KONEKT LIMITED AND CONTROLLED ENTITIES

A.C.N. 009 155 971

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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** (Group Chief Executive Officer and Managing Director)

Company Secretary

- **Reena Minhas**

Registered Office and Principal Place of Business

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338 Pitt St
SYDNEY, NSW 2000
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F: +61 2 9307 4044

Auditors

BDO East Coast Partnership
Level 11
1 Margaret Street
SYDNEY NSW 2000
T: +61 2 9251 4100
F: +61 2 9240 9821

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
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ABOUT KONEKT

Operating at the Emerging Intersection of Workplace Health + Employment
Building the Leading Integrated Provider of Outsourced Solutions

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

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 Stability

We help Individuals find employment, and organisations return current employees to work at either their same employer, or a new employer where needed. We prevent and minimize workplace injuries and their impact. Our purpose of maximising workforce participation and safety allows our staff and stakeholders to reduce social and employment costs – creating a stronger community.

We have over 800 employees, including over 300 allied health professionals providing New Employment, Return to Work activities to individuals and employers and Injury prevention services, including a strong legacy of assisting with Mental Health in workplaces. 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 ever safer workplaces.

Our businesses include *Konekt Employment, Konekt Workcare, Konekt Training and Communicorp*.

ASX Listed (ASX code: KKT).

ABOUT KONEKT (CONTINUED)

Key Facts + Figures

- More than 25 years' experience
- In FY18, we provided more than 50,000 services to assist Individuals in their New and Existing work placement programs.
- Konekt's clients include individuals, government, major employers, 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, c.4.8% in *jobactive*, c.30% in NEIS and c.15% in Mental Health (chosen niche)
- National coverage - over 120 offices in all capital cities and across major Australian regional centres
- Over 800 employees with $89.1m revenue (underlying - $88.9m) in FY18
- $6.2m EBITDA (underlying - $9.1m) in FY18 with 3.6 cents EPSA (underlying EPSA 6.1 cents) in FY18

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.

ABOUT KONEKT (CONTINUED)

Konekt and our Community – Additional Donations in our 25th year

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 fifth year, gives us the opportunity to continue our support of the physical and mental health of returned services men and women, their family and their community.

Locally, our teams across Australia engage in community initiatives designed to make a difference – local fundraising and support in our local communities is a hallmark of our staff community engagement. As part of Konekt's 25th Year Anniversary, we also donated $25,000 to five key charities as chosen by our staff. These were the Starlight Foundation, The Cancer Council, The Royal Flying Doctors, White Ribbon and the RSPCA. Our team selected those charities which hold significant importance to them, and those which hold personal and professional meaning.

Konekt's commitment to training and development

Konekt recognises that our staff drive our business performance. Leader and Team development including in-house development conferences, webinars and 1:1 coaching form the basis our programs. These activities are supplemented by external training and development. A significant investment has been made in e-learning modules for induction, professional practice, compliance and skills development. Increasingly we are investing in "help" sections within our software, where "how to" pop-up boxes appear next to fields – making the complex more simple at our front line. This support has been well received by our teams.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

In the financial year ended 30 June 2018 (FY18), Konekt continued to successfully implement its strategy of building the leading Australian integrated provider of outsourced solutions for workplace health, well-being and employment services.

Revenues grew by 67% to $89.1m, including $41.3m from the 9 months contribution of Mission Providence since acquisition. On an underlying basis EBITDA increased by 56% to $9.1m ($5.8m in FY17) - excluding Mission Providence related acquisition and integration costs of $3.1m and excluding $160,000 income from deferred consideration write-backs.

Key achievements in FY18 included:

- the acquisition of Mission Providence for $24.9m at the end of September 2017. Mission Providence is a leading provider of employment placement services through the Federal Government's c$1.4bn pa *jobactive* program
- completion of a placement and rights issue to part fund the acquisition in August and September 2017
- the integration of Group Services across the enlarged group in November 2017
- the rebranding of Mission Providence business to Konekt Employment
- the co-location of the Sydney offices of Konekt Workcare, Konekt Employment, Communicorp and Corporate Services and into new premises in April 2018
- the commencement of a property synergies program in 2H FY18 to reduce annualised group occupancy costs and enhance work environments

Konekt now has over 800 staff, including 300+ allied health professionals, operating from a national footprint of 120 branches across Australia.

Konekt's increased scale, expanded and integrated service offerings, national office footprint and growing brand awareness strengthens our competitive positioning – not just with our Government, Corporate and Insurer customers but also with the Individuals we help on behalf of our customers.

During the past year, Konekt helped more than 50,000 individuals with services.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

Summary financial results for the year ended 30 June 2018

	Underlying			Statutory		
	2018	2017	Change	2018	2017	Change
Revenue	**88.9**	**53.1**	***67%***	**89.1**	**53.5**	***67%***
- Employment	41.3	-	*n/a*	41.3	-	*n/a*
- Workcare	47.6	53.1	*(10%)*	47.8	53.5	*(11)%*
EBITDA	**9.1**	**5.8**	***56%***	**6.2**	**6.2**	***(1)%***
EBITDA Margin	*10.2%*	*11.0%*	*(80bp)*	*6.9%*	*11.6%*	*(470bp)*
Interest	(1.0)	(0.3)	*(large)*	(1.0)	(0.3)	*(large)*
Depreciation	(2.3)	(0.5)	*(large)*	(2.3)	(0.5)	*(large)*
Amortisation	(3.7)	(0.5)	*(large)*	(3.7)	(0.5)	*(large)*
Net profit before Tax	**2.1**	**4.5**	***(53)%***	**(0.9)**	**4.8**	***n/a***
Tax	0.3	(1.3)	*n/a*	0.7	(1.3)	*n/a*
Net Profit after Tax	**2.4**	**3.2**	***(26%)***	**(0.2)**	**3.6**	***n/a***
Net Profit after Tax before Amortisation	**6.1**	**3.8**	***63%***	**3.6**	**4.1**	***(13%)***
EPS before amortisation (cents)	6.13	5.13	*20%*	3.58	5.63	*(36%)*
DPS - fully franked (cents)	1.00	0.75	*33%*	1.00	0.75	*33%*

1) *Underlying FY18 adds back one-off acquisition and integration related costs of $3.1m and deducts $0.2m of deferred consideration income in statutory results*
2) *Underlying FY17 deducts write back of $0.4m of deferred consideration included in statutory results*

Depreciation increased by $1.8m in FY18 versus pcp primarily due to recognition of additional PP&E of $1.1m, Leasehold improvements of $1.9m and Make-good assets of $0.6m as a result of the acquisition.

The acquisition of Mission Providence also resulted in the recognition of identifiable intangible assets (*jobactive* contract) of $10m amortising over the period to 30 June 2020 resulting in FY18 total amortisation charge of $3.7m of which $2.7m related to *jobactive*.

Tax losses of $25.3m were acquired with the acquisition of Mission Providence. These tax losses have been tested and were transferred to the Konekt Group and partially recognised in the opening balances at acquisition based on accounting policy. Subsequently, from the period from acquisition, further tax losses are available to be recognised on the balance sheet and have resulted in a tax benefit of $0.8m in the profit and loss for FY18. An annualised amortisation charge of $4.6m - $5.0m p.a. for FY19 and FY20 is expected including customer contracts and other intangible assets.

EPS before amortisation (EPSA) was up 20% to 6.1 cents per share (5.1 cents per share in FY17).

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

Balance Sheet

Konekt's year-end Balance Sheet reflects the impact of the Mission Providence acquisition and its funding.

As at 30 June 2018, net debt was $9.9m, reflecting total debt of $15.6m ($4.0m current, $11.6m non-current) and cash on hand of $5.7m. Konekt's acquisition debt facility amortises with principal reductions of $1.0m each quarter. Principal reductions of $3.0m were made during FY18.

Net Debt/FY18 underlying EBITDA was 1.1 times at 30 June 2018; Total Debt/FY18 underlying EBITDA was 1.7 times at 30 June 2018.

Intangible assets increased by $31.4m to $44.1m, as a result of the Mission Providence acquisition, including recognition of fair value of identifiable intangible assets (*jobactive* contract) of $10.0m amortising over the period to 30 June 2020 and goodwill of $21.6m.

Cash Flow

Operating cash flow was $3.9m, after incurring cash costs of $2.1m relating to acquisition and integration costs and the re-build of working capital in the acquired business.

Capital management

The company completed a small on-market buy-back of shares during the year. A total of 750,000 shares were bought-back prior to 30 June 2018 at an average price of 32 cents and have been cancelled.

Dividend

The Board is pleased to advise that it has resolved to declare a fully franked final dividend for the year of 1.00 cents per share. The record date for the dividend is Thursday 20 September 2018 and payment date is Thursday 8 November 2018.

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

OPERATIONS REVIEW

Konekt Employment (rebranded from Mission Providence)

The acquisition of Mission Providence at the end of Q1 FY18, enabled Konekt to expand into adjacent markets, consistent with Konekt's return-to-work focus and purpose of maximising workforce participation for individuals. This is Konekt's largest acquisition to date.

Konekt Employment is a leading provider of employment placement services through the Federal Government's c.$1.4bn p.a. *jobactive* program. It has around 450 staff and is one of 42 *jobactive* providers with contracts covering 8 employment regions and 20 NEIS regions across Australia.

The *jobactive* contract covers Employment Services, New Enterprise Incentive Scheme (NEIS) and other ancillary services. The contract runs for 5 years to 30 June 2020, when it is expected to be put up for review, including potential for roll-over or restructuring of the program.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

For the nine months to 30 June 2018, Konekt Employment generated revenues of $41.3m through a mix of administration and outcome fees.

The transition in ownership has proceeded smoothly, with the business performing in line with our expectations. Stronger employment markets, reflected in lower unemployment rates, has seen an increase in outcome fees as a percentage of the revenue mix.

Under the *jobactive* contract, volume allocations are reviewed twice during the period of the contract. The second and final *jobactive* contract volume re-allocation (if any) is expected to occur in 1H FY19 with any changes in allocated volumes effective from January 2019.

The review considers *jobactive* provider Star Ratings. Star Ratings, released quarterly, are a government measure of *jobactive* provider performance, competitor performance and economic and other factors.

Star Ratings and Competitor Performance are a key input into case re-allocation, and ultimately renewal of each region of the *jobactive* contracts beyond 1 July 2020. Konekt Employment saw some slippage during transition, but a key focus for Konekt is improving both Star Ratings and Performance against Competitors in each region leading into the *jobactive* contract review process ahead of June 2020, which is well underway.

In 2H18 Konekt Employment was awarded a contract to provide services in 16 regions under the *Disability Employment Services (DES)* program, a government contract with annual market spend of c.$800m p.a. This contract is effective from 1 July 2018 for an initial term of 5 years, and is expected to be a significant contributor beyond FY21.

Konekt Workcare Group

Konekt's Workcare Group comprises Konekt Workcare, Konekt Training and Communicorp. These businesses provide:

— Injury prevention services, Return-to-Work (RTW) injury management, rehabilitation and consultancy services, pre-employment services, Workplace Health and Safety – audits, inspections and consulting. Konekt's primary RTW case focus is for individuals in the range of 4 weeks to 2 years off work

— Training courses (face to face and online) through accredited health care professionals. Two registered training organisations

— Workplace psychology specialists operating Australia wide. Helping employers and employees develop positive workplace mental health, well-being and resilience capabilities

Konekt Workcare is a market leading provider with estimated 11-12% market share. The business has a staff of over 300 people - predominately allied health professionals - servicing government agencies, insurers and corporates.

The business is characterised by the management of large contracts with large customers. Whilst we have seen good growth in consulting, pre-employment and mental health services, we experienced lower volumes under the new Medibank Health Solutions (MHS) contract for the Australian Defence Force and softness in the workers compensation markets in NSW and South Australia.

As a result, Konekt Workcare FY18 revenues of $47.6m were 10% lower than FY17. The primary driver was the MHS contract where referral volumes were lower than the previous year and being in line with FY16 levels. Konekt is delivering quality services to the ADF under the new "on base" model and the decline is the result of client efficiency objectives. Reflecting this, in September 2017 the MHS contract was extended from October 2018 to June 2019.

The year saw a decline in the aggregate size of the national RTW market. Konekt estimates an aggregate reduction of 7%-13% in market size versus several prior years of early to mid-single digit growth. Konekt Workcare saw lower RTW volumes in NSW and SA, it saw growth in WA and the NT and relatively flat markets in Victoria.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

Occupancy Synergies Program

Following the acquisition of Mission Providence, Konekt's office network increased to over 120 locations with 29,800 sqm under lease. The company instituted an occupancy synergies program commencing in H2 FY18, applying experience gained historically in Konekt where the company has achieved similar benefits in terms of improved office quality and reduced occupancy costs.

Konekt expects FY19 property costs to be at similar level to the FY18 costs with additional 3 months expense for the acquisition. Annualised savings of $2.75m p.a. (before inflation) are on track to be achieved by the end of calendar 2018 which will be offset by rental indexation of c$0.2m, new office rentals (primarily DES incremental sites) of c$0.2m p.a and an additional 3 months of property costs from the acquisition. The total costs to capture these savings are now expected to be a maximum of $2.4m (previously estimated as a maximum of $3.0m).

Importantly, the occupancy savings across the enlarged network of offices are on track to deliver a higher quality amenity for our staff and clients.

People

Konekt continues to build a strong culture of performance, engagement, retention and in making a difference across Australian workplaces. We positively impact peoples' lives, and our people actively participate in improving our Company and the community. 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.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (CONTINUED)

FY19 focus

Our key focus areas in FY19 include:

1. Focus on increased Revenue, EBITDA and EPSA in FY19 - 12 month Konekt Employment revenue contribution (9 months in pcp), property synergies and disciplined margin management across all business lines to be only partially offset by Workcare pcp headwinds, labour cost increases, investment in DES establishment and property inflation.

2. Konekt Employment

— Focus on optimising key performance metrics, Star Ratings and competitive performance under the current jobactive contract to maximise our position ahead of the expected contract renewal decision in June 2020

— Investment in DES - awarded 16 Regions, across 71 locations effective 1 July 2018, to enhance multi product capability in distribution network and to further diversify the business

— Yield significant performance enhancement from our market leading NEIS business through focused systems investment.

3. Konekt Workcare

— Targeted organic growth through expansion of services with current clients across group

— To take advantage of weak market conditions (similar to approach taken in 2014 – 2016)

— Continued investment in product, customer interaction and data.

4. Grow brand recognition to meet emerging trend of individual directed choice of service provider (compared to current corporate, government and institutional directed service provider).

Thank you

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

Our performance in FY18 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.

Douglas Flynn
Chairman

Damian Banks
Group Chief Executive Officer

16 August 2018, 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 2018 ("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 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), FAICD – 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 2018

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	-	6,271,028	-	-
Philip Small	210,322	1,440,000	-	-
Anthony Crawford	-	358,005	-	-
Damian Banks	-	15,382,916	86,042	530,000

Performance Rights

There were 578,097 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	13	13	2	2	3	3
Philip Small	13	13	2	2	3	3
Anthony Crawford	13	12	2	2	3	3
Damian Banks	13	13	-	-	-	-

Principal Activities

The Company is an integrated provider of outsourced workcare, employment, health and safety and return to work (RTW) solutions.

Operating Results

The consolidated net loss after income tax of the Company for the financial year was $170,000 (2017 profit of $3.6m). Total Revenue and Other Income was $88.9m (2016: $53.1m).

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 1.00 cents per share (2017: 0.75 cents).

Significant Changes in State of Affairs

On 11 August 2017 the Company announced that it had executed an agreement to acquire 100% of Mission Providence Pty Ltd for a cash consideration of $27.9m which was subsequently completed on 29 September 2017. The acquisition was funded by a placement and rights issue of $15.7m and acquisition facility of $18.3m with the Commonwealth Bank of Australia (CBA).

Likely Developments – Outlook

During FY19 we will continue implementing a strategy of building the leading Australian integrated provider of outsourced solutions for workplace health, well-being and employment services coupled with a focus on increased Revenue, EBITDA and EPSA in the period.

Remuneration Report – Audited

The Directors are pleased to present the Company's 2018 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.

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 as detailed below:

$'000	2018	2017	2016	2015	2014
Revenue	87,914	52,655	43,829	35,050	32,796
EBITDA	6,186	6,215	4,020	2,383	1,705
EBIT	169	5,148	3,857	1,839	1,378
Profit/(loss) after income tax	(170)	3,587	2,510	1,478	1,020
Cash bonuses to KMP's	251	230	217	105	70

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

$'000	2018	2017	2016	2015	2014
Share price at financial year end ($A)	$0.31	$0.58	$0.37	$0.20	$0.13
Total dividends declared (cents per share)	1.00	0.75	0.50	-	-
Basic earnings per share (cents per share)	(0.17)	4.90	3.45	2.0	1.4

DIRECTORS' REPORT (CONTINUED)

		Short-term employee benefits			Post-employment benefits	Long-term benefits		Share-based payments	
		Cash salary and fees	Cash bonus	Non-monetary benefits	Superannuation	Long service leave	Termination benefits	Options and Performance Rights	Total
		$	$	$	$	$	$	$	$
Parent Entity Directors:									
Damian Banks	**2018**	410,142	150,000	-	21,743	15,186	-	38,817	635,888
	2017	437,339	165,000	-	20,000	7,025	-	32,297	661,661
Douglas Flynn	**2018**	91,324	-	-	8,676	-	-	-	100,000
	2017	84,018	-	-	7,982	-	-	-	92,000
Philip Small	**2018**	48,294	-	-	11,706	-	-	-	60,000
	2017	43,728	-	-	11,272	-	-	-	55,000
Anthony Crawford	**2018**	54,794	-	-	5,206	-	-	-	60,000
	2017	50,228	-	-	4,772	-	-	-	55,000
Total Remuneration – Parent Entity Directors:									
Total	**2018**	604,554	150,000	-	47,331	15,186	-	38,817	855,888
	2017	615,313	165,000	-	44,026	7,025	-	32,297	863,661
Key Management Personnel of the Company:									
Reena Minhas	**2018**	231,541	101,000	-	21,546	1,646	-	28,647	384,380
	2017	211,298	65,000	-	24,366	674	-	11,259	312,597
Total Remuneration – Parent Entity Directors and Key Management Personnel of the Company:									
	2018	836,095	251,000	-	68,877	16,832	-	67,464	1,240,268
	2017	826,611	230,000	-	68,392	7,699	-	43,556	1,176,258

* *In 2018 Damian Banks received 83% of the target annual bonus payable*

** *In 2018 Reena Minhas received 81% of the target annual bonus payable, plus a $40,000 payment related to the "one-off" nature of the work related to the Mission Providence acquisition.*

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

Share Options

During the financial year, 400,000 ordinary shares were issued as a result of the exercise of options.

DIRECTORS' REPORT (CONTINUED)

Performance Rights

During the year 678,479 Performance Rights 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 86,042 Performance Rights, approved by shareholders at the AGM on 16 November 2017. The following terms apply to the issue of the Performance Rights:

- Grant date: 10 October 2017 (Senior Executives)
- Grant date: 16 November 2017 (Managing Director)
- Performance period: 1 July 2017 to 30 June 2020
- Vesting Date: The date of the notice that may be provided to a Participant to advise that Rights have vested. Such a notice may be issued to the Participant following the elapsing of the Performance Period and the Board's assessment of the extent to which any Exercise Conditions were met. If no Rights vest, then there is no First Exercise Date.
- Issue price: $Nil
- Exercise price: $Nil
- Fair Value: $0.4796 (10 October 2017) and $0.5003 (16 November 2017)
- Service Condition: Continuous employment with Konekt Limited up to and including 30 June 2020 for 100% of the Rights to vest (subject to satisfaction of the performance condition at the termination date); or continuous employment with Konekt Limited until at least 30 June 2019, 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 Rights to vest meaning that (subject to satisfaction of the performance conditions on a pro rata basis at the termination date), 2/3 or the Rights would vest on 30 June 2019, with the number increasing pro rata after that date. Any vested Rights would expire, 30 days after the date of termination.

The vesting of Rights will be subject to Konekt achieving the earnings per share before amortization ("EPSA") Target below.

November 2017 Invitation: Performance Level	EPSA* Compound Annual Growth Rate (CAGR)	% of Stretch /Maximum/Grant Vesting
Target	12%	100%
Between Threshold and Target	>8%, <12%	Pro-rata
Threshold	8%	50%
Below Threshold	<8%	0%

* *EPSA is defined as Earnings per share before amortisation (EPSA) and is calculated as the Company's Net Profit after Tax before Amortisation (NPATA) divided by the average number of shares on issue during the financial year, or in accordance with a policy developed by the Board. EPSAG is calculated as the annualised growth in EPSA by comparing the EPSA at the end of the Performance Period to the EPSA achieved in the year prior to the start of the Performance Period, as follows: (EPSA End ÷ EPSA Start) ^1/(years in Performance Period)-1.*

DIRECTORS' REPORT (CONTINUED)

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 – Group 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 $450,000 p.a. to be reviewed annually by the Nomination and Remuneration Committee. From 3 September 2018, this will increase to $465,000 p.a. (inclusive of superannuation). No part of this remuneration is performance related
- A Target short term incentive equal to $180,000 was set for FY18 (up to 29% of the total remuneration) was performance related, based on achieving performance criteria set at the Board's discretion
- A short term incentive target of $186,000 has been set for FY19 (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 – Group Chief Financial Officer, Company Secretary

- 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 $250,000 p.a. to be reviewed annually by the Nomination and Remuneration Committee. No part of this remuneration is performance related.
- Target short term incentive equal to $58,750 was set for FY18 (up to 20% of the total remuneration) was performance related. This was reviewed and amended in November 2017 to be set at $75,000 p.a.
- A short term incentive target of $75,000 has been set for FY19 (up to 23% 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

DIRECTORS' REPORT (CONTINUED)

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 2018 and 2017 reporting periods by each parent entity Director and KMP of the Company are set out below:

30 June 2018	Balance 1 July 2017	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2018
	Ordinary Shares	Ordinary Shares	Ordinary Shares	Ordinary Shares	Ordinary Shares
Parent Entity Directors					
Douglas Flynn^	3,047,752	-	-	3,223,276	6,271,028
Philip Small#	1,200,000	-	-	450,322	1,650,322
Anthony Crawford*	243,700	-	-	114,305	358,005
Damian Banks**	13,500,000	-	400,000	1,482,916	15,382,916
Key Management Personnel					
Reena Minhas	-	-	-	51,250	51,250
Total	**17,991,452**	**-**	**400,000**	**5,322,069**	**23,713,521**

^ Douglas Flynn's shares are held indirectly through Flynn Superannuation Fund

Philip Small's shares are held directly and indirectly through National Nominees Ltd

* Anthony Crawford's shares are held indirectly through Crawford Superannuation Fund

** Damian Banks' shares are held indirectly through Nidmas Pty Ltd <Banks Family Superannuation Fund A/C> and Mattmel Pty Ltd <Banks Superannuation Fund>

During the financial year, 400,000 Options issued in FY14 to KMP were exercised. Amount paid per ordinary share issued was $0.092. Fair value of Options exercised was $18,800.

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

DIRECTORS' REPORT (CONTINUED)

Option & Performance holdings of Parent Entity Directors and Key Management Personnel

30 June 2018	Balance at 1 July 2017	Granted	Exercised	Lapsed	Balance at 30 June 2018	Total vested at 30 June 2018	Total vested and exercisable at 30 June 2018	Total vested and un-exercisable at 30 June 2018
Options								
Damian Banks	930,000	-	(400,000)		530,000	-	-	-
Reena Minhas	240,000	-	-	-	240,000	-	-	-
Total	**1,170,000**	**-**	**-**	**-**	**770,000**	**-**	**-**	**-**
Performance Rights								
Damian Banks	-	86,042	-		86,042	-	-	-
Reena Minhas	-	55,688	-	-	55,688	-	-	-
Total	**-**	**141,730**	**-**	**-**	**141,730**	**-**	**-**	**-**

30 June 2017	Balance at 1 July 2016	Granted	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**	**-**	**-**	**-**

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 $168,000 (2017: $83,500).

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 18 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

There are no matters or circumstances that have arisen since 30 June 2018 that have significantly affected:

a) the Company's operations in future financial years;
b) the results of these operations in future financial years; and
c) the Company's state of affairs in future financial years.

Indemnification and Insurance of Directors

The Company has agreed to indemnify all current Directors and Officers of the Company and former Directors and Officers 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 and Officers 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.

The Company has also agreed to indemnify the current Directors and Officers 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.

DIRECTORS' REPORT (CONTINUED)

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 26 of this report.

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
Group Chief Executive Officer

16 August 2018, Sydney

AUDITOR'S INDEPENDENCE DECLARATION

BDO

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY ARTHUR MILNER TO THE DIRECTORS OF KONEKT LIMITED

As lead auditor of Konekt Limited for the year ended 30 June 2018, 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 period.

Arthur Milner
Partner

BDO East Coast Partnership

Sydney, 16 August 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

		Consolidated	
	Notes	2018 $'000	2017 $'000
Revenue from continuing operations		**87,914**	**52,655**
Re-measurement of contingent consideration		160	367
Other income		1,032	447
Expenses			
External consultants		(4,585)	(4,265)
Depreciation and amortisation expenses		(6,017)	(1,069)
Finance costs		(1,027)	(318)
Share based payments expense	13d	(159)	(17)
Salaries and employment related costs		(57,093)	(34,581)
Property expenses		(9,660)	(3,247)
Communication expenses		(2,236)	(981)
Motor vehicle and equipment expenses		(1,330)	(928)
Travel and accommodation expenses		(1,093)	(1,114)
Other expenses from continuing operations		(6,765)	(2,111)
(Loss) / Profit before income tax expense		**(859)**	**4,837**
Income tax credit / (expense)	4	689	(1,251)
(Loss) / Profit after income tax expense for the year attributable to the owners of Konekt Limited		**(170)**	**3,587**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive (Loss) / income for the year attributable to the owners of Konekt Limited		**(170)**	**3,587**
Earnings per share for profit attributable to the owners of Konekt Limited			
Basic earnings per share (cents per share)	3	(0.17)	4.90
Diluted earnings per share (cents per share)	3	(0.17)	4.82

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
Current assets			
Cash and cash equivalents		5,661	2,848
Trade and other receivables	6	9,818	9,001
Work in progress		298	367
Current tax assets		25	-
Other assets		460	290
Total current assets		**16,262**	**12,506**
Non-current assets			
Other assets		56	144
Property, plant and equipment	7	4,530	1,269
Deferred tax asset	5	9,150	1,710
Intangibles assets	8	44,112	12,665
Total non-current assets		**57,848**	**15,788**
Total assets		**74,110**	**28,294**
Current liabilities			
Trade and other payables	9	13,082	5,572
Deferred revenue		5,033	709
Deferred consideration	15	1,349	1,300
Employee benefits	10	4,793	1,562
Provisions	11	1,773	136
Current tax Liabilities		-	1,191
Borrowings	12	5,014	103
Total current liabilities		**31,044**	**10,573**
Non-Current liabilities			
Trade and other payables	9	36	84
Provisions	11	472	-
Deferred consideration	15	-	1,284
Employee benefits	10	728	382
Borrowings	12	11,978	315
Total Non-Current Liabilities		**13,214**	**2,065**
Total Liabilities		**44,258**	**12,638**
Net Assets		**29,852**	**15,656**
Equity			
Contributed equity	13	53,334	38,580
Reserves	13	551	392
Profits Reserve		3,040	3,587
Accumulated losses		(27,073)	(26,904)
Total Equity		**29,852**	**15,656**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	Consolidated 30-Jun-18 $'000	30-Jun-17 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		99,278	57,901
Payments to suppliers and employees (inclusive of GST)		(90,933)	(51,310)
Payments of one-off acquisition liabilities		-	-
Payments of one-off acquisition expenses		(2,126)	-
		6,219	6,591
Interest received		27	8
Interest paid		(515)	(4)
Income taxes paid		(1,871)	(1,716)
Net cash from operating activities	**24**	3,860	4,879
Cash flows from investing activities			
Purchase of plant and equipment		(1,602)	(616)
Purchase of intangible assets		(1,914)	(677)
Payments for Deferred Consideration		(1,256)	(423)
Payment for purchase of business, net of cash acquired		(24,857)	-
Net cash used in investing activities		(29,629)	(1,716)
Cash flows from financing activities			
Payments for cost of issue of shares		(1,090)	-
Proceeds from Issue of Shares		15,771	37
Payments for on market share buyback		(237)	(255)
Dividends Paid		(547)	(367)
Payments of financial lease liability		(567)	-
Proceeds from borrowings		18,252	315
Repayment of borrowings		(3,000)	(292)
Net cash provided (used in) financing activities		28,582	(562)
Net increase/ (decrease) in cash and cash equivalents		2,813	2,602
Cash and cash equivalents at the beginning of the financial year		2,848	246
Cash and cash equivalents at the end of the financial year		5,661	2,848

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Contributed equity $'000	Accumulated losses $'000	Profits Reserve $'000	Option reserve $'000	Total equity $'000
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	-	0
Other comprehensive income for the year, net of tax	-	-	-	-	0
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 13e)	-	-	-	17	17
Balance at 30 June 2017	**38,580**	**(26,903)**	**3,587**	**392**	**15,656**
Profit after income tax expense for the year	-	(170)	-	-	(170)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	**-**	**(170)**	**-**	**-**	**(170)**
Transactions with owners in their capacity as owners:					
Share buyback	(237)	-	-	-	(237)
Proceeds from Issue of Shares	14,991	-	-	-	14,991
Dividends Paid or provided for	-	-	(547)	-	(547)
Share based payments (note 13e)	-	-	-	159	159
Balance at 30 June 2018	**53,334**	**(27,073)**	**3,040**	**551**	**29,852**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Konekt Limited for the year ended 30 June 2018 (“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 27.

The financial statements were authorised for issue in accordance with a resolution of Directors on 16 August 2018.

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 2018 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Revenue from outcome fees is recognised on achieving an outcome (completion of a time period in employment) and the fee becomes payable, which is when the performance obligation of the contract is met.

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 13.

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 intangible assets, deferred tax asset and share based payments.

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 2018. 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 1.00 cents per share was declared on 16 August 2018. (2017: 0.75 cents). As the dividend was declared after the year end no liability has been recognised in these financial statements.

	Consolidated	
	30-Jun-18 $'000	30-Jun-17 $'000
Distributions Paid		
Final Dividend in respect of 2017 year of 0.75 cents (2016: 0.5 cents) per fully paid ordinary share 100% franked at 30% tax rate	547	367

The Company's franking account at 30 June 2018 has a balance of $3,751,196 (2017: $2,031,564).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. EARNINGS PER SHARE

	Consolidated	
	2018	2017
	$'000	$'000
Basic earnings per share	(0.17)	4.90
Diluted earnings per share	(0.17)	4.82
Weighted average number of shares used in the		
Calculation of the basic earnings per share	99,937,472	73,136,033
Calculation of the diluted earnings per share	99,937,472	74,428,522

	Consolidated	
	2018	2017
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**99,937,472**	**73,136,033**
Adjustments for calculation of diluted earnings per share		
Options over ordinary shares	-	1,292,489
Weighted average number of ordinary shares used in the denominator in calculating diluted earnings per share	**99,937,472**	**74,428,522**

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. There is no dilutive potential of current options when the Company is in a loss position. In this case, the diluted earnings per share are equal to the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAX EXPENSE

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

	Consolidated	
	2018	2017
	$'000	$'000
Profit / (loss) from continuing operations before income tax expense	**(859)**	**4,838**
Tax at the Australian tax rate of 30%	(258)	1,451
Non-deductible expenses:		
Entertainment	11	24
Acquisition costs	220	-
Other	118	87
Deferred tax expense included in Income Tax expense:		
Share based payments	48	5
Adjustment recognised for prior periods	(30)	99
Research & development tax offset	-	(185)
Previously unrecognised tax losses now recognised	(750)	(120)
Revaluation of Deferred Consideration Payable	(48)	(110)
Income tax expense	**(689)**	**1,251**
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in the balance sheet for the following items:		
Unused tax losses	9,694	763
	9,694	**763**
Potential benefit at 30% (2017: 30%)	2,908	229

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAX EXPENSE

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

	Consolidated	
	2018 $'000	2017 $'000
Current tax expense		
Current tax expense	678	1,638
Adjustment recognised for prior periods	(30)	(175)
Research & development tax offset	-	(185)
	648	**1,278**
Deferred tax expense		
Origination and reversal of temporary differences	(1,347)	11
Adjustment recognised for prior periods	10	(38)
Income tax expense	**(689)**	**1,251**

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:	**2018 $'000**	**2017 $'000**
Deferred Tax Asset		
Provision for impairment of receivables	53	13
Employee benefits and other provisions	2,294	1,314
FBT accrual	19	17
Leasehold Incentive	26	49
General accrual	795	21
Make good provision	1,082	41
Deferred income	1,520	-
Movement in depreciation	582	(65)
Share issue costs	304	-
Business Capital Expenditure	515	20
Pre-formation tax losses	4,271	485
Total Deferred Tax Asset	**11,461**	**1,896**
Deferred Tax Liability		
Work in progress	(85)	(110)
Other intangible assets	(47)	(76)
Customer contract	(2,179)	-
Total Deferred Tax Liability	**(2,311)**	**(186)**
Total Deferred Tax Asset	**9,150**	**1,710**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. DEFERRED TAX ASSETS (CONTINUED)

Movements in deferred tax assets:	Balance at 1 July 2017 $'000	Recognised in Business Combination $'000	(Charged) / credited to profit or loss $'000	(Charged) / credited to other comprehensive income $'000	Balance at 30 June 2018 $'000
Deferred Tax Asset					
Provision for impairment of receivables	13	85	(45)	-	53
Employee benefits and other provisions	1,314	1,384	(404)	-	2,294
FBT accrual	17	13	(11)	-	19
Leasehold Incentive	49	-	(23)	-	26
General accrual	21	176	598	-	795
Make good provision	41	535	506	-	1,082
Deferred income	-	1,684	(164)	-	1,520
Movement in depreciation	(65)	332	315	-	582
Share issue costs	-	-	-	304	304
Business Capital Expenditure	21	712	(218)	-	515
Pre-formation tax losses	485	3,864	(78)	-	4,271
Total Deferred Tax Asset	**1,896**	**8,785**	**476**	**304**	**11,461**
Deferred Tax Liability					
Customer contract	-	(2,996)	817	-	(2,179)
Other intangible assets	(76)	-	29	-	(47)
Work in progress	(110)	-	25	-	(85)
Total Deferred Tax Liability	**(186)**	**(2,996)**	**871**	**-**	**(2,311)**
Total	**1,710**	**5,789**	**1,347**	**304**	**9,150**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated	
	2018 $'000	2017 $'000
Trade receivables	9,992	9,043
Less provision for impairment of receivables	(174)	(42)
	9,818	**9,001**

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 2018 the Company had total current trade receivables of $174,000 (2017: $42,000) 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					
	2018			2017		
	Total $'000	Amount Impaired $'000	Amount not Impaired $'000	Total $'000	Amount Impaired $'000	Amount not Impaired $'000
Not Past due	9,042	-	9,042	8,562	-	8,562
Past due > 30 days	668	-	668	312	-	312
Past due > 60 days	147	(39)	108	130	-	130
Past due > 90 days	135	(135)	-	39	(42)	(3)
Total	**9,992**	**(174)**	**9,818**	**9,043**	**(42)**	**9,001**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2018 $'000	2017 $'000
Plant and equipment at cost	7,132	4,041
Less accumulated depreciation	(5,886)	(3,354)
	1,246	**687**
Leasehold improvements at cost	9,376	1,645
Less accumulated depreciation	(6,288)	(1,063)
	3,088	**582**
Make good assets at cost	2,272	-
Less accumulated depreciation	(2,076)	-
	196	**-**
Total written down value	**4,530**	**1,269**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	
	2018 $'000	2017 $'000
Plant and equipment		
Carrying amount at beginning of the year	687	630
Additions	232	300
Disposals	(44)	-
Acquisitions through Business Combinations	1,069	-
Depreciation	(698)	(243)
Carrying amount at end of the year	**1,246**	**687**
Leasehold Improvement		
Carrying amount at beginning of the year	582	560
Acquisitions through Business Combinations	1,913	-
Additions	1,467	316
Disposals	(144)	-
Depreciation	(730)	(294)
Carrying amount at end of the year	**3,088**	**582**
Make good assets		
Carrying amount at beginning of the year	-	-
Acquisitions through Business Combinations	656	-
Additions	91	-
Depreciation	(551)	-
Carrying amount at end of the year	**196**	**-**

Plant and Equipment

Property, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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:

	2018
Plant and equipment	10% to 50%
Leasehold improvements	10% to 40%
Make good assets	20%

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	
	2018 $'000	2017 $'000
Goodwill		
At cost	47,286	29,698
Accumulated impairment	(14,127)	(18,157)
	33,159	**11,541**
Trademark		
At cost	27	27
Customer Relationships		
At cost	391	391
Accumulated amortisation	(234)	(137)
	157	**254**
Customer Contract		
At cost	9,988	-
Accumulated amortisation	(2,724)	-
	7,264	
Software Development		
At cost	3,840	1,919
Accumulated amortisation	(1,542)	(1,076)
	2,290	**843**
Software		
At cost	3,200	36
Accumulated amortisation	(2,000)	(12)
	1,200	**24**
Licence		
At cost	181	-
Accumulated amortisation	(166)	-
	15	**-**
	44,112	**12,689**

* *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.*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. INTANGIBLE ASSETS (CONTINUED)

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.

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.

Customer Contract

Customer contract relates to Federal Government job active contract which is the main customer and main source of generating business income of Mission Providence. The customer contract value resulted from the acquisition of Mission Providence on 29 September 2017, was valued based on the discounted cash-flow method and are amortised over the estimated useful lives, over 33 months, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. INTANGIBLE ASSETS (CONTINUED)

	Consolidated	
	2018 $'000	2017 $'000
Reconciliation - Goodwill		
Carrying amount at the beginning of the year	11,541	11,707
Acquisitions through Business Combinations	21,618	-
Reclassification to other intangibles	-	(166)
Carrying amount at the end of the year	**33,159**	**11,541**
Reconciliation – Trademark		
Carrying amount at the beginning of the year	27	27
Amortisation	-	-
Carrying amount at the end of the year	**27**	**27**
Reconciliation – Customer relationships		
Carrying amount at the beginning of the year	254	132
Recognition of customer relationships intangibles	-	239
Amortisation	(97)	(117)
Carrying amount at the end of the year	**157**	**254**
Reconciliation – Customer contract		
Carrying amount at the beginning of the year	-	-
Acquisitions through Business Combinations	9,988	-
Amortisation	(2,724)	-
Carrying amount at the end of the year	**7,264**	**-**
Reconciliation – Software Development		
Carrying amount at the beginning of the year	843	581
Additions	1,914	677
Amortisation	(467)	(415)
Carrying amount at the end of the year	**2,290**	**843**
Reconciliation – Software		
Carrying amount at the beginning of the year	24	36
Acquisitions through Business Combinations	1,708	-
Amortisation	(532)	(12)
Carrying amount at the end of the year	**1,200**	**24**
Reconciliation – Licence		
Carrying amount at the beginning of the year	-	-
Acquisitions through Business Combinations	45	-
Amortisation	(30)	-
Carrying amount at the end of the year	**15**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. INTANGIBLE ASSETS (CONTINUED)

Goodwill and other indefinite life intangible assets

Goodwill is allocated to the overall Group (representing a single group of cash generating units ("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 (2017: 15%);
- forecasts are performed taking into consideration trading outlook and future growth prospects for the Group with revenues rising at 5% initially reducing to 2% in the next four years;
- operating costs rising at 4% 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 the carrying amount. The sensitivities are as follows:

- Revenue would need to decrease by more than 2.70% 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 7.5% 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	
	2018 $'000	2017 $'000
CURRENT		
Trade payables	2,464	808
Leasehold incentives	48	78
Other payables and accruals	10,570	4,686
	13,082	**5,572**
NON-CURRENT		
Leasehold incentives	36	84
	36	**84**

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. EMPLOYEE BENEFITS

	Consolidated	
	2018 $'000	2017 $'000
CURRENT		
Annual Leave	3,243	1,229
Long Service Leave	1,550	333
	4,793	**1,562**
NON-CURRENT		
Long Service Leave	728	382
	728	**382**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

11. PROVISIONS

	Consolidated	
	2018 $'000	2017 $'000
CURRENT		
Lease make good	1,773	136
	1,773	**136**
NON-CURRENT		
Lease make good	472	-
	472	**-**

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)

12. BORROWINGS

	Consolidated	
	2018 $'000	2017 $'000
CURRENT – secured		
Bank loan	3,992	26
Lease liability	1,022	77
	5,014	**103**
NON-CURRENT – secured		
Bank loan	11,576	**315**
Lease liability	402	-
	11,978	**315**
Bank loans comprise of:		
Borrowing from CBA to fund acquisition and deferred consideration payments	15,568	-
(a) The carrying amounts of assets pledged as security are:		
Floating charge over assets, including investments (Total Assets of the business)	**74,085**	**28,294**
(b) Refer to Note 25 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)

13. CONTRIBUTED EQUITY

a) Issued and paid up capital

	Consolidated	
	2018 $'000	2017 $'000
Ordinary shares	**53,334**	**38,580**

The number of fully paid ordinary shares in issue at year end is (2017: 72,905,581). All shares rank equally.

b) Movements in shares on issue

	Consolidated			
	2018		2017	
	Number of Shares	$'000	Number of Shares	$'000
Balance at 1 July 2017	72,905,581	38,580	72,737,471	38,798
Issue of New Shares	33,181,254	15,771	681,798	37
Share Issue costs (net of Tax benefit)	-	(780)	-	-
Share buyback	(750,000)	(237)	(513,688)	(255)
Balance at 30 June 2018	**105,336,835**	**53,334**	**72,905,581**	**38,580**

Share buyback

In November 2017, shareholder approval was granted at the AGM to buy back up to 14.6 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 750,000 shares were bought back at an average price of $0.32 per share in May and June 2018 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CONTRIBUTED EQUITY (CONTINUED)

c) Capital risk management (continued)

	Consolidated	
	2018 $'000	2017 $'000
Gearing ratios		
Debt	16,991	418
Total equity	29,854	15,656
Gearing Ratio	56.9%	2.7%

d) Share based options and performance rights

(i) Performance rights

During the year 678,479 Performance Rights were granted to the Managing Director and certain senior executives as long term incentives under the Konekt Performance Rights and Options Plan. There remain 578,097 Performance rights on issue at year-end.

The Managing Director was issued with 86,042 Performance Rights, approved by shareholders at the AGM on 16 November 2017. The following terms apply to the issue of the Performance Rights:

- Grant date: 10 October 2017 (Senior Executives)
- Grant date: 16 November 2017 (Managing Director)
- Performance period: 1 July 2017 to 30 June 2020
- Vesting Date: The date of the notice that may be provided to a Participant to advise that Rights have vested. Such a notice may be issued to the Participant following the elapsing of the Performance Period and the Board's assessment of the extent to which any Exercise Conditions were met. If no Rights vest, then there is no First Exercise Date.
- Issue price: $Nil
- Exercise price: $Nil
- Fair Value: $0.4796 (10 October 2017) and $0.5003 (16 November 2017)
- Service Condition: Continuous employment with Konekt Limited up to and including 30 June 2020 for 100% of the Performance Rights to vest (subject to satisfaction of the performance condition at the termination date); or continuous employment with Konekt Limited until at least 30 June 2019, 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 Rights to vest meaning that (subject to satisfaction of the performance conditions on a pro rata basis at the termination date), 2/3 or the Rights would vest on 30 June 2019, with the number increasing pro rata after that date. Any vested Rights would expire, 30 days after the date of termination.

  The vesting of Rights will be subject to Konekt achieving the earnings per share before amortization ("EPSA") Target below

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CONTRIBUTED EQUITY (CONTINUED)

d) Share based options and performance right (continued)

November 2017 Invitation: Performance Level	EPSA* Compound Annual Growth Rate (CAGR)	% of Stretch /Maximum/Grant Vesting
Target	12%	100%
Between Threshold and Target	>8%, <12%	Pro-rata
Threshold	8%	50%
Below Threshold	<8%	0%

*EPSA is defined as Earnings per share before amortisation (EPSA) and is calculated as the Company's Net Profit after Tax before Amortisation (NPATA) divided by the average number of shares on issue during the financial year, or in accordance with a policy developed by the Board. EPSAG is calculated as the annualised growth in EPSA by comparing the EPSA at the end of the Performance Period to the EPSA achieved in the year prior to the start of the Performance Period, as follows: (EPSA End ÷ EPSA Start) ^1/(years in Performance Period)-1.

(ii) Options

There were no new options issued during the year. There remain 1,610,000 options on issue at year-end.

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

	Consolidated	
	2018 $'000	2017 $'000
Share-based payments reserve		
Opening balance of reserve	392	375
Share based payments expense	159	17
Closing balance of reserve	**551**	**392**

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 FY18 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 $0.092 (2017: $0.06).

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CONTRIBUTED EQUITY (CONTINUED)

d) Share based options and performance right (continued)

Consolidated 2018

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	$
24.11.2014	01.12.2017	31.05.2018	$0.10	400,000	-	(400,000)	-	-	-
18.11.2015	01.09.2018	28.02.2019	$0.20	650,000	-	-	-	650,000	40,950
12.08.2016	01.09.2019	28.02.2020	$0.37	1,000,000	-	-	(320,000)	680,000	153,136
15.11.2016	01.09.2019	28.02.2020	$0.37	280,000	-	-	-	280,000	71,064
				2,330,000	**-**	**(400,000)**	**(320,000)**	**1,610,000**	**265,150**
Performance Rights				Number	Number	Number	Number	Number	$
10.10.2017	30.06.2020		$0.00	-	546,548	-	(100,382)	446,166	223,217
16.11.2017	30.06.2020		$0.00	-	131,931	-	-	131,931	66,005
				-	678,479	-	(100,382)	578,097	289,222

The fair value of performance rights 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	Share Price at Grant Date	Expected Volatility	Risk Free Interest Rate	Expected Vesting	Fair Value at Grant Date
10.10.2017	$0.50	42.27%	2.60%	67.9%	$0.4796
16.11.2017	$0.52	42.27%	2.60%	67.9%	$0.5003

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**

e) Obligations to issue ordinary shares

There are no obligations to issue ordinary shares.

f) Restricted securities

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. CAPITAL AND LEASING COMMITMENTS

Non-cancellable operating lease commitments

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

	Consolidated							
	2018				2017			
	Equipment $'000	Motor Vehicle $'000	Property $'000	Total $'000	Equipment $'000	Motor Vehicle $'000	Property $'000	Total $'000
Due within 1 year	128	437	7,666	8,231	12	308	2,339	2,659
Due later than 1 year but less than 5 Year	156	128	9,028	9,312	8	181	923	1,112
Due later than 5 Years	-	-	106	106	-	-	-	-
Total	**284**	**565**	**16,800**	**17,649**	**20**	**489**	**3,262**	**3,771**

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	
	2018	2017
	$'000	$'000
Payments under operating leases in Profit and Loss		
Motor vehicle leases	659	379
Equipment	164	90
Property leases	8,167	2,427
	8,990	**2,896**

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. CAPITAL AND LEASING COMMITMENTS (CONTINUED)

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.

15. 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 (2017: 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 $160,437 (2017: $367,000) and resulted in an adjustment in the Statement of profit or loss and other comprehensive income.

	Consolidated			
	2018		2017	
	Purchase Consideration Payable for Acquisitions	Others	Purchase Consideration Payable for Acquisitions	Others
	$'000	$'000	$'000	$'000
Carrying amount at the beginning of the year	2,584	-	3,059	-
Additions	-	-	-	-
Settlement	(1,256)	-	(423)	-
Remeasurement of contingent payable	(160)	-	(367)	-
Interest unwind	181	-	315	-
Carrying amount at end of the year	**1,349**	**-**	**2,584**	**-**
Total gain for the year included in profit or loss	**160**	**-**	**367**	**-**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. CONTINGENT LIABILITIES

As at 30 June 2018 Konekt had issued bank guarantees to the value of $930,583 (2017: $784,930) primarily relating to property leases.

The Directors are not aware of any other contingent liabilities as at 30 June 2018.

17. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

	Consolidated	
	2018 $	2017 $
Short-term employee benefits	836,096	826,611
Cash bonus	251,000	230,000
Non-monetary benefits	-	-
Post-employment benefits	68,876	68,392
Long-term benefits	16,831	7,699
Termination benefits	-	-
Share-based payments	67,464	43,556
	1,240,267	**1,176,259**

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.

18. REMUNERATION OF AUDITORS

	Consolidated	
	2018 $	2017 $
Amounts paid/payable to BDO East Coast Partnership for audit or review of the financial statements for the Company	168,000	83,500
Tax and accounting advisory services	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. 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 operating and reporting segment in the Company which is Employment, Work and Workplace Services.

Revenues of $41.3m (2017: nil) and $12.6m (2017: $16.7m) 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.

20. SUBSIDIARIES

a) Subsidiaries

		2018	2017
	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 Limited	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%
Konekt Employment Pty Ltd (previously Mission Providence Pty Ltd)	Australia	100%	-

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

b) Subsidiaries Acquired

On 29 September 2017, the Group acquired 100% of Mission Providence Pty Ltd. Refer note 21 for more information.

c) Deed of Cross Guarantee

A new deed of cross-guarantee was enacted during 2017 between the Group Entities listed in note 20a and relief was obtained from preparing financial statements for the subsidiaries of Konekt Limited. Under the deed, Konekt Limited guarantees to support the liabilities and obligations of the subsidiaries and vice-versa.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. BUSINESS COMBINATION

On 29 September 2017, the Group acquired 100% of Mission Providence Pty Ltd, a leading provider of Employment Services and the New Enterprise Incentive Scheme (NEIS) under the Federal Government's *jobactive* program. Mission Providence has subsequently been rebranded Konekt Employment.

Through acquiring 100% of the issued capital of Mission Providence, the Group has obtained control of the company.

The aggregate details of the business combinations are as follows:

Fair Value of consideration transferred	Fair value $'000
Amount settled in cash	27,946
Fair Value of contingent consideration	-
	27,946

Recognised amounts of identifiable net assets	Fair value $'000
Cash and cash equivalents	3,089
Trade and other receivables	2,160
Other assets	498
Intangible Assets	11,741
Plant & Equipment	3,638
Deferred Tax Asset	5,790
Trade and other payables	(6,632)
Provisions	(2,231)
Employee benefits	(3,942)
Deferred revenue	(5,663)
Other liabilities	(2,120)
Net assets acquired	6,328
Goodwill	21,618
Acquisition-date fair value of the total consideration transferred	27,946

* *Included in intangible assets is customer contract which was recognised through the acquisition of Konekt Employment, refer to Note 8 for further details*

Due to the timing of the acquisition, the accounting for the acquisition of Konekt Employment has been determined only provisionally in accordance with AASB 3 Business Combinations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. BUSINESS COMBINATION (CONTINUED)

Representing:	$'000
Cash paid or payable to vendor	28,346
Cash receivable from Vendor	(400)
Acquisition costs expensed to profit or loss	3,104

Cash used to acquire business, net of cash acquired:	Consolidated
	30/06/2018
	$'000
Acquisition-date fair value of the total consideration transferred	27,946
Less: cash and cash equivalents	(3,089)
Less: payments made in prior periods	-
Net cash outflow on acquisition	24,857
Acquisition costs expensed to profit or loss	3,104
Net Cash paid relating to the acquisition	27,961

Consideration transferred

The consideration paid to acquire Konekt Employment Pty Ltd (previously Mission Providence Pty Ltd) was $27.96m after final purchase price adjustments. The net cash outflow of $24.9m was funded by debt ($17.0m) and issuance of 32,781,254 ordinary shares at $0.48 per share ($15.7m), providing funds for transaction and integration costs as well as working capital.

Goodwill

The goodwill of $21.9m is primarily related to growth expectations, expected future profitability, the substantial skills and expertise of Konekt Employment workforce and the expected cost synergies from merging Konekt Employment with Konekt. The growth expectations will be materialised in the significant impact on future earnings. On a pro forma basis, the merged business is expected to approximately double revenue and EBITDA. Konekt Employment also operates in a number of parallel markets to Konekt nationwide, which is expected to enhance Konekt's ability to deliver return to work employment and return to work from injury programs. No amount of the goodwill is deductible for tax purposes.

Acquisition-related costs amounting to $3.1m are not included as part of the consideration transferred and have been recognised as other expense in the consolidated statement of profit or loss and other comprehensive income.

Revenue resulting from the acquisition of Konekt Employment, amounting to $41.3m is included in the consolidated statement of profit and loss and other comprehensive income of the Group for the year ended 30 June 2018.

Amortisation of intangible assets arising from the acquisition will have a material impact on statutory results over the period to 30 June 2020.

Had the results of Mission Providence been consolidated from 1 July 2017, revenue of the consolidated Group would have been $102.8m. We are unable to provide profit & loss performance for the acquisition due to a large number of expenses being shared between the acquired business and Konekt and as a result are no longer separately identifiable.

22. 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 group of debtors or a single debtor. The Company is only exposed to risk in the health services sector and to risk in the Australian Government. 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:

30 June 2018	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	0.68%	5,661	-	-	-	5,661
Trade and other receivables		-	-	-	9,818	9,818
Total Financial Assets		**5,661**	**-**	**-**	**9,818**	**15,479**
						Financial Liabilities
Borrowings	5.06%	-	5,013	11,978	-	16,991
Deferred consideration		-	-	-	1,349	1,349
Trade and other payables		-	-	-	13,118	13,118
Total Financial Liabilities		**-**	**5,013**	**11,978**	**14,467**	**31,458**
Net Financial (Liabilities)/ Assets		**5,661**	**(5,013)**	**(11,978)**	**(4,649)**	**(15,979)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. 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						
Borrowings	5.49%	-	103	315	-	418
Deferred consideration		-	-	-	2,584	2,584
Trade and other payables		-	-	-	5,656	5,656
Total Financial Liabilities		**-**	**103**	**315**	**8,240**	**8,657**
Net Financial (Liabilities)/ Assets		**2,848**	**(103)**	**(315)**	**761**	**3,191**

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 $99,238 (2017 increase by $25,070). Correspondingly, for each 1% fall in interest rates Company profit before tax will decrease by $99,238 (2017 decrease by $25,070).

e) Liquidity Risk

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

Maturity Analysis – 2018	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	5,661	5,661	5,661	-	-	-
Trade Receivables	9,818	9,818	9,818	-	-	-
Total Financial Assets	**15,479**	**15,479**	**15,479**	**-**	**-**	**-**
Financial Liabilities						
Deferred consideration	1,349	1,376	1,376	-	-	-
Lease liabilities	1,406	1,399	532	465	402	-
Bank loan	15,567	15,568	-	3,992	11,576	-
Trade and other payables	13,118	13,118	13,118	-	-	-
Total Financial Liabilities	**31,440**	**31,461**	**15,026**	**4,457**	**11,978**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

Maturity Analysis – 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	2,584	2,861	1,324	6	1,531	-
Other loans	418	418	-	103	315	-
Trade and other payables	5,656	5,656	5,489	72	95	-
Total Financial Liabilities	**8,658**	**8,935**	**6,813**	**181**	**1,941**	**-**

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.

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 the Australian Government, very large insurance companies and large corporates. Follow-up on overdue accounts is performed by the Company if amounts exceed 90 days past due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. FAIR VALUE MEASUREMENTS

a. Valuation technique

In the absence of an active market for an identical asset or liability, the Group selects and uses one of more valuation technique to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

Level 1: Market approach uses prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

- Level 2: Income approach converts estimated future cash flows or income and expenses into a single discounted present value.
- Level 3: Cost approach reflects the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

b. Financial instruments

The following table shows the group assets and liabilities recognised at fair value in the financial statements.

	Level of Fair value Hierarchy	30/06/2018 $'000	30/06/2017 $'000
Financial liabilities Fair Value:			
Deferred consideration payables	Level 3	1,349	2,584
		1,349	**2,584**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. CASH FLOW INFORMATION

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

	Consolidated	
	2018	2017
	$'000	$'000
(Loss) / Profit after income tax	**(170)**	**3,587**
Depreciation and amortisation expense	6,017	1067
Share based payments expense	159	17
Interest unwind lease liability	(228)	-
Remeasurement of contingent payable	(160)	(367)
Deferred Acquisition Interest unwind	180	315
Changes in assets and liabilities		
Movement in trade and other debtors	1,098	(663)
Movement in trade and other payables	1,074	610
Movement in deferred tax asset	(1,650)	(27)
Movement in other assets	416	46
Movement in other provisions	(2,876)	295
Net cash from operating activities	3,860	4,880

25. FINANCE FACILITIES

	Consolidated	
	2018 $'000	2017 $'000
Credit Standby Arrangements with Banks		
Credit facility	16,464	5,000
Amount utilised	(15,584)	(315)
Unused credit facility	**880**	**4,685**

Banking Facilities

Acquisition Finance Facility

On 29 September 2017 Konekt Limited signed a new acquisition finance facility agreement with the Commonwealth Bank of Australia. The initial facility limit of $19.8m was available to be utilized for Mission Providence acquisition payments and future draw-downs for deferred consideration payments relating to past acquisitions. The drawn balance of the facility at 30 June 2018 is $15.6m.

Finance will be provided under these facilities provided the Company have not breached any borrowing requirements and the required financial covenants are met during the financial year. The Company has a bank guarantee facility of $1.6m. As at 30 June 2018 Konekt had issued bank guarantees to the value of $930,583 primarily relating to property leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. RELATED PARTY TRANSACTIONS

There are no transactions between the Company and related parties.

27. ADDITIONAL FINANCIAL INFORMATION OF THE PARENT ENTITY

	2018 $'000	2017 $'000
Current assets	34,240	32
Total assets	**36,656**	**1,648**
Current liabilities	5,342	1,192
Total liabilities	**18,342**	**1,192**
Shareholders' equity		
Issued capital	53,334	38,580
Reserves – share option	553	392
Profits Reserve	3,040	1,426
Accumulated losses	(38,613)	(39,942)
Total equity	**18,314**	**456**
(Loss) / Profit after income tax expense for the year	(293)	1,426
Total comprehensive income for the year	(293)	1,426

For details of guarantees entered into by the parent entity in relation to debts of subsidiaries refer to note 20.

The Parent Entity has no other commitments or contingent liabilities.

28. SUBSEQUENT EVENTS

There are no matters or circumstances that have arisen since 30 June 2018 that have significantly affected:

- the Company's operations in future financial years;
- the results of these operations in future financial years; and
- the Company's state of affairs in future financial years

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 2018 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 Group Chief Executive Officer and Group Chief Financial Officer required by section 295A;

6. All group entities are parties to the deed of cross guarantee under which each company guarantees the debtors 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 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 20 (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
Group Chief Executive Officer

16 August 2018, Sydney

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Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
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 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial 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 2018 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.

BDO

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 $33.16 million as disclosed in Note 8 represents over 45% 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 financial year as a result of the acquisition of Mission Providence. 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 2018 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

BDO

Accounting for the acquisition of Mission Providence

Key audit matter	*How the matter was addressed in our audit*
As disclosed in note 21 of the financial report, the company acquired Mission Providence Ltd (an entity incorporated in Australia). The audit of the accounting for this acquisition is a key audit matter given it was material to the Group and involved significant judgments made by the Group including estimation of the fair value of assets and liabilities acquired, in particular identifiable intangible assets. Under Australian Accounting Standards, the Group is required to estimate the fair value of assets and liabilities acquired.	Our procedures included, amongst others: • Reading key executed transaction documents to understand the key terms and conditions of the transaction; • Assessing the fair value of assets and liabilities acquired to the fair value assessment conducted by management; • For the valuation identifiable intangible assets, we performed the following procedures assisted by our valuation specialists: o Assessed the competency and objectivity of the external valuers and considering the valuation methodologies adopted and determined that we could use the external valuations as evidence for the purpose of our audit; o Challenged the associated underlying forecast cash flows for the customer contract asset valuation and assessed key assumptions, including forecast growth rates by comparing them to historical results; o Evaluated discount rates used by assessing the cost of capital applied in the valuation by comparing it to market data and industry research; o Checked the mathematical accuracy of the cash flow model; • Assessing the adequacy of the Group's disclosures of the acquisition.

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 2018, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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 2018.

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

Responsibilities

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

BDO East Coast Partnership

BDO

Arthur Milner
Partner

Sydney, 16 August 2018

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 2018.

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	44,503	-	-	-	-
1,001 – 5,000	251	676,224	-	-	-	-
5,001 – 10,000	118	897,970	-	-	-	-
10,001 – 100,000	313	10,762,174	-	-	-	-
100,001 and over	82	92,955,964	-	-	-	-
	877	**105,336,835**	**-**	**-**	**-**	**-**
The number of shareholders holding less than a marketable parcel of shares are:						
	179	128,244	-	-	-	-

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 2018 are:

		Listed ordinary shares	
		No. of Shares Held	% Held
Financial Assets			
1	NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C>	13,800,000	13.10
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,923,636	11.32
3	DIXSON TRUST PTY LIMITED	11,848,949	11.25
4	CITICORP NOMINEES PTY LIMITED	9,776,922	9.28
5	DR & LC FLYNN NOMINEES PTY LTD <FLYNN SUPER FUND A/C>	6,895,000	6.55
6	PROF ALAN JONATHAN BERRICK	6,271,028	5.95
7	DR VERN THOMAS MADDEN + MRS CLARE MAREE MADDEN <MAD-BOY SUPER FUND A/C>	2,899,660	2.75
8	DR + LC FLYNN NOMINEES P/L <FLYNN SUPER FUND A/C>	1,632,623	1.55
9	NATIONAL NOMINEES LIMITED	1,500,000	1.42
10	BFA SUPER PTY LTD <GDN SUPER FUND A/C>	1,485,313	1.41
11	MR EDWARD JAMES STEPHEN DALLY + MRS SELINA DALLY <LEKDAL FAMILY A/C>	1,443,032	1.37
12	MR WILLIAM NEIL STEWART COATS	1,436,654	1.36
13	DELTA REAL-TIME COMPUTERS PTY LTD	1,427,334	1.36
14	BUMBLETON PTY LTD <WILLIAM COATS S/F A/C>	1,392,693	1.32
15	NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C>	1,200,000	1.14
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,041,950	0.99
17	J W GIJET PTY LTD	772,500	0.73
18	MR EDWARD JAMES DALLY + MRS SELINA DALLY <E J DALLY SUPER FUND A/C>	751,486	0.71
19	YARRAC PTY LTD <COLEBATCH PROPERTY A/C>	650,000	0.62
19	ETHEREAL PSF PTY LTD <KEITH LEATHER SUPER FUND A/C>	650,000	0.62
Total ordinary shares quoted on ASX – Held by the top 20 holders		**78,798,780**	**74.81**
Total ordinary shares quoted on ASX		**105,336,835**	**100%**

ASX ADDITIONAL INFORMATION (CONTINUED)

c) Unquoted Securities

There were 1,610,000 unquoted options and 578,097 Performance Rights on issue as at 31 July 2018.

d) Substantial Shareholders

Substantial shareholders in the Company are set out below:

	No. of Shares Held	% Held
Nidmas Pty Ltd	15,382,916	14.60
AJ Berrick & Associates	13,321,002	12.65
Dixson Trust Pty Ltd	11,923,636	11.32
Pie Funds Management Ltd	7,851,006	7.45
DR & LC Flynn Nominees Pty Ltd (Flynn Super Fund A/C)	6,271,028	5.95

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, 338 Pitt 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, 338 Pitt Street
SYDNEY NSW 2000

i) 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.

ii) Home Exchange

Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000