration is calculated on a total cost basis and includes employer contributions to superannuation and the fringe benefits tax related to any benefits. The Nomination and Remuneration Committee reviews fixed remuneration annually with reference to comparable roles in similar companies.

Short-term Incentive

The Nomination and Remuneration Committee sets Key Performance Indicators ("KPIs") for the Managing Director and approves KPIs for certain other executives. KPIs cover financial, staff, customer and strategy areas. The measures are selected to align the incentive to the company's performance and strategy. At the end of the financial year the Nomination and Remuneration Committee assesses actual performance against the KPIs and awards a percentage of the predetermined maximum amount depending on the results.

Long-term Incentive

Long term incentives are provided to the Managing Director and other senior executives under the Konekt Performance Rights and Options Plan. Under the plan options and/or Performance Rights are granted which will only vest if financial performance targets are met. Options and/or Performance Rights are issued for no consideration and have no dividend or voting rights. The vesting period is 3 years. The Nomination and Remuneration Committee sets the vesting conditions and the exercise price for Options. The hurdles for vesting are set to drive significant shareholder value.

Consequences of Performance on Shareholder Wealth

In considering the Company's performance and the consequences of its performance on shareholders' wealth the Nomination and Remuneration Committee has regard to the following measures in respect of the current and previous financial years. Over the last 5 years' short-term incentives have been paid to KMP in 2014, 2015, 2016 and 2017.

$'000	2017	2016	2015	2014	2013
Revenue	52,655	43,829	35,050	32,796	30,518
EBITDA	6,215	4,020	2,383	1,705	51
EBIT	5,148	3,857	1,839	1,378	(249)
Profit/(loss) after income tax	3,587	2,510	1,478	1,020	(184)
Cash bonuses to KMP's	230	217	105	70	-

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

DIRECTORS' REPORT (CONTINUED)

Consequences of Performance on Shareholder Wealth (Continued)

$'000	2017	2016	2015	2014	2013
Share price at financial year end ($A)	$0.58	$0.37	$0.20	$0.13	$0.027
Total dividends declared (cents per share)	0.75	0.50	-	-	-
Basic earnings per share (cents per share)	4.90	3.45	2.0	1.4	(0.2)

		Short-term employee benefits Performance Rights		Post- employment benefits		Long-term benefits		Share-based payments	
		Cash salary and fees	Cash bonus	Non-monetary benefits	Super.	Long service leave	Termination benefits	Options	Total
		$	$	$	$	$	$	$	$
Parent Entity Directors:									
Damian Banks*	2017	**437,339**	**165,000**	**-**	**20,000**	**7,025**	**-**	**32,297**	**661,661**
	2016	384,149	160,000	-	29,769	6,321	-	12,172	592,411
Douglas Flynn	2017	**84,018**	**-**	**-**	**7,982**	**-**	**-**	**-**	**92,000**
	2016	87,250	-	-	8,289	-	-	-	95,539
Philip Small	2017	**43,728**	**-**	**-**	**11,272**	**-**	**-**	**-**	**55,000**
	2016	45,410	-	-	11,705	-	-	-	57,115
Anthony Crawford	2017	**50,228**	**-**	**-**	**4,772**	**-**	**-**	**-**	**55,000**
	2016	52,160	-	-	4,955	-	-	-	57,115
Total Remuneration – Parent Entity Directors:									
Total	2017	**615,313**	**165,000**	**-**	**44,026**	**7,025**	**-**	**32,297**	**863,661**
	2016	568,969	160,000	-	54,719	6,321	-	12,172	802,181
Key Management Personnel of the Company:									
Reena Minhas**	2017	**211,298**	**65,000**	**-**	**24,366**	**674**	**-**	**11,259**	**312,597**
	2016	196,880	57,000	-	19,945	360	-	1,618	275,803
Total Remuneration – Parent Entity Directors and Key Management Personnel of the Company:									
	2017	**826,611**	**230,000**	**-**	**68,392**	**7,699**	**-**	**43,556**	**1,176,258**
	2016	765,849	217,000	-	74,664	6,681	-	13,790	1,077,984

* *In 2017 Damian Banks received 94% of the target annual bonus payable*

** *In 2017 Reena Minhas received 130% of the target annual bonus payable*

KMP are those directly accountable and responsible for the operational management and strategic direction of the Company.

DIRECTORS' REPORT (CONTINUED)

Share Options

During the financial year, 681,798 ordinary shares were issued as a result of the exercise of options.

During the year 1,325,000 options were granted to the Managing Director and certain senior executives as long term incentives under the Konekt Performance Rights and Options Plan. The Managing Director was issued with 280,000 options, approved by shareholders at the AGM on 15 November 2016. The following terms apply to the issue of options:

- Grant date 12 August 2016 (Senior Executives)
- Grant date 15 November 2016 (Managing Director)
- First exercise date 1 September 2019 and Expiry date 29 February 2020
- Issue price $Nil
- Exercise price $0.37
- Fair Value $0.225 (12 Aug) and $0.254 (15 Nov)
- Continuous employment with Konekt Limited up to and including 30 June 2019 for 100% of the Options to vest (subject to satisfaction of the performance condition at the termination date); or continuous employment with Konekt Limited until at least 30 June 2018, where employment is subsequently terminated by the Company and employee is not a "Bad Leaver" under the Rules of the Plan for pro-rata vesting of the Options to vest meaning that (subject to satisfaction of the performance conditions on a pro rata basis at the termination date), 2/3 or the options would vest on 30 June 2018, with the number increasing pro rata after that date. Any vested options would expire, 6 months after the date of termination.

  The vesting of Options will be subject to Konekt achieving the earnings per share ("EPS") Target below.

November 2016 Invitation: EPS Target	Percentage of Options to vest if EPS Target achieved and Service to 30 June 2018	Percentage of Options to vest if EPS Target achieved and Service to 30 June 2019
Cumulative EPS of at least $0.135 over the three financial years 2017, 2018 and 2019.	66.67%	100%
Cumulative EPS of at least $0.115 over the three financial years 2017, 2018 and 2019.	33.33%	50%
Cumulative EPS of less than $0.115 over the three financial years 2017, 2018 and 2019.	0%	0%

DIRECTORS' REPORT (CONTINUED)

Share Options (continued)

- Pro Rata vesting of Options between 50 and 100% on a straight-line basis for Cumulative EPS between $0.115 and $0.135. EPS is defined as annual reported net profit after tax divided by number of shares.

- No person entitled to exercise the options has any right by virtue of the option to participate in any share issue of the company.

Service Agreements

Remuneration and other terms of employment for the Managing Director and KMP are formalised in service agreements. Each of these provides for a performance related cash bonus and superannuation. Other major provisions of the agreements relating to remuneration are set out below:

Damian Banks – Chief Executive Officer, Managing Director

- Term of agreement: no fixed term

- Either party must give 90 days' notice in writing to terminate the agreement

- Current base salary, including superannuation, amounting to $440,000 p.a. to be reviewed annually by the Nomination and Remuneration Committee. From 28 August 2017, this will increase to $450,000 p.a. (inclusive of superannuation). No part of this remuneration is performance related

- A Target short term incentive equal to $175,000 was set for FY17 (up to 28% of the total remuneration) was performance related, based on achieving performance criteria set at the Board's discretion

- A short term incentive target of $180,000 has been set for FY18 (up to 29% of the total remuneration) is performance related, based on achieving performance criteria set at the Board's discretion

- The role is eligible for Long term incentives at the discretion of the Board and approved by the Nomination and Remuneration committee annually

Reena Minhas – Chief Financial Officer, Company Secretary

- Term of agreement: no fixed term

- Either party must give 60 days' notice in writing to terminate the agreement

- Current base salary, including superannuation, amounting to $225,000 p.a. to be reviewed annually by the Nomination and Remuneration Committee. From 28 August 2017, this will increase to $235,000 p.a. (inclusive of superannuation). No part of this remuneration is performance related.

DIRECTORS' REPORT (CONTINUED)

Service Agreements (continued)

- Target short term incentive equal to $50,000 was set for FY17 (up to 18% of the total remuneration) was performance related.
- A short term incentive target of $58,750 has been set for FY18 (up to 20% of the total remuneration) is performance related, based on achieving performance criteria
- The role is eligible for Long term incentives at the discretion of the Board and approved by the remuneration committee annually

Additional disclosures relating to key management personnel

Shareholdings of Parent Entity Directors and Key Management Personnel

The number of shares in the Company during the 2017 and 2016 reporting periods by each parent entity Director and KMP of the Company are set out below:

30 June 2017	Balance 1 July 2016	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2017
	Ordinary Shares	Ordinary Shares	Ordinary Shares	Ordinary Shares	Ordinary Shares
Parent Entity Directors					
Douglas Flynn^	3,047,752	-	-	-	3,047,752
Philip Small#	1,200,000	-	-		1,200,000
Anthony Crawford*	225,000	-	-	18,700	243,700
Damian Banks**	13,500,000	-	613,333	(613,333)	13,500,000
Key Management Personnel					
Reena Minhas	-	-	-	-	-
Total	**17,972,752**	**-**	**613,333**	**(594,633)**	**17,991,452**

^ Douglas Flynn's shares are held indirectly through Flynn Superannuation Fund and Flynn Superannuation Fund Two
# Philip Small's shares are held indirectly through Hawks Hill Super Fund
* Anthony Crawford's shares are held indirectly through Crawford Superannuation Fund
** Damian Banks' shares are held indirectly through Nidmas Pty Ltd

During the financial year, 613,333 Options issued in FY14 to KMP were exercised and 186,667 options issued in FY14 to KMP lapsed. Amount paid per ordinary share issued was $0.05. Fair value of Options exercised was $4,294 and fair value of options lapsed was $1,314.

DIRECTORS' REPORT (CONTINUED)

Additional disclosures relating to key management personnel (continued)

30 June 2016	Balance 1 July 2015	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2016
	Ordinary Shares	Ordinary Shares	Ordinary Shares	Ordinary Shares	Ordinary Shares
Parent Entity Directors					
Douglas Flynn^	3,047,752	-	-	-	3,047,752
Philip Small#	1,000,000	-	-	200,000	1,200,000
Anthony Crawford*	-	-	-	225,000	225,000
Damian Banks**	14,450,000	-	-	(950,000)	13,500,000
Key Management Personnel					
Reena Minhas	-	-	-	-	-
Total	**18,497,752**	**-**	**-**	**(525,000)**	**17,972,752**

^ Douglas Flynn's shares are held indirectly through Flynn Superannuation Fund and Flynn Superannuation Fund Two
# Philip Small's shares are held indirectly through Hawks Hill Super Fund
* Anthony Crawford's shares are held indirectly through Crawford Superannuation Fund
** Damian Banks' shares are held indirectly through Nidmas Pty Ltd

Option holdings of Parent Entity Directors and Key Management Personnel

30 June 2017	Balance at 1 July 2016	Granted	Options exercised	Lapsed	Balance at 30 June 2017	Total vested at 30 June 2017	Total vested and exercisable at 30 June 2017	Total vested and un-exercisable at 30 June 2017
Options								
Damian Banks	1,450,000	280,000	(613,333)	(186,667)	930,000	-	-	-
Reena Minhas	100,000	140,000	-	-	240,000	-	-	-
Total	**1,550,000**	**420,000**	**(613,333)**	**(186,667)**	**1,170,000**	**-**	**-**	**-**

30 June 2016	Balance at 1 July 2015	Granted	Options exercised	Lapsed	Balance at 30 June 2016	Total vested at 30 June 2016	Total vested and exercisable at 30 June 2016	Total vested and un-exercisable at 30 June 2016
Options								
Damian Banks	1,200,000	250,000	-	-	1,450,000	-	-	-
Reena Minhas	-	100,000	-	-	100,000	-	-	-
Total	**1,200,000**	**350,000**	**-**	**-**	**1,550,000**	**-**	**-**	**-**

This concludes the remuneration report, which has been audited.

DIRECTORS' REPORT (CONTINUED)

Audit Services

During the year, audit and review fees paid and payable to the Company's auditor BDO East Coast Partnership was $83,500 (2016: $99,000).

Non-audit Services

Details of the amount paid to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 17 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.

Environmental Regulations

The Company's operations are not subject to significant environmental regulations under either Commonwealth or State legislation.

Significant Events after the End of the Reporting Period

On 10 August 2017, Konekt has executed an Agreement to acquire 100% of Mission Providence for a cash consideration of $24.0m, subject to certain purchase price adjustments (including working capital).

Mission Providence is a leading provider of Employment Services (c80% of revenues) and the New Enterprise Incentive Scheme (NEIS) under the Federal Government's *jobactive* program.

This expansion into an adjacent market, is consistent with Konekt's RTW focus and purpose of maximising workforce participation for individuals and in line with strategy, skill set and provides a significant additional avenue for future growth.

The acquisition will be funded as follows:

- Placement and rights issue to raise $15.7m in aggregate (new shares will not be entitled to final FY17 dividend announced and the placement shares will not be entitled to participate in the rights issue); and
- Credit approved acquisition facility for $18.3m with the Commonwealth Bank of Australia (CBA)

Indemnification and Insurance of Directors

The Company has agreed to indemnify all current Directors of the Company and former Directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. Subject to the terms of the Directors' and Officers' Insurance policy the agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Indemnification and Insurance of Directors (continued)

The Company has also agreed to indemnify the current Directors of its subsidiaries for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify executive officers and employees for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

The Directors have taken out a Directors' and Officers' Insurance policy but have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the policy as such disclosure is prohibited under the terms of the contract.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of Corporate Governance except as outlined in the Corporate Governance Statement which is available via this URL on our website - http://www.konekt.com.au/about-us/corporate-governance/

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act can be found on page 28 of this report.

DIRECTORS' REPORT (CONTINUED)

Rounding of Accounts (continued)

The parent entity has applied the relief available in ASIC Legislative Instrument 2016/191 and, accordingly, amounts in the financial statements and Directors' report have been rounded.

Signed in accordance with a Resolution of the Board of Directors.

Douglas Flynn
Chairman

Damian Banks
Chief Executive Officer

10 August 2017, Sydney

AUDITOR'S INDEPENDENCE DECLARATION

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Level 11, 1 Margaret St
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Australia

DECLARATION OF INDEPENDENCE BY JOHN BRESOLIN TO THE DIRECTORS OF KONEKT LIMITED

As lead auditor of Konekt Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Konekt Limited and the entities it controlled during the year.

John Bresolin
Partner

BDO East Coast Partnership

Sydney, 10 August 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Notes	Consolidated 2017 $'000	Consolidated 2016 $'000
Sales Revenue		**52,655**	**43,829**
Re-measurement of contingent consideration	14	367	-
Other income		447	122
Expenses			
External consultants		(4,265)	(2,964)
Depreciation and amortisation expenses		(1,069)	(675)
Finance costs		(318)	(190)
Share based payments expense	12 d)	(17)	(53)
Salaries and employment related costs		(34,581)	(29,056)
Property expenses		(3,247)	(3,215)
Communication expenses		(981)	(878)
Motor vehicle and equipment expenses		(928)	(865)
Travel and accommodation expenses		(1,114)	(976)
Other expenses from continuing operations		(2,111)	(1,898)
Profit before income tax expense		**4,838**	**3,181**
Income tax expense	4	(1,251)	(671)
Profit after income tax expense for the year attributable to the owners of Konekt Limited		**3,587**	**2,510**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Konekt Limited		**3,587**	**2,510**

Earnings per share for profit attributable to the owners of Konekt Limited			
Basic earnings per share (cents per share)	3	4.90	3.45
Diluted earnings per share (cents per share)	3	4.82	3.38

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		Consolidated	
	Notes	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents		2,848	246
Trade and other receivables	6	9,001	8,382
Work in progress		367	395
Other assets		290	350
Total current assets		**12,506**	**9,373**
Non-current assets			
Other assets		144	128
Plant and equipment	7	1,269	1,190
Deferred tax asset	5	1,710	1,683
Intangibles assets	8	12,665	12,447
Total non-current assets		**15,788**	**15,448**
Total assets		**28,294**	**24,821**
Current liabilities			
Trade and other payables	9	5,572	5,027
Deferred Revenue		709	259
Deferred consideration	14	1,300	649
Employee benefits	10	1,562	1,308
Provisions	10	213	229
Current Tax Liabilities		1,191	1,568
Borrowings	11	26	326
Total current liabilities		**10,573**	**9,366**
Non-current liabilities			
Trade and other payables		84	69
Deferred consideration	14	1,284	2,410
Employee benefits	10	382	339
Borrowings	11	315	-
Total non-current liabilities		**2,065**	**2,818**
Total liabilities		**12,638**	**12,184**
Net assets		**15,656**	**12,637**
Equity			
Contributed equity	12a	38,580	38,798
Reserves	12d	392	375
Profits Reserve		3,587	-
Accumulated losses		(26,904)	(26,536)
Total Equity		**15,656**	**12,637**

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Notes	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		57,901	45,545
Payments to suppliers and employees (inclusive of GST)		(51,309)	(41,924)
Payments of one-off acquisition liabilities		-	(709)
Payments of one-off acquisition expenses		-	(570)
		6,592	**2,342**
Interest received		8	27
Interest paid		(4)	(4)
Income taxes paid		(1,716)	(48)
Net cash from operating activities	**21**	**4,880**	**2,317**
Cash flows from investing activities			
Purchase of plant and equipment		(616)	(475)
Purchase of intangible assets		(677)	(292)
Payments for Deferred Consideration	14	(423)	(30)
Payment for purchase of business, net of cash acquired		-	(4,448)
Net cash used in investing activities		**(1,716)**	**(5,245)**
Cash flows from financing activities			
Payments for on market share buyback		(255)	(130)
Proceeds from Issue of Shares		37	-
Dividends Paid		(367)	-
Proceeds from borrowings		315	292
Repayment of borrowings		(292)	-
Net cash provided /(used in) financing activities		**(562)**	**162**
Net (decrease)/increase in cash and cash equivalents		**2,602**	**(2,766)**
Cash and cash equivalents at the beginning of the financial year		246	3,012
Cash and cash equivalents at the end of the financial year		**2,848**	**246**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Contributed equity	Accumulated losses	Profits Reserve (a)	Option Reserve	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2015	**38,928**	**(29,046)**	**-**	**322**	**10,204**
Profit after income tax expense for the year	-	2,510	-	-	2,510
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	**-**	**2,510**	**-**	**-**	**2,510**
Transactions with owners in their capacity as owners:					
Share buyback	(130)	-	-	-	(130)
Share based payments (note 12d)	-	-	-	53	53
Balance at 30 June 2016	**38,798**	**(26,536)**	**-**	**375**	**12,637**
Profit after income tax expense for the year	-	3,587	-	-	3,587
Transfer to Profits Reserve	-	(3,587)	3,587	-	-
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**3,587**	**-**	**3,587**
Transactions with owners in their capacity as owners:					
Share buyback	(255)	-		-	(255)
Proceeds from Issue of Shares	37	-		-	37
Dividends Paid or provided for		(367)			(367)
Share based payments (note 12d)	-	-		17	17
Balance at 30 June 2017	**38,580**	**(26,903)**	**3,587**	**392**	**15,656**

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

(a) The Profits Reserve comprises the transfer of net profit for the period not offset against the company's accumulated losses. It represents profits available for distributions as dividends in future periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Konekt Limited for the year ended 30 June 2017 ("the financial year") cover Konekt Limited as a consolidated entity, consisting of Konekt Limited and the entities it controlled during the year (referred to hereafter as the 'Company'). Konekt Limited is a listed public Company limited by shares, incorporated and domiciled in Australia.

In accordance with the Corporations Act 2001, these financial statements present the result of the consolidated entity only. Supplementary information about the parent entity can be found in Note 24.

The financial statements were authorised for issue in accordance with a resolution of Directors on 10 August 2017.

New, revised or amending Accounting Standards and Interpretations adopted

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

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

There were no significant impacts on the accounting policies, financial position, performance or disclosures of the Company from the adoption of these Accounting Standards and Interpretations.

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"). Currency is Australian Dollars.

Reporting Basis and Conventions

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of Konekt Limited ("Company" or "parent entity") as at 30 June 2017 and the results of all of its subsidiaries for the year then ended. Konekt Limited and its subsidiaries together are referred to in these financial statements as the Company.

A subsidiary is any entity controlled by Konekt Limited. Control exists where Konekt Limited has the power to govern the financial and operating policies of another entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All inter-Company balances and transactions between entities within the Company, including any unrealised profits or losses, have been eliminated on consolidation.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held on 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 insignificant risk of changes in value, and bank overdrafts.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis except for the GST components of cash flows arising from investing and financing activities, which are disclosed as operating cash flows.

Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of credits, duties and taxes paid. Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

Impairment of Assets

Goodwill and 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 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash generating unit to which the asset belongs. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Rounding of Amounts

The Company has applied the relief available under ASIC legislative Instrument 2016/191 and accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share Based Payments

Share-based compensation benefits are provided to Directors and senior executives via options or performance rights under the Konekt Performance Rights and Options Plan. Information relating to this plan is set out in Note 12(d).

The fair value of options granted under the plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the Directors become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Offers are also made from time to time to all eligible staff under the Konekt Share Acquisition Plan and the Konekt Deferred Employee Share Plan. Any issues under these plans are recognised as a benefit expense with a corresponding increase in equity in relation to any portion which is not funded by the employee.

Comparative Amounts

Where required by accounting standards, the reclassification of comparatives has been performed in order to conform to the changes in presentation for the current financial year.

Other Accounting Policies & Critical Accounting Estimates and Judgements

Please note other accounting policies and critical accounting estimates and judgements are included in the relevant notes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company for the annual reporting period ended 30 June 2017. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, 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 IAS 39

'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI').

For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). 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' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Company will adopt this standard from 1 July 2018, however the impact of its adoption is not expected to be material.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfill a contract with a customer.

The Company will adopt this standard from 1 July 2018 and considers the pattern of revenue and profit recognition currently adopted by the company is compliant with the new standard. In particular, we assess;

- Probability of collection from each customer is 100% likely;
- Transaction prices for each new contract are incorporated into our billing system;
- Revenue is only recognised upon the delivery of services to customers as per contract requirements;
- Any payments received in advance are for periods of less than 12 months and are recognised as deferred revenue until the performance obligation of the contract is satisfied;
- Revenue is recognised at the (net) amount we expect to receive from each customer/client if there are any rebates which can reduce the amount of revenue recognised

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases typically.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The main changes to our financials resulting from the introduction of the new Standard will be:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets) in the Statement of Financial Position;
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest;
- Konekt's Operating Leases, such as Motor Vehicle and Premises leases, equal to or greater than one year would be classified as Finance Leases under the new standard;
- These leases will have variable lease payments that depend on an index or a rate will need to be included in the initial measurement of the lease liability using the index or rate at the commencement date;
- additional disclosure requirements will be required

2. DIVIDENDS

A Fully franked final dividend of 0.75 cents per share was declared on 10 August 2017. (2016: 0.50 cents). As the dividend was declared after the year end no liability has been recognised in these financial statements.

	Consolidated	
	2017	2016
	$'000	$'000
Distributions Paid		
Final Dividend in respect of 2016 year of 0.5 cents (2016: nil) per fully paid ordinary share 100% franked at 30% tax rate	367	-

The Company's franking account at 30 June 2017 has a balance of $2,031,564.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. EARNINGS PER SHARE

	Consolidated	
	2017 (¢)	2016 (¢)
Basic earnings per share	4.90	3.45
Diluted earnings per share	4.82	3.38
Weighted average number of shares used in the		
calculation of basic earnings per share	73,136,033	72,864,451
calculation of diluted earnings per share	74,428,522	74,284,365

	Consolidated	
	2017	2016
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**73,136,033**	**72,864,451**
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,292,489	1,419,914
Weighted average number of ordinary shares used in the denominator in calculating diluted earnings per share	**74,428,522**	**74,284,365**

Basic earnings per share is determined by dividing the profit attributable to members of Konekt Limited after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share adjust for the effects of all dilutive potential of current options over ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAX EXPENSE

The operating result before income tax includes the following specific expenses:

	Consolidated	
	2017	**2016**
Profit from continuing operations before income tax expense	**4,838**	**3,181**
Tax at the Australian tax rate of 30%	1,451	954
Entertainment	24	116
Other	87	58
Share based payments	5	16
Non-assessable income	(110)	-
Adjustment recognised for prior periods	99	37
Research & development tax offset	(185)	(87)
Reversal of acquisition temporary differences	-	170
Previously unrecognised tax losses now recognised	(120)	(519)
Income tax expense	**1,251**	**671**
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in the balance sheet for the following items:		
Unused tax losses	763	912
	763	**912**
Potential benefit at 30% (2016: 30%)	229	274

The charge for current income tax expense is based on the results of the year adjusted for any non- assessable or disallowable items. It is calculated using the tax rates that have been enacted or are substantially enacted by the end of financial year.

Tax consolidation

For the purposes of income taxation, Konekt Limited and its 100% owned subsidiaries have formed a tax consolidated group. Members of the Group have entered into tax sharing agreements in order to allocate income tax expense to the relevant entity on a pro-rata basis and this is recorded via intercompany receivables / payables. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax obligations. At the end of the reporting period the possibility of default is remote.

	Consolidated	
	2017 $'000	**2016 $'000**
Current tax expense		
Current tax expense	1,638	1,507
Adjustment recognised for prior periods	(175)	(131)
Research and development offset	(185)	(87)
	1,278	**1,289**
Deferred tax		
Origination and reversal of temporary differences	11	(230)
Adjustment recognised for prior periods	(38)	(388)
Income tax expense	**1,251**	**671**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. DEFERRED TAX ASSETS

Deferred tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Deferred tax is credited to profit or loss except where it relates to items that may be credited directly to equity or to other comprehensive income, in which case the deferred tax is credited directly against equity or other comprehensive income.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account, or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

	Consolidated	
Deferred tax assets comprise temporary differences attributable to:	2017 $'000	2016 $'000
Amounts recognised in profit or loss		
Provision for impairment of receivables	13	14
Employee benefits and other provisions	1,315	1,108
FBT accrual	18	5
Leasehold Incentive	48	32
General accrual	48	122
Audit fee accrual	14	15
Deferred income	-	78
Movement in depreciation	31	22
Work in progress	(110)	(119)
Customer relationships	(77)	(40)
Business Capital Expenditure	20	-
Capitalised R&D expenses	(95)	(78)
Pre-formation tax losses	485	524
Total Deferred Tax Asset	**1,710**	**1,683**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. DEFERRED TAX ASSETS (CONTINUED)

Research and Development Tax Incentive

Under the Research and Development Tax Incentive scheme jointly administered by AusIndustry and the ATO, the Australian Government offers a Tax Offset for funds invested in research and development. The tax offset is recognised as a tax expense in the profit or loss and would be set off against tax provision if utilised in current period or recognised as a deferred tax asset if the offset will be utilised in future periods.

Movements in deferred tax assets	Balance at 1 July 2016 $'000	Recognised in Business Combination $'000	(Charged) / credited to profit or loss $'000	(Charged) / credited to other compre-hensive income $'000	Balance at 30 June 2017 $'000
Amounts recognised in profit or loss:					
Provision for impairment of receivables	14	-	(1)	-	13
Employee benefits and other provisions	1,108	-	207	-	1,315
FBT accrual	5	-	13	-	18
Leasehold Incentive	32	-	16	-	48
General accrual	122	-	(74)	-	48
Audit fee accrual	15	-	(1)	-	14
Deferred income	78	-	(78)	-	-
Work in progress	22	-	9	-	31
Customer relationships	(119)	-	9	-	(110)
Movement in depreciation	(40)	-	(37)	-	(77)
Business Capital Expenditure	0	-	20	-	20
Capitalised R&D expenses	(78)	-	(17)	-	(95)
Preformation tax losses	524	-	(39)	-	485
Total	**1,683**	**-**	**27**	**-**	**1,710**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated	
	2017 $'000	2016 $'000
Trade receivables	9,043	8,411
Less provision for impairment of receivables	(42)	(46)
	9,001	**8,365**
Other receivables	-	17
	9,001	**8,382**

Trade and Other Receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible debts and in the majority of cases have repayment terms between 14 and 30 days. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgment. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position. Past due amounts not impaired are unsecured. In most cases they are with large customers who regularly pay accounts and amounts have been held up for minor processing and approval reasons. Their fair value is equivalent to the amount outstanding. Trade receivables that are neither past due nor impaired related to long standing customers with a good track record. As at 30 June 2017 the Company had total current trade receivables of $42,000 (2016: $46,000) that were impaired.

Payment terms on receivables past due but not considered impaired have not been re-negotiated. The Company has been in direct contact with the relevant customers and is reasonably satisfied that payment will be received in full.

Aged analysis of trade receivables that are past due but not impaired at the reporting date

	Consolidated					
	2017			2016		
	Total $'000	Amount Impaired $'000	Amount not Impaired $'000	Total $'000	Amount Impaired $'000	Amount not Impaired $'000
Not Past due	8,562	-	8,562	7,779	-	7,779
Past due > 30 days	312	-	312	416	-	416
Past due > 60 days	130	-	130	104	-	104
Past due > 90 days	39	(42)	(3)	112	(46)	66
Total	**9,043**	**(42)**	**9,001**	**8,411**	**(46)**	**8,365**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. PLANT AND EQUIPMENT

	Consolidated	
	2017 $'000	2016 $'000
Plant and equipment at cost	4,041	3,740
Less accumulated depreciation	(3,354)	(3,110)
	687	**630**
Leasehold improvements at cost	1,645	1,330
Less accumulated depreciation	(1,063)	(770)
	582	**560**
Total written down value	**1,269**	**1,190**

Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Consolidated	
	2017 $'000	2016 $'000
Plant and equipment		
Carrying amount at beginning of the year	630	463
Additions	300	330
Disposals	-	-
Acquisitions through Business Combinations	-	19
Depreciation	(243)	(182)
Carrying amount at end of the year	**687**	**630**
Leasehold improvements		
Carrying amount at beginning of the year	560	681
Additions	316	130
Disposals	-	-
Depreciation	(294)	(251)
Carrying amount at end of the year	**582**	**560**

Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation or amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. PLANT AND EQUIPMENT (CONTINUED)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

All assets are depreciated using the straight line method over their estimated useful lives and are depreciated from the date of acquisition. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing disposal proceeds with the carrying amount. These are included in profit or loss.

The depreciation rates used for each class of asset are as follows:

	2017
Plant and equipment	10% to 50%
Leasehold improvements	15% to 40%

Estimation of useful lives of assets

The Company 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 some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. INTANGIBLE ASSETS

	Consolidated	
	2016 $'000	2016 $'000
Goodwill		
At cost	29,698	29,864
Accumulated impairment	(18,157)	(18,157)
	11,541	**11,707**
Trademarks **		
At cost	27	27
Customer Relationships		
At cost	391	152
Accumulated amortisation	(137)	(20)
	254	**132**
Software development*		
At cost	1,919	1,242
Accumulated amortisation	(1,076)	(661)
	843	**581**
	12,665	**12,447**

** Software development relates to internal costs incurred on products and related systems development. These assets are amortised over the expected life of the product, which is typically 3 years.*

*** The Trade Mark relates to the Konektiva trade name registration.*

Goodwill

Goodwill has an indefinite useful life, is not amortised, and is initially recorded at the amount by which the purchase price exceeds the fair value attributed to the net assets acquired and contingent liabilities at date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill acquired is allocated to each of the cash generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses or goodwill cannot be reversed.

Trademarks

Trademarks are considered to have an indefinite useful life and are not amortised. As such they are tested annually for impairment, and are carried at cost less any impairment losses.

8. INTANGIBLE ASSETS (CONTINUED)

Customer Relationships

Customer relationships are recognised at fair value in connection with the acquisitions. The values of these relationships are amortised over the estimated useful lives, between 3 and 5 years, using the straight-line method.

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future financial year benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials, and directly attributable employee costs, with amortisation calculated on a straight line-basis over 3 years. IT web portal development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

	Consolidated	
	2017 $'000	2016 $'000
Reconciliation - Goodwill		
Carrying amount at the beginning of the year	11,707	3,523
Acquisitions through Business Combinations	-	8,184
Reclassification to other intangibles	(166)	-
Impairment losses	-	-
Carrying amount at the end of the year	**11,541**	**11,707**
Reconciliation – Customer relationships		
Carrying amount at the beginning of the year	132	-
Acquisitions through Business Combinations	-	152
Recognition of customer relationships intangibles	239	-
Amortisation	(117)	(20)
Carrying amount at the end of the year	**254**	**132**
Reconciliation – IT Development		
Carrying amount at the beginning of the year	581	506
Additions	677	293
Amortisation	(415)	(218)
Carrying amount at the end of the year	**843**	**581**

8. INTANGIBLE ASSETS (CONTINUED)

Goodwill and other indefinite life intangible assets

Goodwill is allocated to the overall Group (single cash generating unit ("CGU")) as the Group operates on a national basis and maintaining a national footprint is essential to attracting and retaining major customers.

The recoverable amount of a CGU is based on value-in-use calculations which use cash flow projections based on budgets approved by management covering a 5-year period.

The growth rate used in these budgets does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations are as follows:

- the discount rate used was 15% pre-tax (2016: 15%);
- forecasts are performed taking into consideration trading outlook and future growth prospects for the Group with revenues rising at 4% initially reducing to 2% in the next four years;
- operating costs rising at 3% initially then reducing to 2% growth in the next four years; and
- terminal value calculation includes 0% growth.

Key assumptions are based on management budgets, past performance and expectations for the future. Should these assumptions prove to be incorrect and/or should there be unfavourable/favourable variances in actual results as compared to budgeted, an impairment write-down or write-back in relation to goodwill may be required in future periods.

Sensitivity

The Directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill may vary in carrying amount. The sensitivities are as follows:

- Revenue would need to decrease by more than 7.00% per year below forecasted growth before goodwill would need to be impaired, with all other assumptions remaining constant; and
- The discount rate would be required to increase to more than 36% for the Group before goodwill would need to be impaired, with all other assumptions remaining constant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. TRADE AND OTHER PAYABLES

	Consolidated	
	2017 $'000	2016 $'000
CURRENT		
Trade payables	808	541
Leasehold incentives	78	49
Other payables and accruals	4,686	4,436
	5,572	**5,027**
NON-CURRENT		
Leasehold incentives	84	59
Other payables and accruals	-	10
	84	**69**

Liabilities for trade creditors and other payables are carried at cost. This represents the fair value of goods and services received prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

10. PROVISIONS

	Consolidated	
	2017 $'000	2016 $'000
CURRENT		
Lease make good	136	229
Employee benefits	1,562	1,308
Other provisions	77	-
	1,775	**1,537**
NON-CURRENT		
Employee benefits	382	339
	382	**339**

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. PROVISIONS (CONTINUED)

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 are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to be 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined Contribution Superannuation expense

The Company and its subsidiaries contribute to several defined contribution employee superannuation plans. Contributions are charged as expenses as they are incurred.

11. BORROWINGS

	Consolidated	
	2017 $'000	2016 $'000
CURRENT – [unsecured]		
Bank loans	-	292
Other loans	26	34
	26	**326**
NON-CURRENT – [unsecured]		
Bank loans	315	-
(a) The carrying amounts of assets pledged as security are:		
Floating charge over assets, including investments	**28,294**	**24,821**
(b) Refer to Note 22 for details of banking facilities.		

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the loans and borrowings using the effective interest method.

All borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. CONTRIBUTED EQUITY

a) Issued and paid up capital

	Consolidated	
	2017 $'000	2016 $'000
Ordinary shares	**38,580**	**38,798**

The number of fully paid ordinary shares in issue at year end is 72,905,581 (2016: 72,737,471). All shares rank equally.

b) Movements in shares on issue

	Consolidated			
	2017		2016	
	Number of Shares	$'000	Number of Shares	$'000
Beginning of the financial year	72,737,471	38,798	73,357,134	38,928
Plus Issue of New Shares	681,798	37	-	-
Less: Share buyback	(513,688)	(255)	(619,663)	(130)
End of the financial year	**72,905,581**	**38,580**	**72,737,471**	**38,798**

Share buyback

In November 2016, shareholder approval was granted at the AGM to buy back up to 14.5 million shares (being 20% of the lowest number of shares on issues in the prior 12 months) for a period of 12 months from approval. During the year the Company conducted an on-market share buyback within 10/12 limit. A total of 513,688 shares were bought back at an average price of $0.50 per share in March and April 2017 and duly cancelled from the share register.

c) Capital risk management

The Company considers its capital to comprise its ordinary share capital and accumulated retained earnings/ (Losses).

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions through the payment of dividends to shareholders.

In order to achieve this objective, the Company seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or the reduction of debt, the Company considers not only its short-term position but also its long-term operational and strategic objectives.

There have been no significant changes to the Company's capital management objectives, policies and processes in the year nor has there been any change in what the Company considers to be its capital.

12. CONTRIBUTED EQUITY (CONTINUED)

	Consolidated	
	2017 $'000	2016 $'000
Gearing ratios		
Debt	341	326
Total equity	15,656	12,637
Gearing Ratio	2.18%	2.58%

d) Share based options and performance rights

(i) Performance rights – There were no performance rights issued or outstanding during the year.

(ii) Options

Senior Manager Long Term Incentive

During the year 1,325,000 options were granted to the Managing Director and certain senior executives as long term incentives under the Konekt Performance Rights and Options Plan. The Managing Director was issued with 280,000 options, approved by shareholders at the AGM on 15 November 2016. The following terms apply to the issue of options:

- Grant date 12 August 2016 (Senior Executives)
- Grant date 15 November 2016 (Managing Director)
- First exercise date 1 September 2019
- Issue price $Nil
- Exercise price $0.37
- Continuous employment with Konekt Limited up to and including 30 June 2019 for 100% of the Options to vest (subject to satisfaction of the performance condition at the termination date); or continuous employment with Konekt Limited until at least 30 June 2018, where employment is subsequently terminated by the Company and employee is not a "Bad Leaver" under the Rules of the Plan for pro-rata vesting of the Options to vest meaning that (subject to satisfaction of the performance conditions on a pro rata basis at the termination date)
- 2/3 of the options would vest on 30 June 2018, with the number increasing pro rata after that date. Any vested options would expire at 5pm, 6 months after the date of termination

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. CONTRIBUTED EQUITY (CONTINUED)

e) Share based options and performance rights (continued)

- The vesting of Options will be subject to Konekt achieving the earnings per share (EPS*) Target below

August 2016 Invitation: EPS Target	Percentage of Options to vest if EPS Target achieved and Service to 30 June 2018	Percentage of Options to vest if EPS Target achieved and Service to 30 June 2019
Cumulative EPS of at least $0.135 over the three financial years 2017, 2018 and 2019	66.67%	100%
Cumulative EPS of at least $0.115 over the three financial years 2017, 2018 and 2019.	33.33%	50%
Cumulative EPS of less than $0.115 over the three financial years 2017, 2018 and 2019.	0%	0%

- Pro Rata vesting of Options between 50% and 100% on a straight-line basis for Cumulative EPS between $0.115 and $0.135. EPS is defined as Annual reported Net Profit after Tax divided by number of shares

- Details of the movement in the share based payments reserve are provided below:

	Consolidated	
	2017 $'000	2016 $'000
Share-based payments reserve		
Opening balance of reserve	375	322
Share based payments expense	17	53
Closing balance of reserve	**392**	**375**

Share-based payment transactions

The Company measures the cost of Share-based compensation benefits with employees by reference to fair value determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. In FY17 there was an adjustment due to cancellation of Options of Senior Executives which reduced the annual share based payments expense.

For Options exercised during the year the weighted average share price paid was $0.06

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. CONTRIBUTED EQUITY (CONTINUED)

f) Share based options and performance rights (continued)

This reserve is used to record the value of equity benefits provided to the employees as a part of their compensation.

Details of options and performance rights outstanding as part of the Konekt Performance Rights and Options Plan during the financial year is as follows:

Consolidated 2017

Grant Date	Vesting Date	Expiry Date	Applicable exercise price	Balance at beginning of year	Granted during the year	Exercised during the year	(Lapsed) during the year	Balance at end of the year	Fair Value
Options				Number	Number	Number	Number	Number	$
28.09.2013	01.08.2016	31.01.2017	$0.05	800,000	-	(613,333)	(186,667)	-	-
24.11.2014	01.12.2017	31.05.2018	$0.10	470,000	-	(68,465)	(1,535)	400,000	18,800
18.11.2015	01.09.2018	28.02.2019	$0.20	700,000	-	-	(50,000)	650,000	40,950
12.08.2016	01.09.2019	28.02.2020	$0.37	-	1,045,000	-	(45,000)	1,000,000	225,200
15.11.2016	01.09.2019	28.02.2020	$0.37	-	280,000	-	-	280,000	71,064
				1,970,000	**1,325,000**	**(681,798)**	**(283,202)**	**2,330,000**	**356,014**

The fair value of options at grant date is independently determined using a Black Scholes model. The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Fair Value at Grant Date
12.08.2016	28.02.2019	$0.54	$0.37	39.72%	0.92%	1.88%	$0.225
15.11.2016	28.02.2019	$0.58	$0.37	39.72%	0.92%	1.88%	$0.254

Consolidated 2016

Grant Date	Vesting Date	Expiry Date	Applicable exercise price	Balance at beginning of year	Granted during the year	Exercised during the year	(Lapsed) during the year	Balance at end of the year	Fair Value
Options				Number	Number	Number	Number	Number	$
28.09.2013	01.08.2016	31.01.2017	$0.05	1,200,000	-	-	(400,000)	800,000	5,600
24.11.2014	1.12.2017	31.05.2018	$0.10	990,000	-	-	(520,000)	470,000	22,090
18.11.2015	1.09.2018	28.02.2019	$0.20	-	930,000	-	(230,000)	700,000	44,100
				2,190,000	**930,000**	**-**	**(1,150,000)**	**1,970,000**	**71,790**

g) Obligations to issue ordinary shares

There are no obligations to issue ordinary shares.

h) Restricted securities

There are no restricted securities at the date of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CAPITAL AND LEASING COMMITMENTS

Non-cancellable operating lease commitments

Future operating leases contracted for but not capitalised in the financial statements and payable:

	Consolidated							
	2017				2016			
	Equipment $'000	Motor Vehicle $'000	Property $'000	Total $'000	Equipment $'000	Motor Vehicle $'000	Property $'000	Total $'000
Due within 1 year	12	308	2,339	2,659	89	302	2,180	2,571
Due later than 1 year but less than 5 Year	8	181	923	1,112	31	334	2,240	2,605
Due later than 5 Years	-	-	-	-	-	-	-	-
Total	**20**	**489**	**3,262**	**3,771**	**120**	**636**	**4,420**	**5,176**

The Company leases property, photocopiers, computers and motor vehicles under non-cancellable operating leases expiring from one to five years. Leases generally provide the Company with a right of renewal at which time all terms are renegotiated.

	Consolidated	
	2017	2016
	$'000	$'000
Payments under operating leases in Profit and Loss		
Motor vehicle leases	379	376
Equipment	90	84
Property leases	2,427	2,358
	2,896	**2,818**

Leases

Leases are classified at their inception as either operating or finance leases based on the substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred. Provisions are made for onerous leases where property has been vacated and there is no foreseeable subletting likely under the lease because of vacancy rates within the area or building.

The cost of improvements to or on leasehold assets is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CAPITAL AND LEASING COMMITMENTS (CONTINUED)

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

Finance leases

Capitalised leased assets are amortised over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to profit and loss.

14. DEFERRED CONSIDERATION PAYABLE

Konekt Ltd recognises the fair value of deferred considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition financial performance of the acquired businesses. These calculations use cash flow projections for post-acquisition performance.

Any projected earn out payments are discounted to present value, using a discount rate deemed appropriate by Konekt to account for the time value of money in addition to the inherent risk in the earn out calculation projection. The discount rate used is 15% pre-tax (2016: 15%).

Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

During the period the deferred consideration was remeasured and reduced by $367,000 and resulted in an adjustment in the Statement of profit or loss and other comprehensive income.

	Consolidated			
	2017		2016	
	Purchase Consideration Payable for Acquisitions	Others	Purchase Consideration Payable for Acquisitions	Others
	$'000	$'000	$'000	$'000
Carrying amount at the beginning of the year	3,059	-	-	-
Additions	-	-	2,903	-
Settlement	(423)	-	(30)	-
Remeasurement of contingent payable	(367)	-	-	-
Interest unwind	315	-	186	-
Carrying amount at end of the year	**2,584**	**-**	**3,059**	**-**
Total gain for the year included in profit or loss	**367**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. DEFERRED CONSIDERATION PAYABLE (CONTINUED)

Contingent consideration classified as a liability (categorised as a level 3 on the fair value hierarchy) is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

15. CONTINGENT LIABILITIES

As at 30 June 2017 Konekt had issued bank guarantees to the value of $784,930 primarily relating to property leases and $200,000 for a cash-backed guarantee to facilitate the transition of Banking facilities during the period.

The Directors are not aware of any other contingent liabilities as at 30 June 2017.

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Remuneration of Parent Entity Directors and Key Management Personnel ('KMP')

	Consolidated	
	2017 $	2016 $
Share-based payments reserve		
Short-term employee benefits	826,611	765,849
Cash bonus	230,000	217,000
Non-monetary benefits	-	-
Post-employment benefits	68,392	74,664
Long-term benefits	7,699	6,681
Termination benefits	-	-
Share-based payments	43,556	13,790
	1,176,258	**1,077,984**

KMP remuneration has been included in the Remuneration Report section of the Directors Report.

b) Services

There are no other services provided by Directors or KMP other than for their remuneration.

17. REMUNERATION OF AUDITORS

	Consolidated	
	2017 $	2016 $
Amounts paid/payable to BDO East Coast Partnership for audit or review of the financial statements for the Company	83,500	99,000
Tax and accounting advisory services	-	4,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. SEGMENT REPORTING

The Company has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the Chief Executive Officer. This has not resulted in an increase in the number of reportable segments as it is still considered that there is only one reporting segment in the Company which is Injury Management. All branch operations operate under similar regulatory environments, offer the same injury management service offerings and have a similar risk profile. They therefore satisfy the aggregation criteria under paragraph 12 of AASB 8 Operating Segments.

Revenues of $16,708,000 (2016: $13,448,000) and $5,713,000 (2016: $5,765,000) are derived from two single customers of the Company. Each of these separate revenues amounts to more than 10% of the Company's revenues from external customers.

The Chief Executive Officer reviews the performance of segments before aggregation based on Net Profit Before Tax. This performance measure is equal to profit before income tax expense as disclosed in the consolidated statement of profit or loss and other comprehensive income.

19. SUBSIDIARIES

a) Subsidiaries

		2017	2016
	Country of Incorporation	Percentage owned (%)	Percentage owned (%)
Parent Entity:			
Konekt Limited	Australia	-	-
Subsidiaries of Konekt Limited:			
Konekt International Pty Ltd	Australia	100%	100%
Konekt Australia Pty Ltd	Australia	100%	100%
Konektiva Pty Ltd	Australia	100%	100%
Konekt Workplace Health Solutions Pty Ltd	Australia	100%	100%
Innovative Training & Recruitment Pty Ltd	Australia	100%	100%
Busiflow Nominees Pty Ltd	Australia	100%	100%
SRC Solutions Pty Ltd	Australia	100%	100%
CommuniCorp Group Pty Ltd	Australia	100%	100%

The proportion of the voting interest is equal to the proportion of voting power held.

b) Subsidiaries Acquired

Nil.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. SUBSIDIARIES (CONTINUED)

c) Deed of cross guarantee

A deed of cross-guarantee between Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd, Konekt Workplace Health Solutions Pty Ltd and Konekt Limited was enacted during the 2006 financial year and relief was obtained from preparing financial statements for Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd and Konekt Workplace Health Solutions Pty Ltd under ASIC Class Order 98/1418 issued by the Australian Securities and Investments Commission. Under the deed, Konekt Limited guarantees to support the liabilities and obligations of Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd, Konekt Workplace Health Solutions Pty Ltd and vice-versa.

Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd and Konekt Workplace Health Solutions Pty Ltd are the only parties to the Deed of Cross Guarantee and are members of the Closed Group. The consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position of the Closed Group are identical to the consolidated financial statements already disclosed in the financial report for Konekt Limited and its controlled entities.

20. FINANCIAL INSTRUMENTS DISCLOSURE

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

a) Off balance sheet derivative instruments

The Company does not have any such instruments in place.

b) Credit risk exposure

Credit risk is the risk that counter parties to a financial asset will fail to discharge their obligations, causing the Company to incur a financial loss. The entity has no significant concentration of credit risk to a Company of debtors or a single debtor. The Company is only exposed to risk in the health services sector. The maximum exposure to credit risk is that of the year-end trade receivables, cash and other debtor's balances.

c) Fair values

The Directors are satisfied that the carrying values of the financial assets and liabilities are the equivalent of the fair value of those items.

d) Interest rate risk exposure

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

30 June 2017	Weighted average interest rate	Floating interest rate $'000	Fixed interest rate maturing in less than 1 year $'000	Fixed interest rate maturing in 1 – 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Assets						
Cash and cash equivalents	0.60%	2,848	-	-	-	2,848
Trade and other receivables		-	-	-	9,001	9,001
Total Financial Assets		**2,848**	**-**	**-**	**9,001**	**11,849**
Financial Liabilities						
Interest bearing liabilities	5.49%	-	26	315	-	341
Deferred consideration		-	-	-	2,584	2,584
Trade and other payables		-	-	-	5,656	5,656
Total Financial Liabilities		**-**	**26**	**315**	**8,240**	**8,581**
Net Financial (Liabilities)/ Assets		**2,848**	**(26)**	**(315)**	**761**	**3,268**

30 June 2016	Weighted average interest rate	Floating interest rate $'000	Fixed interest rate maturing in less than 1 year $'000	Fixed interest rate maturing in 1 – 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Assets						
Cash and cash equivalents	0.41%	246	-	-	-	246
Trade and other receivables	-	-	-	-	8,382	8,382
Total Financial Assets	-	**246**	**-**	**-**	**8,382**	**8,628**
Financial Liabilities						
Interest bearing liabilities	7.87%	-	326	-	-	326
Deferred consideration	-	-	-	-	3,059	3,059
Trade and other payables	-	-	-	-	5,096	5,096
Total Financial Liabilities	-	-	326	-	8,155	8,481
Net Financial (Liabilities)/ Assets	**-**	**246**	**(326)**	**-**	**227**	**147**

No financial assets or liabilities are readily tradable on organised markets.

Sensitivity Analysis

For each 1% increase in interest rates, Company profit before income tax expense will increase by $25,070 (2016 increase by $800). Correspondingly for each 1% fall in interest rates Company profit before tax will decrease by $25,070 (2016 decrease by $800).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

e) Liquidity Risk

Cash and Other loans are concentrated with one lender being the Commonwealth Bank of Australia.

Maturity Analysis – Company 2017	Carrying Amount $'000	Contractual cashflows $'000	< 6 months $'000	6 – 12 months $'000	1-3 Years $'000	> 3 Years $'000
Financial Assets						
Cash and cash equivalents	2,848	2,848	2,848	-	-	-
Trade Receivables	9,001	9,001	8,981	14	6	-
Total Financial Assets	**11,849**	**11,849**	**11,829**	**14**	**6**	**-**
Financial Liabilities						
Deferred consideration	2584	2584	938	362	1284	-
Other loans	341	341	-	26	315	-
Trade and other payables	5,656	5,656	5,489	72	95	-
Total Financial Liabilities	**8,581**	**8,581**	**6,427**	**460**	**1,694**	**-**

Maturity Analysis – Company 2016	Carrying Amount $'000	Contractual cashflows $'000	< 6 months $'000	6 – 12 months $'000	1-3 Years $'000	> 3 Years $'000
Financial Assets						
Cash and cash equivalents	246	246	246	-	-	-
Trade Receivables	8,365	8,365	8,326	37	2	-
Other Receivables	17	17	17	-	-	-
Total Financial Assets	**8,628**	**8,628**	**8,589**	**37**	**2**	**-**
Financial Liabilities						
Deferred consideration	3,059	3,802	658	30	3,114	-
Other loans	326	326	326	-	-	-
Trade and other payables	5,096	5,096	4,885	142	69	
Total Financial Liabilities	**8,481**	**9,224**	**5,869**	**172**	**3,183**	**-**

f) Risk management policies and objectives

Activities undertaken by Konekt Limited and its subsidiaries may expose the Company to risk. The Company has no market risk as it is not exposed to foreign exchange risk or price risk. Liquidity risk is managed by the Board requiring the Company to maintain adequate committed credit facilities.

The Company does not have a policy for managing interest rate risk because interest is a relatively insignificant cost and it is possible that net borrowings may be very low or nil at points during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Credit risk arises from cash or cash equivalents and deposits with banks as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit checks are done on new customers. The majority of existing customers are very large insurance companies and large corporates. Follow-up on overdue accounts is done by Accounts Receivable department if amounts are overdue with further involvement of the Sales Team once amounts exceed 90 days.

21. CASH FLOW INFORMATION

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

	Consolidated	
	2017	2016
	$'000	$'000
Profit after income tax	**3,587**	**2,510**
Non-cash items		
Depreciation and amortisation expense	1,067	675
Share based payments expense	17	53
Remeasurement of contingent payable	(367)	-
Deferred Acquisition Interest Unwind	315	186
Changes in assets and liabilities		
Movement in trade and other debtors	(663)	(2,036)
Movement in trade and other payables	610	2,075
Movement in deferred tax asset	(27)	(615)
Movement in other assets	46	57
Movement in other provisions	295	(588)
Net cash from operating activities	**4,880**	**2,317**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. FINANCE FACILITIES

	Consolidated	
	2017 $'000	2016 $'000
Credit Standby Arrangements with Banks		
Credit facility	5,000	3,000
Amount utilised	(315)	(292)
Unused credit facility	**4,685**	2,708

Banking Facilities

Acquisition Finance Facility

$5,000,000 variable interest rate facility.

On 15 November 2016 Konekt Limited signed a new acquisition finance facility agreement with the Commonwealth Bank of Australia. The initial facility limit is $5m is available to be used for acquisition payments and deferred consideration payments related to past and future acquisitions. An additional $5m accordion facility will be extended at the banks discretion.

This facility has replaced the $3m Debtor Finance Facility which has been in place since 2012.

Finance will be provided under these facilities provided the Company and the Company have not breached any borrowing requirements and the required financial covenants are met. All covenants have been met during the financial year.

The Company has a bank guarantee facility of $900,000. As at 30 June 2017 Konekt had issued bank guarantees to the value of $784,930 primarily relating to property leases and $200,000 for a cash-backed guarantee to facilitate the transition of Banking facilities during the period.

23. RELATED PARTY TRANSACTIONS

There are no transactions between the Company and related parties, other than those disclosed elsewhere in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. ADDITIONAL FINANCIAL INFORMATION OF THE PARENT ENTITY

	2017 $'000	2016 $'000
Current assets	32	9
Total assets	**1,648**	**1,014**
Current liabilities	1,192	1,416
Total liabilities	**1,192**	**1,416**
Shareholders' equity		
Issued capital	38,580	38,798
Reserves – share option	392	377
Profits Reserve	1,426	-
Accumulated losses	(39,942)	(39,578)
Total equity	**456**	**(402)**
Profit/(loss) after income tax expense for the year	1,426	(801)
Total comprehensive income/(loss) for the year	1,426	(801)

For details of guarantees entered into by the parent entity in relation to debts of subsidiaries refer to note 19(c).

The Parent Entity has no other commitments or contingent liabilities.

25. SUBSEQUENT EVENTS

On 10 August 2017 Konekt has executed an Agreement to acquire 100% of Mission Providence for a cash consideration of $24.0m, subject to certain purchase price adjustments (including working capital).

Mission Providence is a leading provider of Employment Services (c80% of revenues) and the New Enterprise Incentive Scheme (NEIS) under the Federal Government's *jobactive* program.

This expansion into an adjacent market, is consistent with Konekt's RTW focus and purpose of maximising workforce participation for individuals and in line with strategy, skill set and provides a significant additional avenue for future growth.

The acquisition will be funded as follows:

- Placement and rights issue to raise $15.7m in aggregate (new shares will not be entitled to final FY17 dividend announced and the placement shares will not be entitled to participate in the rights issue); and
- Credit approved acquisition facility for $18.3m with the Commonwealth Bank of Australia (CBA)

DECLARATION BY DIRECTORS

The Directors of the Company declare that:

1. the financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:

2. comply with Accounting Standards and the Corporations Regulations 2001; and

3. give a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the year ended on that date;

4. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

5. the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A;

6. Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd, Konekt Workplace Health Solutions Pty Ltd and Konekt Limited identified in note 19(a) are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a the Company be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 19 (c); and

7. the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Douglas Flynn
Chairman

Damian Banks
Chief Executive Officer

10 August 2017, Sydney

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Konekt Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Konekt Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit and 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 report, including a summary of significant accounting policies and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

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

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying Value of Goodwill

Key audit matter	*How the matter was addressed in our audit*
The Group is required to perform an annual impairment test on the carrying value of goodwill in accordance with AASB136 *Impairment of Assets*. This was significant to our audit as the goodwill balance of $11.54 million as disclosed in Note 8 represents over 40% of the Group's total assets as recorded in the consolidated statement of financial position. Furthermore, the carrying amount of intangible assets increased significantly during the prior year as a result of the five acquisitions made by the Group over the last two financial years. The Group has tested goodwill for impairment at reporting date by comparing the carrying value to its recoverable amount. Management has determined recoverable amount through a value in use calculation. The Group's assessment of the value in use involves significant judgements such as the future results of the business, and the discount and growth rates applied to the future cash flows. Refer to Note 8 for key disclosures relating to the impairment assessment of goodwill.	Our procedures included, amongst others: • An assessment of the historical accuracy of management's forecasts in the context of the value in use model; • Evaluating the key inputs and assumptions used in the value in use model, in particular those relating to forecast revenue, and the growth and discount rates applied; • Assessing the sensitivity of the key assumptions for reasonably possible changes in the value in use model prepared by the Group • Comparing the Group's net asset position as at 30 June 2017 to its market capitalisation to assess this is consistent with the results of our testing of the value in use model; and • Assessing the adequacy of the Group's disclosures in Note 8 in relation to the impairment testing performed and management's assessment of the sensitivity with respect to changes to key assumptions.

BDO

Fair Value of the Contingent Consideration

Key audit matter	*How the matter was addressed in our audit*
As at 30 June 2017, contingent consideration of $2.58 million has been recognised in relation to the business combinations undertaken in the prior year, which is a material amount. The fair value of the contingent consideration is revised at each period-end and is based on cash flow projections for post-acquisition performance of the acquired businesses. There is significant judgement and management estimate involved in determining the fair value. Any changes from the carrying value of the contingent consideration initially recorded at acquisition date to the estimated contingent consideration payable or actual amount paid is charged or credited to profit or loss. For the year ended 30 June 2017 the estimated contingent consideration was remeasured and reduced by $0.37 million resulting in an adjustment to the statement of profit or loss and other comprehensive income.	Our procedures included, amongst others: • Performing an assessment of management's judgements applied at the balance date in relation to the contingent consideration recognised, with reference to historic and budgeted results of the acquired businesses; • In conjunction with our valuation specialists, assessing the discount rate applied for the purpose of discounting the deferred consideration and reviewing the unwinding of the discount applied during the current financial year; and • Evaluating the adequacy of the Group's disclosures in Note 14 in relation to the determination of the fair value of the contingent consideration.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Konekt Limited, for the year ended 30 June 2017, 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.

BDO East Coast Partnership

BDO

J Bresolin

John Bresolin
Partner

Sydney, 10 August 2017

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 31 July 2017.

a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share is:

	Ordinary shares		Options		Performance Rights	
	No. of Holders	No. of Shares	No. of Holders	No. of Options	No. of Holders	No. of P.R.s
Size of holding						
1 – 1,000	113	46,328	-	-	-	-
1,001 – 5,000	245	654,345	-	-	-	-
5,001 – 10,000	117	902,386	-	-	-	-
10,001 – 100,000	240	8,036,292	-	-	-	-
100,001 and over	56	63,266,230	-	-	-	-
	771	**72,905,581**	**-**	**-**	**-**	**-**
The number of shareholders holding less than a marketable parcel of shares are:						
	83	16,672	-	-	-	-

b) Twenty largest shareholders – ordinary shares quoted on the ASX

The names of the twenty largest holders of ordinary shares quoted on the ASX as at 31 July 2017 are:

		Listed ordinary shares	
		No. of Shares Held	% Held
Financial Assets			
1	NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C>	12,500,000	17.15
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,823,389	16.22
3	DIXSON TRUST PTY LIMITED	9,936,363	13.63
4	CITICORP NOMINEES PTY LIMITED	4,462,786	6.12
5	DR & LC FLYNN NOMINEES PTY LTD <FLYNN SUPER FUND A/C>	1,841,391	2.53
6	PROF ALAN JONATHAN BERRICK	1,485,313	2.04
7	DR VERN THOMAS MADDEN + MRS CLARE MAREE MADDEN <MAD-BOY SUPER FUND A/C>	1,429,025	1.96
8	DR + LC FLYNN NOMINEES P/L <FLYNN SUPER FUND A/C>	1,206,361	1.65
9	NATIONAL NOMINEES LIMITED	1,200,000	1.65
10	BFA SUPER PTY LTD <GDN SUPER FUND A/C>	1,197,211	1.64
11	MR EDWARD JAMES STEPHEN DALLY + MRS SELINA DALLY <LEKDAL FAMILY A/C>	1,177,334	1.61
12	MR WILLIAM NEIL STEWART COATS	1,009,203	1.38
13	DELTA REAL-TIME COMPUTERS PTY LTD	1,009,185	1.38
14	BUMBLETON PTY LTD <WILLIAM COATS S/F A/C>	1,003,333	1.38
15	NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C>	1,000,000	1.37
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	791,950	1.09
17	J W GIJET PTY LTD	650,000	0.89
18	MR EDWARD JAMES DALLY + MRS SELINA DALLY <E J DALLY SUPER FUND A/C>	595,236	0.82
19	YARRAC PTY LTD <COLEBATCH PROPERTY A/C>	583,131	0.80
20	ETHEREAL PSF PTY LTD <KEITH LEATHER SUPER FUND A/C>	430,586	0.59
Total ordinary shares quoted on ASX – Held by the top 20 holders		**55,331,797**	**75.90**
Total ordinary shares quoted on ASX		**72,905,581**	**100%**

ASX ADDITIONAL INFORMATION (CONTINUED)

c) Unquoted Securities

There were 2,330,000 unquoted options as at 31 July 2017.

d) Substantial Shareholders

Substantial shareholders in the Company are set out below:

	No. of Shares Held	% Held
Nidmas Pty Ltd	13,500,000	18.5
AJ Berrick & Associates	13,421,002	18.4
Dixson Trust Pty Ltd	9,936,363	13.6
Pie Funds Management Ltd	4,445,286	6.1
Helm Capital Pty Ltd	3,847,361	5.3

e) Other Disclosures

(i) The name of the Company secretary is Ms. Reena Minhas.

(ii) The address of the principal registered office in Australia is Level 3, 33 Erskine Street, Sydney NSW 2000.

(iii) Registers of securities are held at the following addresses:

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067

Konekt Limited
Level 3, 33 Erskine Street
SYDNEY NSW 2000

(iv) **Stock Exchange Listing**
Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

(v) **Home Exchange**
Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000