

## **OVER THE WIRE HOLDINGS LIMITED**

ACN 151 872 730

### **APPENDIX 4E**

**30 June 2018**

## APPENDIX 4E – PRELIMINARY FINAL REPORT

### UNDER ASX LISTING RULE 4.3A FOR THE YEAR ENDED 30 JUNE 2018

Current Period	1 July 2017 to 30 June 2018
Prior corresponding period	1 July 2016 to 30 June 2017

#### RESULTS FOR ANNOUNCEMENT TO THE MARKET:

	2018	CONSOLIDATED 2017	Change	Change
	\$ ,000	\$ ,000	\$ ,000	%
<b>KEY INFORMATION:</b>				
Revenue from Ordinary Activities	53,561	34,217	19,344	57%
Profit / (Loss) after Tax from Ordinary Activities Attributable to Members	5,531	3,598	1,933	54%
Profit / (Loss) Attributable to Members	5,531	3,598	1,933	54%
<b>Earnings Per Share</b>	Cents	Cents	Cents	%
Basic Earnings per Share	12.625	8.270	4.363	53%
Diluted Earnings per Share	12.566	8.270	4.303	53%

Dividends Paid and Proposed	Amount per Security	Franked Amount per Security
Ordinary Shares	Cents	Cents
2017 Final – Paid 10 October 2017	1.25	1.25
2018 Interim – Paid 24 April 2018	1.00	1.00

<b>Subsequent Events</b>
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On 22 August 2018, the Company declared a fully franked final dividend of 1.50 cents per share, for the year ended 30 June 2018. The dates of the dividend are as follows:

Ex date	17 September 2018
Record Date	18 September 2018
Payment Date	9 October 2018

As this final dividend was declared subsequent to year-end, no provision has been made in the accounts for the dividend.

## COMMENTARY ON RESULTS FOR THE PERIOD

### SIGNIFICANT FEATURES OF OPERATING PERFORMANCE:

Refer to the attached consolidated financial report and accompanying media release and investor presentation.

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 1 November 2017, the Company acquired 100% of the shares in VPN Solutions Pty Ltd (VPN Solutions) for a total upfront consideration of \$15,615K less a subsequent working capital adjustment of \$647K, for a total upfront consideration of \$14,968K. The vendor is also entitled to receive further deferred consideration of up to \$1,735K in cash, payable in November 2018, based on a number of performance measures being achieved, for a total potential consideration of \$16,703K.

VPN Solutions employed 21 staff and was headquartered in New South Wales, and delivers managed networks to approximately 150 business customers. The acquisition of VPN accelerates the Group's expansion into the New South Wales and South Australian markets

The cash component of the acquisition was funded through a newly established \$18,000K debt facility with Westpac. The facility has been used to fund the cash component of this acquisition, as well as refinance the remaining balance of the debt facility with NAB established for the acquisition of Telarus in 2017. The facility comes with customary lending covenants around Debt-to-EBITDA (<2.25 times) and Debt-Service-Coverage (>1.75 times), as well as periodic financial reporting requirements.

The strategic rationale:

- The acquisition of VPN Solutions accelerates the Group's expansion into the New South Wales and South Australian markets;
- Data Networks represents over 90% of VPN's revenue and offers cross sell opportunities;
- VPN Solution's customer base is high quality and offers interstate expansion opportunities;
- VPN Solutions has a quality team that will integrate well with the Group;
- The acquisition is expected to offer attractive EBITDA and EPS accretion to the Group immediately; and
- Synergies are expected to be achieved in this financial year with further cost savings to be delivered in the next financial year.

Please refer to Note 19 in the attached consolidated financial report for further information including contribution by VPN Solutions to the Group.

## NET TANGIBLE ASSETS

### Net assets and net tangible assets per share

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
Net Assets	24,867	19,023
<b>Net Tangible Assets</b>	<b>(11,782)</b>	<b>3,734</b>
	Cents	Cents
Net Tangible Assets Per Share (Cents)	(26.78)	8.58

Net Tangible Assets per share decreased because the assets acquired through the purchase of VPN Solutions were predominantly intangible assets, and therefore excluded from the calculation of Net Tangible Assets. The debt used to fund the acquisition does form part of the calculation of Net Tangible Assets.

## STATUS OF AUDIT

The 30 June 2018 financial statements and accompanying notes for Over the Wire Holdings Limited and its controlled entities have been audited and the attached consolidated financial report contains the independent auditor's report.



Mike Stabb

Company Secretary

22 August 2018

# **OVER THE WIRE HOLDINGS LIMITED**

ACN 151 872 730

## **FINANCIAL REPORT**

**30 June 2018**

## TABLE OF CONTENTS

COMMENTARY ON RESULTS FOR THE PERIOD .....	3
SIGNIFICANT CHANGES IN STATE OF AFFAIRS .....	3
NET TANGIBLE ASSETS .....	3
STATUS OF AUDIT .....	4
GENERAL INFORMATION .....	6
CORPORATE DIRECTORY .....	7
DIRECTORS' REPORT .....	8
DIRECTORS AND COMPANY SECRETARY .....	8
PRINCIPAL ACTIVITIES .....	8
REVIEW OF OPERATIONS .....	8
BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS .....	10
SIGNIFICANT CHANGES IN STATE OF AFFAIRS .....	10
EVENTS SINCE THE END OF THE FINANCIAL YEAR .....	10
LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS .....	10
ENVIRONMENTAL REGULATION .....	11
INFORMATION ON DIRECTORS & COMPANY SECRETARY .....	11
MEETINGS OF DIRECTORS .....	13
REMUNERATION REPORT .....	15
AUDITOR'S INDEPENDENCE DECLARATION .....	21
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	22
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	23
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	24
CONSOLIDATED STATEMENT OF CASH FLOWS .....	25
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	26
DIRECTORS' DECLARATION .....	69
INDEPENDENT AUDITOR'S REPORT .....	70

## GENERAL INFORMATION

The financial report covers Over the Wire Holdings Limited as a consolidated entity consisting of Over the Wire Holdings Limited and the entities it controls. The report is presented in Australian dollars, which is Over the Wire Holdings Limited's functional and presentation currency.

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

### Registered Office & Principal Place of Business

Level 21  
71 Eagle Street  
Brisbane Qld 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report.

The financial statements were authorised for issue, in accordance with a resolution of directors on 22 August 2018. The directors have the power to amend and/or reissue the financial report.

## CORPORATE DIRECTORY

<b>Directors</b>	John Puttick DUniv QUT, FACS, ACA <i>Chair</i>
	Michael Omeros MAICD, BE(Electronics), BInfoTech <i>Chief Executive Officer</i>
	Brent Paddon BInfoTech, GradDipBusAdmin
	Susan Forrester BA, LLB (Hons), EMBA, FAICD
<b>Secretary</b>	Mike Stabb FCA, MAICD, BBus(Accy,BusLaw), RTA <i>Chief Financial Officer</i>
<b>Chief Operating Officer</b>	Ben Cornish
<b>Registered Office and Principal Place of Business</b>	Level 21 71 Eagle Street Brisbane QLD 4000
<b>Share Register</b>	Link Market Services 10 Eagle St Brisbane QLD 4000
<b>Auditor</b>	PKF Hacketts Audit Level 6, 10 Eagle Street Brisbane QLD 4000
<b>Solicitors</b>	McCullough Robertson Lawyers Level 11, Central Plaza Two, 66 Eagle Street Brisbane, Qld 4000
<b>Bankers (Debt)</b>	Westpac 260 Queen Street Brisbane QLD 4000
<b>Bankers (Transaction)</b>	National Australia Bank 308-322 Queen Street Brisbane QLD 4000
<b>Stock Exchange Listings</b>	Over the Wire Holdings Limited (OTW) shares are listed on the Australian Securities Exchange (ASX).
<b>Website Address</b>	<a href="http://www.overthewire.com.au">www.overthewire.com.au</a>

## DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Over the Wire Holdings Limited ("the Company") and the entities it controlled ("the consolidated entity", "Group") for the year ended 30 June 2018.

### DIRECTORS AND COMPANY SECRETARY

The name of the directors who held office during or since the end of the year.

John Puttick	Non-Executive Chairman
Michael Omeros	Managing Director and Chief Executive Officer
Brent Paddon	Executive Director
Susan Forrester	Non-Executive Director
Mike Stabb	Company Secretary and Chief Financial Officer

### PRINCIPAL ACTIVITIES

The consolidated entity is a profitable, high growth provider of telecommunications, cloud and IT solutions. It has a national network presence with Points of Presence (POPs) in all major Australian capital cities and Auckland, New Zealand.

During the year the principal continuing activities of the consolidated entity consisted of offering an integrated product suite of the following services to businesses in Australia and New Zealand:

- Data Networks and Internet;
- Voice;
- Cloud and Managed Services; and
- Data Centre Co-location

There has been no significant change to the principal activities of the group during the year. VPN Solutions Pty Ltd was acquired on 1 November 2017, and its product suite predominantly includes Data Networks and Internet, along with a very small amount of Voice and Cloud, which is in line with the consolidated entity's existing principal activities.

### REVIEW OF OPERATIONS

Total revenue from ordinary activities for the year was \$53,561K (2017: \$34,217K), representing an increase of 57% on the corresponding year. The result demonstrates demand from customers across all four product lines including:

- Data Networks revenue of \$29,383K (2017: \$15,915K), representing an increase of 85% on the corresponding year and delivered through organic growth and the successful acquisition of VPN Solutions on 1 November 2017;
- Voice revenue of \$14,060K (2017: \$10,714K), representing an increase of 31% on the corresponding year and predominantly delivered through strong organic growth;
- Cloud and Managed Services revenue of \$7,258K (2017: \$4,845K), representing an increase of 50% on the corresponding year and predominantly delivered through strong organic growth;
- Data Centre co-location revenue of \$2,860K (2017: \$2,742K), representing an increase of 4% on the corresponding year and delivered through organic growth.



The consolidated entity continued to build upon its geographic expansion strategy outlined in its Initial Public Offering (IPO). A primary focus was to deliver growth in the New South Wales and Victorian markets and this has been successfully achieved both organically and through acquisition. The below table show comparative figures from 2017 to 2018:

	Revenue growth 2017 to 2018 (Organic)	Revenue Growth 2017 to 2018 (Statutory)
<b>Geographic Area:</b>		
Queensland	6%	23%
New South Wales	30%	60%
Victoria	153%	133%
Other	62%	276%

### Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA refers to earnings before interest, tax, depreciation and amortisation, and is an important metric to the consolidated entity because it shows the strong gross profit and expenditure management delivered by the consolidated entity and correlates well with operating cashflow. Set out below is a reconciliation of Profit before Income Tax Expense and EBITDA.

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Profit before Income Tax Expense</b>	<b>7,843</b>	<b>4,857</b>
Depreciation & Amortisation	3,937	2,330
Finance Costs	476	182
<b>EBITDA</b>	<b>12,256</b>	<b>7,369</b>

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$12,256K (2017: \$7,369K), representing an increase of 66% on the corresponding year. Net Profit after Income Tax Expense (NPAT) was \$5,531K (2017: \$3,598K), representing an increase of 54% on the corresponding year. The increase in profitability has been achieved through maintaining gross margins whilst increasing revenue and the effective management of operating expenses whilst still investing for future growth.

As at 30 June 2018, the consolidated entity had \$7,013K in cash or cash equivalents. Net Cashflow from Operating Activities (before Interest and Tax) for the 2018 year was \$12,203K (\$7,930K in 2017) demonstrating an alignment with EBITDA. The consolidated entity's continued sound management of overhead expenses in the underlying business, maintaining debtors days and creditors days metrics, recognising cost synergies in the acquired entities, and when combined with revenue growth of 57%, has generated the growth in EBITDA and positive Cash from Operating Activities outlined in the Consolidated Statement of Cash flows.

### Dividends paid and proposed

A final dividend for 30 June 2017 of 1.25 cent per share fully franked was paid in October 2017.

An interim dividend of 1.00 cents per share fully franked, for the six months ended 31 December 2017, was paid in April 2018.

Subsequent to year-end, on 22 August 2018, the Company declared a fully franked final dividend of 1.50 cents per share, for the year ended 30 June 2018. The dates of the dividend are as follows:

Ex date	17 September 2018
Record Date	18 September 2018
Payment Date	9 October 2018

As this final dividend was declared subsequent to year-end, no provision has been made in the accounts for the dividend.

## BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

The Group operates four product lines; Data Networks, Voice, Cloud and Managed Services, and Data Centre Co-location. Each product line is capable of being delivered stand-alone or bundled with one or more other product lines to deliver a complete solution.

The Group will continue its business development and marketing initiatives, and leverage its investment in the four product lines to grow organically, both through the acquisition of new customers and selling more products and services to existing customers. Our geographic expansion continues to remain a focus.

The Group will leverage its investments in Telarus and VPN Solutions to deliver further synergies. It will also continue to look to grow through identifying and acquiring suitable businesses that deliver a strategic fit, readily achievable synergies and add shareholder value.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

### Acquisition of VPN Solutions

#### VPN SOLUTIONS PTY LTD

On 1 November 2017, the Company acquired 100% of the shares in VPN Solutions Pty Ltd (VPN Solutions) for a total upfront consideration of \$15,615K less a subsequent working capital adjustment of \$647K, for a total upfront consideration of \$14,968K. The vendor is also entitled to receive further deferred consideration of up to \$1,735K in cash, payable in November 2018, based on a number of performance measures being achieved, for a total potential consideration of \$16,703K.

VPN Solutions employed 21 staff and was headquartered in New South Wales, and delivers managed networks to approximately 150 business customers. The acquisition of VPN accelerates the Group's expansion into the New South Wales and South Australian markets

The cash component of the acquisition was funded through a newly established \$18,000K debt facility with Westpac. The facility has been used to fund the cash component of this acquisition, as well as refinance the remaining balance of the debt facility with NAB established for the acquisition of Telarus in 2017. The facility comes with customary lending covenants around Debt-to-EBITDA (<2.25 times) and Debt-Service-Coverage (>1.75 times), as well as periodic financial reporting requirements.

The strategic rationale:

- The acquisition of VPN Solutions accelerates the Group's expansion into the New South Wales and South Australian markets;
- Data Networks represents over 90% of VPN's revenue and offers cross sell opportunities;
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- The acquisition is expected to offer attractive EBITDA and EPS accretion to the Group immediately; and
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## EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 22 August 2018, the Company declared a fully franked final dividend of 1.50 cents per share, for the year ended 30 June 2018. The dates of the dividend are as follows:

Ex date	17 September 2018
Record Date	18 September 2018
Payment Date	9 October 2018

As this final dividend was declared subsequent to year-end, no provision has been made in the accounts for the dividend. No matter or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Consolidated entity will continue its focus on growing organically through geographic expansion, cross-selling of complementary products and new or enhanced product and service initiatives within its existing product lines.

Acquisitions will continue to be targeted where they provide synergies, complement the current offering and add shareholder value.

## ENVIRONMENTAL REGULATION

The consolidated entity's operations are not currently subject to significant environmental regulation under the law of the Commonwealth and State.

## INFORMATION ON DIRECTORS & COMPANY SECRETARY

The following information is current as at the date of this report.

<b>John Puttick DUniv QUT,FACS, ACA Non-Executive Chairman</b>		
Experience and Expertise	<p>John was appointed as Chairman of the company in December 2015. He was the founder and chairman of GBST Holdings Limited.</p> <p>John holds an Honorary Doctorate from The Queensland University of Technology and a Chartered Accounting qualification from Auckland University of Technology.</p> <p>John has over forty years of experience in building commercial systems with information technology, over thirty of which were in developing financial services solutions at GBST Holdings Limited.</p>	
Other Current Directorships	None	
Former Directorships in last 3 years	GBST Holdings Limited (ASX: GBT)	
Special Responsibilities	<p>Chair of the Board</p> <p>Chair of nominations and remuneration committee</p> <p>Member of audit and risk committee</p>	
Direct and indirect interest in shares and options	Ordinary Shares – Over the Wire Holdings	80,000

<b>Michael Omeros MAICD,BE(Electronics)(Hons), BInfoTech Managing Director and Chief Executive Officer</b>		
Experience and Expertise	<p>Michael is a co-founder and the Managing Director of the company.</p> <p>He has over twenty years of experience in the telecommunications and IT services sectors, and graduated from QUT in 1994 with a Bachelor of Engineering – Electronics (First Class Honours) and Bachelor of IT (with Distinction).</p> <p>Prior to Over the Wire, Michael held a Senior Management role at GBST, worked for Zurich Insurance in the UK and founded Celentia which has now been absorbed by Over the Wire.</p>	
Other Current Directorships	None	
Former Directorships in last 3 years	None	
Special Responsibilities	Member of audit and risk committee	
Direct and indirect interest in shares and options	Ordinary Shares – Over the Wire Holdings	13,616,115

<b>Brent Paddon BInfoTech, GradDipBusAdmin Executive Director</b>		
Experience and Expertise	<p>Brent is a co-founder and Director of the Company.</p> <p>He has over twenty years of experience in telecommunications and IT services sectors and graduated from QUT in 1996 with a bachelor of IT. He also completed a Graduate Diploma in Business Administration from QUT in 2008.</p> <p>Brent held a senior management role at Web Central, worked for Pipe Networks and founded Brisbane Internet Technology, which was sold to Asia Online.</p>	
Other Current Directorships	None	
Former Directorships in last 3 years	None	
Special Responsibilities	Member of nominations and remuneration committee	
Direct and indirect interest in shares and options	Ordinary Shares – Over the Wire Holdings	13,150,000

<b>Susan Forrester BA, LLB (Hons), EMBA, FAICD Non-Executive Director</b>		
Experience and Expertise	<p>Susan was appointed as Non-Executive Director in December 2015.</p> <p>She is an accomplished company director, with significant experience as non-executive director across a range of listed and unlisted company boards, spanning the professional services, healthcare and childcare sectors. In particular, she has chaired, or been a member of various audit, risk management and remuneration committees.</p> <p>With a Bachelor of Laws (Honours) and a Bachelor of Arts (Japanese) from the University of Queensland, Susan completed an executive Masters of Business Administration (EMBA) from the Melbourne Business School. She is also a fellow of the Australian Institute of Company Directors (FAICD).</p>	
Other Current Directorships	<p>Chair and Non-Executive Director of National Veterinary Care Ltd (ASX:NVL) (appointed February 2015)</p> <p>Non-Executive Director of G8 Education Limited (ASX:GEM) (appointed November 2011)</p> <p>Non-Executive Director of Xenith IP Group Limited (ASX:XIP) (appointed October 2015)</p>	
Former Directorships in last 3 years	None	
Special Responsibilities	<p>Chair of audit and risk committee</p> <p>Member of nominations and remuneration committee</p>	
Direct and indirect interest in shares and options	Ordinary Shares – Over the Wire Holdings	155,413

<b>Mike Stabb FCA, MAICD, BBus (Accy, BusLaw), RTA Chief Financial Officer &amp; Company Secretary</b>		
Experience and Expertise	<p>Mike was appointed CFO and Company Secretary in July 2012. He is a Fellow of the Institute of Chartered Accountants with over twenty years of post-qualification experience, and graduated with Distinction from QUT in 1995 with a Bachelor of Business (Accy &amp; BusLaw).</p> <p>Mike worked for Deutsche Bank in London and on Wall Street, and held CFO and senior finance roles in the property, radio communications and banking industries in Australia.</p>	
Other Current Directorships	None	
Former Directorships in last 3 years	None	
Special Responsibilities	Chief Financial Officer / Company Secretary	
Direct and indirect interest in shares and options	Ordinary Shares – Over the Wire Holdings	251,513

## MEETINGS OF DIRECTORS

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2018, and the numbers attended by each director were:

	Full Meetings of directors		Meetings of committees			
	Held	Attended	Audit		Nominations & Remuneration	
			Held	Attended	Held	Attended
<b>John Puttick</b>	12	12	5	5	2	2
<b>Michael Omeros</b>	12	12	5	5	n/a	n/a
<b>Brent Paddon</b>	12	9	n/a	n/a	2	2
<b>Susan Forrester</b>	12	12	5	5	2	2

## Insurance of officers and indemnities

During the financial year, Over the Wire Holdings Limited paid a premium of \$54,500 to insure the directors and secretaries of the company and its Australian-based controlled entities, and the general managers of each of the divisions of the group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## Proceedings on behalf of the company

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

## Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the group are important.

Details of the amounts paid or payable to the auditor (PKF Hacketts Audit) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermines the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Taxation Services</b>		
Tax Compliance Services	30	39
<b>Total Remuneration for Taxation Services</b>	<b>30</b>	<b>39</b>
<b>Total Remuneration for Non-Audit Services</b>	<b>30</b>	<b>39</b>

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 21.

## Rounding of amounts

The consolidated entity is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Legislative Instrument.

## REMUNERATION REPORT

The directors present the Over the Wire Holdings Limited 2018 remuneration report, outlining key aspects of our remuneration policy and framework as well as remuneration awarded this year. It has also been audited as required by section 308(3C) of the Corporations Act (2001).

The Report is structured as follows:

- (a) Key management personnel (KMP) covered in this report
- (b) Remuneration policy and link to performance
- (c) Elements of remuneration
- (d) Remuneration expenses for executive KMP
- (e) Non-executive director arrangements
- (f) Other statutory information
- (g) Options & Performance Rights

### (a) Key management personnel (KMP) covered in this report

John Puttick	Non-Executive Chairman (appointed 1 December 2015)
Michael Omeros	Managing Director and Chief Executive Officer (appointed 1 July 2011)
Brent Paddon	Executive Director (appointed 1 July 2011)
Susan Forrester	Non-Executive Director (appointed 1 December 2015)

Other key management personnel:

Mike Stabb	Chief Financial Officer and Company Secretary
Ben Cornish	Chief Operating Officer

There have been no changes in KMP personnel since the end of the reporting period.

### (b) Remuneration policy and link to performance

Our remuneration committee is made up of two independent non-executive directors and one executive director. The committee will review and determine our remuneration policy and structure annually to ensure it remains aligned to business needs, and meets our remuneration principles.

#### EXECUTIVE KMP REMUNERATION POLICY STATEMENT

Consistent with contemporary Corporate Governance standards Over the Wire Holdings' remuneration policy aims to set employee and executive remuneration that is fair, competitive and appropriate for the markets in which it operates and is mindful of internal relativities. Over the Wire Holdings will aim to ensure that the mix and balance of remuneration is appropriate to reward fairly, attract, motivate and retain senior executives and other key employees.

Specific objectives of this policy will include the following:-

- Provide a fair and competitive (internal and external) fixed annual remuneration for all positions under transparent policies and review procedures;
- Link executive KMP rewards to shareholder value accretion by providing appropriate equity (or equivalent) incentives to selected senior executives and employees linked to long-term company performance and core values;
- Provide competitive total rewards to attract and retain appropriately skilled employees and executives;
- Have a meaningful portion of remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks, both short (annual), medium (deferred STI) and long term (+ 3 years); and
- Establish appropriate, demanding performance hurdles for any executive short or long term equity incentive remuneration.

This broad remuneration policy will be delivered by Over the Wire Holdings under a Total Targeted Remuneration (TTR) or Total Annual Remuneration (TAR) framework. Appropriate remuneration policy settings will be achieved by consistently applying a clear remuneration strategy directed at supporting the Board approved business strategy with appropriate and flexible processes, policies and procedures established by the Board from time to time.

### **(c) Elements of remuneration**

#### **FIXED ANNUAL REMUNERATION (FR)**

Executives may receive their fixed remuneration as cash, superannuation and fringe benefits such as mobile phones, car allowances, car parking, and in house fringe benefits.

During 2018 there were fixed remuneration increases given to executive KMP as follows:

Michael Omeros: Base Salary increased from \$250,000 to \$300,000

Mike Stabb: Car Allowance increased from \$nil to \$8,938

#### **SHORT-TERM INCENTIVES – OPERATIONAL BONUSES**

In 2018, elements of KMP remuneration were dependent on the satisfaction of operational performance conditions as follows:

A cash bonus of \$12,500 for Mike Stabb linked to the achievement of operational KPIs.

A cash bonus of \$12,500 for Ben Cornish linked to the achievement of operational KPIs.

#### **LONG-TERM INCENTIVES – PERFORMANCE RIGHTS**

On 1 April 2018, the consolidated entity issued 99,732 performance rights to key management personnel and select senior staff as part of a Long Term Incentive (LTI) scheme under an Employee Share Plan as a means of rewarding and incentivising key employees.

Further details of the performance rights, including details of rights issued during the financial year, are set out in note 34.

The Long term incentive (LTI) scheme contains features that meets contemporary general accepted market standards, and that:

- Encourage the long term retention of selected key executives and aligns the interests of the key executives with shareholders;
- Reward service and performance by these executives;
- Meet contemporary governance and executive remuneration standards; and
- Satisfy all executive employment contract obligations and meet all regulatory requirements.



**(d) Remuneration expenses for executive KMP**

The following table shows details of the remuneration expense recognised for the group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards. Remuneration paid to directors and executives is valued at the cost to the group.

**KEY MANAGEMENT PERSONNEL REMUNERATION**

Name	Year	Fixed remuneration					Variable remuneration		Total	Performance Based
		Cash Salary*	Non-monetary Benefits*	Annual Leave*	Long service Leave **	Post-employment Benefits ***	Cash Bonus*	Share Based Payments ****		
		\$	\$	\$	\$	\$	\$	\$		
Executive Directors										
Michael Omeros	2018	257,306	48,234	23,077	5,000	20,049	-	-	353,666	-
	2017	208,765	46,411	16,650	3,607	19,616	-	-	295,049	-
Brent Paddon	2018	251,105	3,306	19,231	4,167	20,049	-	-	297,858	-
	2017	254,134	2,754	19,231	4,167	19,616	-	-	299,902	-
Other Key Management Personnel										
Mike Stabb	2018	229,407	-	16,923	3,667	24,049	12,500	194,337	480,883	43.0
	2017	195,000	-	15,385	3,333	26,375	25,000	1,222	266,315	9.8
Ben Cornish	2018	207,520	15,786	16,923	3,667	20,049	12,500	194,337	470,782	43.9
	2017	200,000	677	15,385	3,333	21,451	25,000	1,222	267,068	9.8
Total Executive Directors & Other KMPs	2018	945,338	67,326	76,154	16,501	84,196	25,000	388,674	1,603,189	25.8
	2017	857,899	49,842	66,651	14,440	87,058	50,000	2,444	1,128,334	4.6
Total NED Remuneration (see section (e) below)	2018	145,000	-	-	-	-	-	-	145,000	-
	2017	135,000	-	-	-	-	-	-	135,000	-
Total KMP remuneration Expensed	2018	1,090,338	67,326	76,154	16,501	84,196	25,000	388,674	1,748,189	23.7
	2017	992,899	49,842	66,651	14,440	87,058	50,000	2,444	1,263,334	4.2

\* Short-term benefits as per *Corporations Regulation 2M.3.03(1) Item 6*

\*\* Other long-term benefits as per *Corporations Regulation 2M.3.03(1) Item 8*

\*\*\* Post-employment benefits are provided through contributions to a superannuation fund.

The amounts disclosed as remuneration represent the amount contributed by the employer at the statutory rate 9.5%, plus any salary sacrificed amounts if applicable, measured in accordance with AASB 119 *Employee Benefits*.

\*\*\*\* Shares issued under an employee share scheme established by the group on 30 November 2015, as well as Performance Rights issued, as set out at Note 34.

## OPTIONS AND RIGHTS GRANTED AS REMUNERATION

Name	Balance at 1/07/2017	Grant Details			Exercised		Lapsed	Balance at 30/06/2018
		Issue Date	No.	Value \$*	No. **	Value \$**	No. **	
Mike Stabb	100,000	1/04/2018	29,920	86,361	25,000	54,772	-	104,920
Ben Cornish	100,000	1/04/2018	29,920	86,361	25,000	54,772	-	104,920
Dennis Muscat	-	1/04/2018	19,946	57,572	-	-	-	19,946
Daniel Roates	-	1/04/2018	19,946	57,572	-	-	-	19,946
<b>Group Total</b>	<b>200,000</b>		<b>99,732</b>	<b>287,866</b>	<b>50,000</b>	<b>109,544</b>	<b>-</b>	<b>249,732</b>

- \* The fair value of performance rights granted as remuneration and as shown in the above table has been determined in accordance with Australian Accounting Standards and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary to vesting are satisfied.
- \*\* Tranche 1 of the 2017 performance rights were eligible for conversion to shares as all criteria has been satisfied, and they did vest and were converted on 28 November 2017.

Details of the performance rights granted as remuneration to those KMP in the above table are included in Note 34 to the financial statements.

### (e) Non-executive director arrangements

Board fees are \$75,000 (\$70,000 in 2017) for John Puttick and \$50,000 (\$45,000 in 2017) for Susan Forrester. In addition, they are paid \$10,000 for chairing their respective committees. There are no performance-based payments or retirement allowances.

The table below represent the amounts paid for the periods in which their services were provided.

	CONSOLIDATED	
	2018 \$	2017 \$
<b>Base fees</b>		
Chair	85,000	80,000
Other Non-executive Directors	60,000	55,000
<b>Total</b>	<b>145,000</b>	<b>135,000</b>

All non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

## (f) Other statutory information

### (i) SHAREHOLDINGS

The numbers of shares in the company held (directly, indirectly or beneficially) during the financial year by KMP, including their related parties, are set below

	Balance at 1/07/2017	Sold on Market	Employee Share Scheme	Bought on Market	Balance at 30/06/2018
<b>Directors</b>					
Michael Omeros	15,116,115	(1,500,000)	-	-	13,616,115
Brent Paddon	14,900,000	(1,750,000)	-	-	13,150,000
John Puttick	20,000	-	-	60,000	80,000
Susan Forrester	155,413	-	-	-	155,413
<b>Total Directors</b>	<b>30,191,528</b>	<b>(3,250,000)</b>	<b>-</b>	<b>60,000</b>	<b>27,001,528</b>
<b>Other Key Management Personnel (OKMP)</b>					
Mike Stabb	179,441	-	25,360	46,712	251,513
Ben Cornish	21,400	-	25,360	-	46,760
<b>Total OKMP</b>	<b>200,841</b>	<b>-</b>	<b>50,720</b>	<b>46,712</b>	<b>298,273</b>
<b>Group Total</b>	<b>30,392,369</b>	<b>(3,250,000)</b>	<b>50,720</b>	<b>106,712</b>	<b>27,299,801</b>

## (g) Options & Performance Rights

### (i) OPTIONS

At the date of this report, there were no unissued shares of Over the Wire Holdings Limited under option. (2017: Nil)

### (ii) PERFORMANCE RIGHTS

At the date of this report, there were 249,732 performance Rights over Over the Wire Holdings Limited shares. (2017: 200,000)

- End of Remuneration Report -

This report, incorporating the Remuneration Report is signed in accordance with a resolution of Directors.



Michael Omeros  
Managing Director

Brisbane

22 August 2018



John Puttick  
Chair Person

Brisbane

22 August 2018

AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF  
OVER THE WIRE HOLDINGS LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018, there have been no contraventions of:

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

PKF HACKETTS  
PKF HACKETTS



LIAM MURPHY  
PARTNER

22 AUGUST 2018  
BRISBANE

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR YEAR ENDED 30 JUNE 2018

		CONSOLIDATED	
	Note	2018 \$,000	2017 \$,000
<b>Revenue from Continuing Operations</b>	3	53,561	34,217
Other Income	4	116	293
<b>Expenses</b>			
Data Centre & Co-Location Expense	5	(3,624)	(2,595)
Calls & Communications Expense	5	(19,061)	(11,851)
Other Cost of Goods Sold	5	(3,057)	(1,815)
Employee Benefits Expense	5	(13,247)	(8,744)
Depreciation & Amortisation Expense	5	(3,937)	(2,330)
Finance Costs	5	(476)	(182)
Other Expenses	5	(2,432)	(2,136)
<b>Profit Before Income Tax Expense</b>		<b>7,843</b>	<b>4,857</b>
Income Tax Expense	6	(2,312)	(1,259)
<b>Profit After Income Tax Expense for the Year Attributable to members</b>		<b>5,531</b>	<b>3,598</b>
<b>Other Comprehensive Income</b>		-	-
Other Comprehensive Income for the Year, Net of Tax		-	-
<b>Total Comprehensive Income for the Year Attributable to members</b>		<b>5,531</b>	<b>3,598</b>
		<b>Cents</b>	<b>Cents</b>
Basic Earnings per Share	7	12.625	8.270
Diluted Earnings per Share	7	12.566	8.270

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2018

		CONSOLIDATED	
	Note	2018 \$,000	2017 \$,000
<b>Assets</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	8	7,013	5,484
Trade & Other Receivables	9	4,357	3,242
Inventories	10	263	189
Other Current Assets	11	899	643
<b>Total Current Assets</b>		<b>12,532</b>	<b>9,558</b>
<b>Non-Current Assets</b>			
Property, Plant & Equipment	12	5,061	4,830
Intangibles	13	36,649	17,737
<b>Total Non-Current Assets</b>		<b>41,710</b>	<b>22,567</b>
<b>Total Assets</b>		<b>54,242</b>	<b>32,125</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade & Other Payables	15	7,298	4,867
Borrowings	16	4,027	2,240
Current Tax Liability	17	977	437
Employee Benefits	18	1,293	772
Deferred Consideration		1,968	353
<b>Total Current Liabilities</b>		<b>15,563</b>	<b>8,669</b>
<b>Non-Current Liabilities</b>			
Borrowings	20	9,205	1,662
Employee Benefits	21	186	89
Deferred Consideration		-	234
Deferred Tax	14	4,421	2,448
<b>Total Non-Current Liabilities</b>		<b>13,812</b>	<b>4,433</b>
<b>Total Liabilities</b>		<b>29,375</b>	<b>13,102</b>
<b>Net Assets</b>		<b>24,867</b>	<b>19,023</b>
<b>Equity</b>			
Issued Capital	22	12,246	11,308
Reserves	34	361	2
Retained Profits	23	12,260	7,713
<b>Total Equity</b>		<b>24,867</b>	<b>19,023</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR YEAR ENDED 30 JUNE 2018

		ISSUED CAPITAL	SHARE BASED PAYMENT RESERVE	RETAINED PROFITS	TOTAL EQUITY
CONSOLIDATED	Note	\$ ,000	\$ ,000	\$ ,000	\$ ,000
Balance at 1 July 2016		11,280	-	4,876	16,156
Profit after Income Tax for the Year		-	-	3,598	3,598
Other Comprehensive Income		-	-	-	-
Total Comprehensive Income for the Year		-	-	3,598	3,598
<i>Transactions with Owners, in their Capacity as Owners:</i>					
Dividends Paid		-	-	(761)	(761)
Performance Rights Issued	34	-	2	-	2
Shares Issued Net of Capital Raising Costs	22	77	-	-	77
Tax Effect of Capitalised Costs of IPO		(49)	-	-	(49)
<b>Balance at 30 June 2017</b>		<b>11,308</b>	<b>2</b>	<b>7,713</b>	<b>19,023</b>

		ISSUED CAPITAL	SHARE BASED PAYMENT RESERVE	RETAINED PROFITS	TOTAL EQUITY
CONSOLIDATED	Note	\$ ,000	\$ ,000	\$ ,000	\$ ,000
Balance at 1 July 2017		11,308	2	7,713	19,023
Profit after Income Tax for the Year		-	-	5,531	5,531
Other Comprehensive Income		-	-	-	-
Total Comprehensive Income for the Year		-	-	5,531	5,531
<i>Transactions with Owners, in their Capacity as Owners:</i>					
Dividends Paid		-	-	(984)	(984)
Performance Rights Issued	34	-	29	-	29
Movements as a result of existing performance rights	34	109	260	-	369
Employee Share Plan	22	97	70	-	167
Shares Issued Net of Capital Raising Costs	22	781	-	-	781
Tax Effect of Capitalised Costs of IPO		(49)	-	-	(49)
<b>Balance at 30 June 2018</b>		<b>12,246</b>	<b>361</b>	<b>12,260</b>	<b>24,867</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes



## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR YEAR ENDED 30 JUNE 2018

		CONSOLIDATED	
	Note	2018 \$ ,000	2017 \$ ,000
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers		57,858	37,489
Payments to Suppliers & Employees		(44,835)	(29,559)
		13,023	7,930
Interest Received		37	67
Interest Paid & Other Finance Costs Paid		(476)	(182)
Income Taxes Paid		(2,240)	(2,719)
Net Cash From / (Used) in Operating Activities	29	10,344	5,096
<b>Cash Flows from Investing Activities</b>			
Payments for Business Combinations (net of cash acquired)		(14,532)	(7,057)
Payments for Property, Plant & Equipment		(2,074)	(1,775)
Payments for Intangible Assets		(555)	(379)
Proceeds from Sale of Property, Plant & Equipment		-	68
Net Cash From / (Used) Investing Activities		(17,161)	(9,143)
<b>Cash Flows from Financing Activities</b>			
Proceeds from Borrowings		17,724	7,318
Repayment of Borrowings		(8,394)	(4,068)
Dividends Paid		(984)	(761)
Net Cash From / (Used) Financing Activities		8,346	2,489
Net Increase / (Decrease) in Cash & Cash Equivalents		1,529	(1,558)
Cash & Cash Equivalents at the Beginning of the Year		5,484	7,042
<b>Cash &amp; Cash Equivalents at the End of the Year</b>	8	<b>7,013</b>	<b>5,484</b>
<b>Non-Cash Financing Activities</b>			
- Shares Issued as Consideration for Business Acquisitions		781	-

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR YEAR ENDED 30 JUNE 2018

These consolidated financial statements and notes represent those of Over the Wire Holdings Limited (the "Company") and controlled entities (the "consolidated group" or "Group").

The separate financial statements of the parent entity Over the Wire Holdings Limited have not been presented within the financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 22 August 2018 by the directors of the company

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

#### 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').

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the revaluation of available for sale financial assets, financial assets and liabilities at fair value through profit & loss, investment properties, certain classes of property, plant & equipment, and derivative financial instruments.

#### Net current asset deficiency

The consolidated entity recorded a net current liability position of \$3.03m (June 2017: net current asset position of \$0.89m) as at 30 June 2018.

Given the consolidated entity's net current liability position, the ability of the consolidated entity to continue as a going concern, including its ability to pay its debts as and when they fall due, needs to be considered.

The net current liability position is due to the acquisition of VPN Solutions, which was predominately funded through external borrowings (Refer to notes 19 and 20).

The continuation of the consolidated entity as a going concern is dependent upon the continuation of generating future profits by the underlying businesses.

It is on the basis of the consolidated entity's ability to maintain future profits and cash inflows from operations that the Directors have prepared the financial report on a going concern basis.

#### A) NEW ACCOUNTING STANDARDS ADOPTED IN THE CURRENT FINANCIAL PERIOD

The consolidated entity has considered the implications of new or amended Accounting Standards, but determined that their application to the financial statements is either not relevant or not material.

#### B) NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and recognition requirements for financial instruments and simplified requirements for hedge accounting.

The directors do not anticipate that the adoption of AASB 9 will have a material impact on the Group's financial instruments.

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract(s); and
- Recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either:

Restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The directors anticipate that the adoption of AASB 15 will have an immaterial impact on the Group's financial statements, for the following reasons:

- The Group already accounts for revenue from contracts with customers materially in line with the performance obligations of the contract, and in a manner similar to the outcomes the new standard seeks to achieve;
- The Group already accounts for the expenses corresponding to the contracts with customers materially in line with the performance obligations of the contract, and in a manner similar to the outcomes the new standard seeks to achieve;
- Where installation or set up fees are charged at the commencement of a contract with customers, they are reflective of the up-front costs and efforts involved in preparing and installing the service ready for use, as well as the economic benefits that pass to the customer, and are therefore already accounted for by the Group in accordance with the performance obligations of the contract, and in a manner similar to the outcomes the new standard seeks to achieve.

Management have begun their assessment of the financial impact of AASB 15 as at 30 June 2018, and, it is estimated that, for the reasons outlined above, the financial impact of these changes will be immaterial.

AASB 16: Leases (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.

The main changes introduced by the new Standard include:

- 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);
- 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 components;
- Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- By applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- Additional disclosure requirements.

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 standard will primarily affect the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$2,994K (see note 28) primarily associated with the rental of office premises. Although the directors anticipate that the adoption of AASB 16 will affect the Group's financial statements by altering the ratio of net current assets to net non-current assets, as the operating leases are all arms-length commercial leases at fair market value, they do not anticipate any material impact on profit. Also, as the majority of operating leases in place at present will have expired before the adoption of AASB 16 (see note 28), it is impracticable at this stage to provide a reasonable estimate of the impacts on the financial statements. Management will consider the financial impacts of the new standard leading up to its adoption from 1 July 2019, when in a better position to do so once the operating leases discussed above are considered for renewal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the consolidated entity ('Company' or 'Parent Entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. The consolidated entity and its subsidiaries together are referred to in these financial statements as 'the consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

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

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

### D) BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquire and the amount of any non-controlling interest in the acquire. For each business combination, the non-controlling interest in the acquire is measured at either fair value or at the proportionate share of the acquirer's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquire at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquire and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquire is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquire, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### E) FOREIGN CURRENCY TRANSLATION

The financial statements are presented in Australian dollars, which is the consolidated entity's functional and presentation currency.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOREIGN CURRENCY TRANSACTIONS

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

### F) REVENUE RECOGNITION

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

#### SALE OF GOODS

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

#### RENDERING OF SERVICES

Rendering of services revenue is recognised by reference to when the service has been provided. In the case of voice revenue, this is the timing of the phone calls made, whilst for the Data Networks, Data Centre Co-Location and Cloud Services divisions, it is generally the monthly provision of, or access to, the service.

#### INTEREST

Interest revenue is recognised as interest accrues using the effective interest method. This is the method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### OTHER REVENUE

Other revenue is recognised when it is received or when the right to receive payment is established.

### G) INCOME TAX

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

### H) CASH AND CASH EQUIVALENTS

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

equivalents also includes bank overdrafts, which are shown within borrowings of current liabilities on the statement of financial position.

### I) TRADE AND OTHER RECEIVABLES

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

### J) INVENTORIES

Finished goods are stated at the lower of cost or net realisable value, on a first-in-first-out basis. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

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

### K) INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices.

For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

### L) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

### M) PROPERTY, PLANT AND EQUIPMENT

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

Depreciation is calculated on both a straight-line and diminishing value basis, depending on the asset. The depreciation method chosen is based on what is deemed the most reliable to write off the net cost of each item of property, plant and equipment over their expected useful lives.

The depreciation rates used for each class of depreciable assets are:

	Straight Line	Diminishing Value
Computer, Network & IT Plant & Equipment	13 - 33%	15 – 67%
Furniture and Fixtures	2.5 – 33%	20 - 40%
Motor Vehicles	15%	N/A

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

### N) LEASES

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

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

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

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

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

### O) INTANGIBLE ASSETS

#### BRAND VALUE

Brands are acquired in a business combination. Some brands are not amortised, given the Board has assessed them to have indefinite useful lives due to the strength of the brand in the market. These are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Some brands are amortised where the Board has identified the Brand as likely to be transitioned to an Over the Wire Brand in the future.

#### RIGHT-TO-USE ASSETS

Right-to-Use assets are acquired in a business combination, whereby a right to access a specified asset is conveyed, for a period of time, in exchange for consideration. Right-to-Use assets are amortised on a straight-line basis over the period of their expected benefit, generally being the expected finite life of the underlying lease which grants the access, including the period of any options where the option is considered likely to be exercised. Right-to-Use assets are carried at cost less any accumulated amortisation and impairment losses.

#### GOODWILL

Goodwill arises on the acquisition of a business combination. Goodwill is calculated as the excess sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest; over the acquisition date fair value of net identifiable assets acquired.

Goodwill is not amortised. Instead, 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. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Goodwill is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored.

#### CUSTOMER CONTRACTS

Customer contracts and relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their expected finite life of approximately 10 years, based upon the consolidated entity's historical levels of customer retention. Customer contracts are carried at cost less any accumulated amortisation and impairment losses.

#### INTERNALLY GENERATED COMPUTER SOFTWARE

Costs associated with developing computer software programmes are generally expensed as incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and have a profitable benefit exceeding the cost beyond one year, are recognised as intangible assets. The following criteria are required to be met before the related expenses can be capitalised as an intangible asset.

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it,
- The Group's ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Computer software development costs recognised as assets are amortised over their useful lives, not exceeding a period of five years.

### P) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

### Q) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### R) BORROWINGS

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

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

### S) FINANCE COSTS

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

- Interest on short-term and long-term borrowings
- Interest on finance leases

### T) FINANCIAL INSTRUMENTS

#### INITIAL RECOGNITION AND MEASUREMENT

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified as 'at fair value through profit or loss' in which case the transaction costs are expensed to profit or loss immediately.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### CLASSIFICATION AND SUBSEQUENT MEASUREMENT

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

(ii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

### DE-RECOGNITION

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

### U) PROVISIONS

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

### V) EMPLOYEE BENEFITS

#### WAGES AND SALARIES AND ANNUAL LEAVE

Liabilities for wages and salaries, including non-monetary benefits, and annual 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.

#### LONG SERVICE LEAVE

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. 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 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 Australian corporate bonds (the Milliman G100 Australian Corporate bonds discount rate at the end of June ) with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### W) ISSUED CAPITAL

Ordinary shares are classified as equity.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### X) DIVIDENDS

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

### Y) EARNINGS PER SHARE

#### BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the owners of the consolidated entity, by the weighted average number of ordinary shares outstanding during the financial year.

#### DILUTED EARNINGS PER SHARE

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

### Z) GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

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

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

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

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

### AA) ROUNDING OF AMOUNTS

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

### BB) COMPARATIVE FIGURES

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## NOTE 2 - CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

#### PROVISION FOR IMPAIRMENT OF RECEIVABLES

The provision for impairment of receivables assessment requires a degree of estimation and judgement. 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.

#### PROVISION FOR IMPAIRMENT OF INVENTORY

The provision for impairment of inventory assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of inventory, and other factors that affect inventory obsolescence.

#### ESTIMATION OF USEFUL LIVES OF ASSETS

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

### GOODWILL AND OTHER INDEFINITE LIFE INTANGIBLE ASSETS

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1.

### IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL AND OTHER INDEFINITE LIFE INTANGIBLE ASSETS

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

### INCOME TAX

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

### RECOVERY OF DEFERRED TAX ASSETS

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### UNEARNED REVENUE

Customers of Netsip and Faktortel are invoiced for telephone calls monthly in arrears on the anniversary date of the establishment of their account. Unearned Revenue is recorded for telephone calls made between the invoice date which occurs mid-month, and the last day of the month in order to match the period of revenue recognition with the period in which the service (telephone calls) was provided.

### VALUATION OF DEFERRED CONSIDERATION PAYABLE

As the value of deferred consideration payable for business combinations is dependent upon vendors achieving revenue targets in future years, management is required to make judgements that affect the reported amounts in the financial statements. Management has used their best judgement in determining the fair value of the reported liabilities, including estimating the likelihood of achieving the revenue targets and in turn the likelihood of having to make the future payments.

### LONG SERVICE LEAVE PROVISION

As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present values of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

### LEASE MAKE GOOD PROVISION

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

### BUSINESS COMBINATIONS

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3: OPERATING SEGMENTS & PRODUCT LINES

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Operating Decision Makers ('CODM') in assessing performance and determining the allocation of resources. The CODM considers that the business has one reportable segment, being IT and Telecommunications. Therefore, all segment assets and liabilities, and the segment result, relate to one business segment and consequently no detailed segment analysis has been prepared.

Product Lines are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to product lines and assessing their performance. This is also the basis on which the board receive internal management results.

#### A) DESCRIPTION OF PRODUCT LINES

The consolidated entity is a profitable, high growth provider of telecommunications, cloud and IT solutions. It has a national network presence with Points of Presence (POPs) in all major Australian capital cities and Auckland, New Zealand. The consolidated entity utilises more than 20 wholesale infrastructure providers to deliver services into these POPs for delivery of a complete data and voice solution to meet each customer's specific requirements. The Chief Operating Decision Makers ('CODM') consider the business from both a product and a geographic perspective and have identified four reportable Product Lines.

##### DATA NETWORKS AND INTERNET

The consolidated entity typically enters into an initial three year contract with a customer for the establishment, provision and maintenance of its WAN. Customers include small to large businesses with single to multiple sites.

The Data Networks Product Line includes the provision of internet products and services. Access to affordable, high speed and reliable connectivity is a prerequisite for consuming cloud based applications and services, facilitating transactions, and utilising IP-based communications. The consolidated entity provides high bandwidth, dependable, business grade internet connectivity to enable Internet services, video conferencing, Software as a Service applications and online collaboration for businesses of any size.

The consolidated entity supplies internet connections matching the most appropriate technology to location and/or price requirements of its customers.

##### VOICE

The consolidated entity provides Session Initiation Protocol (SIP) based internet voice solutions that offer high quality, high availability, voice calls at a lower cost to traditional telephony.

Over the Wire's voice platform supports a range of client usage scenarios, from Private Branch exchanges (PBX) to call centre diallers, for both inbound and outbound calling.

##### CLOUD AND MANAGED SERVICES

The consolidated entity provides a range of private cloud-based services to its customers consisting of:

*Infrastructure as a Service (IaaS):* Forming the base of a fully outsourced infrastructure solution. The consolidated entity offers its customers a range of IaaS platforms with cloud-based server, storage and network services.

*Hosted PBX:* The consolidated entity provides a business-grade hosted telephony solution, eliminating the need for high capital expenditure and costly upgrade cycles to gain access to new features.

*Amazon Web Services Direct Connect and Microsoft Azure Express Route:* Being the two major public cloud service providers in Australia. The consolidated entity provides a dedicated connection, directly into a customer's public cloud service provider's hosted environment.

*Managed Services:* The consolidated entity offers a range of Managed Services from basic maintenance through to complete outsourced IT support and administration. This division also includes one-off project work and equipment sales where requested by the customer.

##### DATA CENTRE CO-LOCATION

Data Centre Co-Location allows customers to house their equipment, such as servers and network equipment, in the consolidated entity's secure, highly stable and monitored data centres reducing the risk of downtime and saving on environmental infrastructure costs (such as power and air-conditioning).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### B) PRODUCT LINE INFORMATION PROVIDED TO THE CHIEF OPERATING DECISION MAKERS ('CODM').

The breakdown of revenue has been shown below geographically and by Product Line.

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Revenue by Product Line</b>		
Data Networks and Internet	29,383	15,915
Voice	14,060	10,714
Cloud and Managed Services	7,258	4,845
Data Centre Co-location	2,860	2,742
<b>Total Revenue by Product Line</b>	<b>53,561</b>	<b>34,217</b>
<b>Revenue by Geographic Area</b>		
Australasia	53,561	34,217
<b>Total Revenue by Geographic Area</b>	<b>53,561</b>	<b>34,217</b>

### NOTE 4: OTHER INCOME

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Other Income</b>		
Interest Income	37	67
Data Retention Industry Grant	-	200
Other Sundry Income	79	26
<b>Total Other Income</b>	<b>116</b>	<b>293</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5: EXPENSES

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
Profit before income tax includes the following expenses:		
<b>Cost of Sales &amp; Services</b>		
Data Centre & Co-Location Expense	1,705	1,408
Calls & Communications Expense	18,965	11,796
Other cost of goods sold	3,057	1,815
<b>Total Cost of Sales &amp; Services</b>	<b>23,727</b>	<b>15,019</b>
<b>Employee Benefits</b>		
Salaries and Wages	11,027	7,068
Superannuation	935	646
Annual and Long Service Leave	190	199
Other Employee Expenses	1,095	831
<b>Total Employee Benefits</b>	<b>13,247</b>	<b>8,744</b>
<b>Depreciation</b>		
Computer, Network & IT Plant & Equipment	2,001	1,405
Furniture & Fittings	71	82
Motor Vehicles	3	26
<b>Total Depreciation</b>	<b>2,075</b>	<b>1,513</b>
<b>Amortisation</b>		
Amortisation of Intangibles	1,862	817
<b>Total Amortisation</b>	<b>1,862</b>	<b>817</b>
<b>Total Depreciation &amp; Amortisation</b>	<b>3,937</b>	<b>2,330</b>
<b>Finance Costs</b>		
Interest and Finance Charges Paid/Payable	476	182
<b>Total Finance Costs</b>	<b>476</b>	<b>182</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Other Expenses</b>		
Legal, Accounting & Business Acquisition Costs	150	240
Rent	655	675
Licenses & Subscriptions	407	243
Travel & Marketing	382	318
Data Centre & Communications	2,015	1,242
General Expenses	838	660
<b>Total Other Expenses</b>	<b>4,447</b>	<b>3,378</b>
<b>Total Expenses</b>	<b>45,834</b>	<b>29,653</b>

Expenses increased largely due to the growth in revenue, and in turn a corresponding increase in cost of goods sold, as well as the acquisition of Telarus in prior year, for which a full year of results was included in 2018 financial year, as well as the acquisition of VPN Solutions on 1 November 2017 (refer to note 19 for more information).

### NOTE 6: INCOME TAX EXPENSE

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Income Tax Expense</b>		
Current Tax	3,035	1,666
Deferred Tax – origination and reversal of temporary differences	(723)	(314)
Deferred Tax – adjustment recognised for prior periods	-	-
Adjustment recognised for prior periods	-	(93)
<b>Aggregate Income Tax Expense</b>	<b>2,312</b>	<b>1,259</b>
Deferred tax included in income tax expense comprises:		
(Increase) / Decrease in Deferred Tax Assets	(210)	(23)
Increase / (Decrease) in Deferred Tax Liabilities	(513)	(291)
Deferred Tax – origination and reversal of temporary differences	(723)	(314)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Numerical Reconciliation of Income Tax Expense and Tax at Statutory Rate</b>		
Profit before income tax expense	7,843	4,857
Tax at the statutory rate of 30%	2,353	1,457
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment	20	17
Amortisation of Intangibles	-	6
Accounting & Legal & Business Acquisition Costs	11	24
IPO Costs	(49)	(49)
Research & Development	-	(29)
Other Sundry Items	(23)	23
	(41)	(8)
Adjustment recognised for prior periods	-	(93)
Movement in Timing Differences	-	(97)
<b>Income Tax Expense</b>	<b>2,312</b>	<b>1,259</b>
The applicable weighted average effective tax rates are as follows:	29%	26%

### NOTE 7: EARNINGS PER SHARE

	CONSOLIDATED	
	2018	2017
<b>Reconciliation of Earnings to Profit or Loss</b>	<b>\$,000</b>	<b>\$,000</b>
Earnings Used to Calculate Basic Earnings Per Share	5,531	3,598
Earnings Used to Calculate Diluted Earnings Per Share	5,531	3,598
<b>Weighted Average Number of Ordinary Shares</b>	<b>,000</b>	<b>,000</b>
Weighted Average Number of Ordinary Shares Outstanding During the Year Used in Calculating Basic Earnings Per Share	43,809	43,505
Adjustments for calculation of diluted earnings per share:		
Weighted Average Number of Performance Rights Outstanding During the Year Used in Calculating Dilutive Earnings Per Share	208	1
Weighted Average Number of Ordinary Shares Outstanding During the Year Used in Calculating Dilutive Earnings Per Share	44,016	43,506
	Cents	Cents
Basic Earnings Per Share (Cents Per Share)	12.625	8.270
Diluted Earnings Per Share (Cents Per Share)	12.566	8.270



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8: CURRENT ASSETS – CASH & CASH EQUIVALENTS

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Cash &amp; Cash Equivalents</b>		
Cash on Hand	1	1
Cash at Bank	7,012	5,483
<b>Total Cash &amp; Cash Equivalents</b>	<b>7,013</b>	<b>5,484</b>
<b>Reconciliation to Cash and Cash Equivalents at the End of the Financial Year</b>		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Balance as Above	7,013	5,484
<b>Balance as per Statement of Cash Flows</b>	<b>7,013</b>	<b>5,484</b>

Cash and cash equivalents increased during the year primarily due to the strong cashflows from operations. Cash reserves were used for principal reductions in debt, capital expenditure, and payment of dividends. The Consolidated Statement of Cashflows provides greater detail on the sources and uses of cash during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9: CURRENT ASSETS – TRADE & OTHER RECEIVABLES

The following table details the Group's trade and other receivables exposed to credit risk with aging analysis and impairment provided for thereon. Amounts are considered 'past due' when the debt has not been settled with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Trade &amp; Other Receivables</b>		
Trade Receivables	3,053	2,325
Less: Provision for Impairment of Receivables	(303)	(80)
	2,750	2,245
Term Deposits	653	500
Deposits Paid	128	128
Other Receivables	826	369
<b>Total Trade &amp; Other Receivables</b>	<b>4,357</b>	<b>3,242</b>
<b>Impairment of Receivables</b>		
The consolidated entity has recognised a loss of \$ 249,000 (2017 \$79,000) in profit and loss in respect of impairment of receivables for the year ended 30 June 2018.		
The aging of the impaired receivables provided for above are as follows:		
0 – 3 months overdue	231	58
4 – 6 months overdue	67	3
More than 6 months overdue	5	19
<b>Total Provision for Impairment of Receivables</b>	<b>303</b>	<b>80</b>
<b>Movements in the Provision for Impairment of Receivables are as Follows:</b>		
Opening Balance	80	109
Additional Provision Recognised through Business Combinations	-	40
Additional Provision Recognised	249	39
Receivables Written off During the Year as Uncollectable	(26)	(108)
<b>Closing Balance</b>	<b>303</b>	<b>80</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Past Due But Not Impaired:</b>		
Customers with balances past due but without provision for impairment of receivables amount to \$484,000 as at 30 June 2018 (\$227,000 as at 30 June 2017). The consolidated entity did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on collection practices.		
The aging of the past due but not impaired receivables are as follows:		
0 – 3 months overdue	432	215
4 – 6 months overdue	52	12
More than 6 months overdue	-	-
<b>Total Receivables past due but not impaired</b>	<b>484</b>	<b>227</b>

Trade and Other Receivables increased largely due to the acquisition of VPN Solutions, and the overall growth in revenue of the business.

### NOTE 10: CURRENT ASSETS – INVENTORIES

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Inventories</b>		
Finished Goods – at Net Realisable Value	263	189
<b>Total Inventories</b>	<b>263</b>	<b>189</b>

### NOTE 11: OTHER ASSETS

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Other Assets</b>		
Prepayments	899	643
<b>Total Other Assets</b>	<b>899</b>	<b>643</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12: NON-CURRENT ASSETS –PLANT & EQUIPMENT

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Computer, Network &amp; IT Plant &amp; Equipment</b>		
Computer, Network & IT Plant & Equipment – at cost*	14,724	11,062
Less: Accumulated Depreciation	(9,846)	(6,480)
	<b>4,878</b>	<b>4,582</b>
<b>Furniture &amp; Fixtures</b>		
Furniture & Fixtures – at cost	454	308
Less: Accumulated Depreciation	(275)	(67)
	<b>179</b>	<b>241</b>
<b>Motor Vehicles</b>		
Motor Vehicles – at cost	23	23
Less: Accumulated Depreciation	(19)	(16)
	<b>4</b>	<b>7</b>
<b>Total Plant &amp; Equipment at written Down Value</b>	<b>5,061</b>	<b>4,830</b>

#### Reconciliations

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

	Computer, Network, IT Plant & Equipment \$ ,000	Furniture & Fixtures \$ ,000	Motor Vehicles \$ ,000	Total \$ ,000
Balance at 1 July 2016	3,235	142	101	<b>3,478</b>
Additions through Business Combinations	1,134	24	-	<b>1,158</b>
Additions	1,618	157	-	<b>1,775</b>
Disposals	-	-	(68)	<b>(68)</b>
Depreciation Expense	(1,405)	(82)	(26)	<b>(1,513)</b>
Balance at 30 June 2017	4,582	241	7	<b>4,830</b>
Additions Through Business Combinations	174	9	-	<b>183</b>
Additions	2,123	-	-	<b>2,123</b>
Transfer between classes*	-	-	-	-
Disposals	-	-	-	-
Depreciation Expense	(2,001)	(71)	(3)	<b>(2,075)</b>
Balance at 30 June 2018	4,878	179	4	<b>5,061</b>

\* A transfer between classes occurred, but as the written down value of the assets was nil, no value appears in the reconciliation above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 13: NON-CURRENT ASSETS – INTANGIBLES

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Intangibles</b>		
Goodwill – at Cost	16,300	5,331
	<b>16,300</b>	<b>5,331</b>
Brand Value	3,460	3,210
Less: Accumulated Amortisation	(214)	(65)
	<b>3,246</b>	<b>3,145</b>
Location and Right-to-Use	1,817	1,817
Less: Accumulated Amortisation	(543)	(378)
	<b>1,274</b>	<b>1,439</b>
Customer Lists	17,250	8,290
Less: Accumulated Amortisation	(2,252)	(867)
	<b>14,998</b>	<b>7,423</b>
Internally Generated Software	971	850
Less: Accumulated Amortisation	(140)	(451)
	<b>831</b>	<b>399</b>
<b>Total Intangibles</b>	<b>36,649</b>	<b>17,737</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Reconciliations

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

	Internally Generated Software	Goodwill	Brand Value	Location & Right to Use	Customer List	Total
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Balance at 1 July 2016	-	2,344	2,750	1,605	3,506	10,205
Additions - Business Combinations	23	2,987	460	-	4,500	7,970
Additions	379	-	-	-	-	379
Disposals	-	-	-	-	-	-
Amortisation Expense	(3)	-	(65)	(166)	(583)	(817)
Balance at 30 June 2017	399	5,331	3,145	1,439	7,423	17,737
Additions - Business Combinations	-	10,969	250	-	9,000	20,219
Additions	555	-	-	-	-	555
Disposals*	-	-	-	-	-	-
Amortisation Expense	(123)	-	(149)	(165)	(1,425)	(1,862)
Balance at 30 June 2018	831	16,330	3,246	1,274	14,998	36,649

\*During the year \$434K of assets with a written down value of nil was scrapped during the year.

### FINITE LIFE INTANGIBLE ASSETS

Outlined below are the carrying amounts and remaining amortisation periods of the individual intangible assets that are material to the consolidated entity's financial statements at 30 June 2018.

	Remaining Amortisation Period	Carrying Amount
	Years	\$,000
Location & Right to Use – Sanity	9	1,168
Right to Use – WebCentral	2	106
<b>Location &amp; Right to Use</b>		<b>1,274</b>
Customer List – Faktortel	7	1,417
Customer List – Sanity	7	1,114
Customer List – Telarus	9	3,862
Customer List – SpiderBox	7	205
Customer List – VPN Solutions	9	8,400
<b>Customer List</b>		<b>14,998</b>
Brand – Sanity	4	200
Brand – Telarus	4	330
Brand – VPN Solutions	4	216
<b>Brand*</b>		<b>746</b>

\*Faktortel brand name has an infinite life and, therefore, it is not included above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Remaining Amortisation Period	Carrying Amount
Internally Generated Computer Software - 2017	4	277
Internally Generated Computer Software - 2018	5	554
<b>Internally Generated Computer Software</b>		<b>831</b>

### IMPAIRMENT DISCLOSURES

Both goodwill and a select number of brand values are allocated to cash generating units, which are based on the Group's reporting segments. As per Note 3, the Group has one reportable segment, being IT and Telecommunications.

Brand Value has been previously recorded in relation to the acquisition of Faktortel and these costs are not amortised, given the Board has assessed them to have indefinite useful lives due to the strength of the brand in the market, and the intention of the Board to continue to trade under this brand indefinitely. Instead, this Brand is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other acquired Brand values are being amortised, where the Board has assessed that the Brands will eventually be replaced in the market by the Over the Wire brand after an appropriate period of co-branding.

### IMPAIRMENT TESTING OF GOODWILL

All Goodwill is allocated to the consolidated entity's one cash generating unit (CGU) being IT & telecommunications.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculations use the present value of cash flow projections over a 5 year period, with growth rates based on historical growth rates achieved in the past and budgets approved by management. Cash flows are not extrapolated beyond 5 years.

Key assumptions used for value-in-use calculations:

	2018	2017
<b>CGU – IT &amp; Telecommunications:</b>		
EBITDA & Net Cashflow from Operations (growth rate)	20%	20%
Discount Rate	10%	10%

As the consolidated entity runs a business structure that is light on capital expenditure requirements and utilises back-to-back purchasing arrangements aligned with the contractual terms of customers contracts, revenue, cost of goods sold and overhead have not been assessed in isolation, but instead EBITDA has been used for future cashflow projections, based on the entity's historical accuracy on forecasting EBITDA growth and its ability to manage expenses in line with revenue growth.

The Discount rate has been based upon an estimate of the entity's weighted average cost of capital, and is similar to that used in the valuation of other intangible assets such as customer lists.

### IMPAIRMENT CHARGE FOR GOODWILL

As a result of the impairment testing and evaluation, the consolidated entity has determined that the carrying value of Goodwill does not exceed their value-in-use, and no impairment charge is required.

### IMPACT OF POSSIBLE CHANGES IN KEY ASSUMPTIONS

If the growth rate for EBITDA and Net Cashflow from Operations was reduced by 50% to 10%, there would still be no impairment charge required.

If the discount rate, based on an estimate of the entity's weighted average cost of capital was increased by 25% to 12.5%, there would still be no impairment charge required.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 14: NON-CURRENT ASSETS/ (LIABILITIES) – DEFERRED TAX

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Deferred Tax Consist Of:</b>		
Deferred Tax Assets (a)	779	490
Deferred Tax Liabilities (b)	(5,200)	(2,938)
<b>Net Deferred Tax Asset / (Liability)</b>	<b>(4,421)</b>	<b>(2,448)</b>
<b>a) Deferred Tax Assets:</b>		
The Balance Comprises Temporary Differences Attributable to:		
Accrued Expenses	144	57
Provision for Doubtful Debts	91	25
Employee Benefits	444	259
Claimable IPO Costs	100	149
Other	-	-
<b>Deferred Tax Asset</b>	<b>779</b>	<b>490</b>

#### Movement in Deferred Tax Assets

	Accrued Expenses \$ ,000	Prov. for Doubtful Debts \$ ,000	Employee Benefits \$ ,000	Claimable IPO Costs \$ ,000	Other \$ ,000	Total \$ ,000
Balance at 1 July 2016	51	33	147	199	9	439
(Charged) / Credited to Profit or Loss	5	(20)	47	-	(9)	23
(Charged) / Credited through Equity	-	-	-	(50)	-	(50)
Additions Through Business Combinations	1	12	65	-	-	78
(Over) / Under Provision of Prior Year	-	-	-	-	-	-
<b>Balance at 30 June 2017</b>	<b>57</b>	<b>25</b>	<b>259</b>	<b>149</b>	<b>-</b>	<b>490</b>
(Charged) / Credited to Profit or Loss	87	66	57	-	-	210
(Charged) / Credited through Equity	-	-	-	(49)	-	(49)
Additions Through Business Combinations	-	-	128	-	-	128
(Over) / Under Provision of Prior Year	-	-	-	-	-	-
<b>Balance at 30 June 2018</b>	<b>144</b>	<b>91</b>	<b>444</b>	<b>100</b>	<b>-</b>	<b>779</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>b) Deferred Tax Liabilities:</b>		
The Balance Comprises Temporary Differences Attributable to:		
Accrued Revenue	(202)	(110)
Provision for Change in Contingent Liability	-	(17)
Provision for Doubtful Creditors	(46)	(59)
Intangibles on Acquisitions – Right to Use	(350)	(387)
Intangibles on Acquisitions – Brand	(164)	(119)
Intangibles on Acquisitions – Customer List	(4,438)	(2,227)
Property Plant & Equipment	-	(19)
<b>Deferred Tax Liability</b>	<b>(5,200)</b>	<b>(2,938)</b>

### Movement in Deferred Tax Liability

	Accrued Revenue \$,000	Prov. for Change in Contingent Liability \$,000	Prov. For Doubtful Creditors \$,000	Intangibles on Acquisitions \$,000	Other \$,000	Total \$,000
Balance at 1 July 2016	(117)	(22)	(4)	(1,577)	-	(1,720)
(Charged) / Credited to Profit or Loss	8	5	(55)	332	1	291
Additions Through Business Combinations	-	-	-	(1,488)	(21)	(1,509)
(Over) / Under Provision of Prior Year	-	-	-	-	-	-
Balance at 30 June 2017	(109)	(17)	(59)	(2,733)	(20)	(2,938)
(Charged) / Credited to Profit or Loss	(93)	17	13	556	20	513
Additions Through Business Combinations	-	-	-	(2,775)	-	(2,775)
(Over) / Under Provision of Prior Year	-	-	-	-	-	-
Balance at 30 June 2018	(202)	-	(46)	(4,952)	-	(5,200)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 15: CURRENT LIABILITIES – TRADE & OTHER PAYABLES

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Trade &amp; Other Payables</b>		
Trade Payables	3,520	1,938
GST Payable	596	316
Accrued Expenses	1,904	1,472
Prepaid Revenue	1,015	943
Other payables	263	198
<b>Total Trade &amp; Other Payables</b>	<b>7,298</b>	<b>4,867</b>

Trade and Other Payables increased largely due to the inclusion of the Trade Payables, Prepaid Revenue, and Accrued Expenses of VPN Solutions.

### NOTE 16: CURRENT LIABILITIES – BORROWINGS

	Note	CONSOLIDATED	
		2018 \$,000	2017 \$,000
<b>Borrowings (Current)</b>			
Cisco Finance Lease	28	64	64
NAB Term Loan		-	2,000
Westpac Term Loan		3,925	-
IBM Equipment Finance	28	38	176
<b>Total Current Borrowings</b>		<b>4,027</b>	<b>2,240</b>

Borrowings increased due to the Term Loan taken out as funding for the acquisition of VPN Solutions (which also refinanced the previous NAB Term Loan).

### NOTE 17: CURRENT LIABILITIES – CURRENT TAX LIABILITY

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Current Tax Liability</b>		
Provision For Income Tax Payable	977	437
<b>Total Current Tax Liability</b>	<b>977</b>	<b>437</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 18: CURRENT LIABILITIES – EMPLOYEE BENEFITS

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Employee Benefits</b>		
Provision for Long Service Leave	341	191
Provision for Annual Leave	952	581
Other employee benefits payable	-	-
<b>Total Employee Benefits Payable</b>	<b>1,293</b>	<b>772</b>
<b>Movement in Provisions</b>		
Provision for Long Service Leave		
Balance at 1 July	191	60
Additional Provisions	(4)	131
Additions Through Business Combinations	154	-
Amounts Used	-	-
<b>Balance at 30 June</b>	<b>341</b>	<b>191</b>
Provision for Annual Leave		
Balance at 1 July	581	352
Additional Provisions	682	628
Additions Through Business Combinations	274	-
Amounts Used	(585)	(399)
<b>Balance at 30 June</b>	<b>952</b>	<b>581</b>
Analysis of Total Employee Provisions		
Current	1,293	772
Non-Current (Note 21)	186	89
<b>Total Provisions</b>	<b>1,479</b>	<b>861</b>

#### AMOUNTS NOT EXPECTED TO BE SETTLED WITHIN THE NEXT 12 MONTHS:

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also where employees are entitled to pro-rata payments in certain circumstances. Based on past experience the consolidated entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 19: BUSINESS COMBINATIONS

#### (a) Acquisition of VPN Solutions Pty Ltd (Trading as VPN Solutions)

On 1 November 2017, the company acquired 100% of the shares in VPN Solutions Pty Ltd. Established in 2002, VPN is based in New South Wales and delivers business grade telecommunications solutions to the Australian SME and Corporate markets. VPN Solutions has approximately 150 business customers, has experienced high levels of customer retention and specialises in delivering complex managed network solutions.

Revenue of VPN Solutions included in the consolidated revenue of the group since acquisition amounted to \$7,739K. Profit before tax of VPN Solutions included in consolidated profit before tax of the group since acquisition amounted to \$86K.

Had the results of VPN Solutions been consolidated from 1 July 2017, using a simple pro-rata calculation and ignoring any seasonality, if any, revenue of the consolidated group would have been \$57,403 and consolidated profit before tax would have been \$8,910K for the year ended 30 June 2018.

#### (b) Details on acquisitions

Company	Primary Business Division	Acquisition	Purchase Price \$,000	Intangibles Acquired \$,000	Shares Issued to Settle Units	Shares Issued to Settle \$,000	Cash to Settle \$,000	Deferred Consideration \$,000
VPN Solutions (finalised)	Data Networks	100% of shares	17,350	20,219	382,721	781	14,834	1,735
<b>Total</b>			<b>17,350</b>	<b>20,219</b>	<b>382,721</b>	<b>781</b>	<b>14,834</b>	<b>1,735</b>

The company engaged the services of independent consultants to provide the economic valuation of the acquisition of VPN Solutions, including purchase price, net assets acquired and intangibles (both identifiable and goodwill).

Under the agreement, the vendor and its affiliates are restrained for five years from engaging in business similar to or in competition with the business of VPN Solutions, including being restrained from inducing an employee of VPN Solutions to terminate their employment or soliciting any clients of VPN Solutions. The vendor has provided customary warranties (including those relating to the share capital of VPN Solutions) that there are no liabilities or encumbrances, as well as the information relating to the accounts and records of VPN Solutions and tax related matters.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The assets and liabilities recognised as a result of the acquisitions are as follows:

**1 Nov 2017**  
\$,000

### Assets

#### Current Assets

Cash & Cash Equivalents	302
Trade & Other Receivables	748
Income Tax Receivable	204
Other Assets	218
<b>Total Current Assets</b>	<b>1,472</b>

#### Non-Current Assets

Property, Plant & Equipment	183
Deferred Tax	128
Other Non-Current Assets	1
<b>Total Non-Current Assets</b>	<b>312</b>

<b>Total Assets</b>	<b>1,784</b>
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### Liabilities

#### Current Liabilities

Trade & Other Payables	406
Borrowings (Related Party)	759
Unearned Income	932
Employee Benefits	350
<b>Total Current Liabilities</b>	<b>2,447</b>

#### Non-Current Liabilities

Deferred Tax Liabilities	-
Borrowings	-
Employee Benefits	78
<b>Total Non-Current Liabilities</b>	<b>78</b>

<b>Total Liabilities</b>	<b>2,525</b>
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<b>Net Assets</b>	<b>(741)</b>
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Acquired Intangibles**

Description		Brand Value	Location / Right-to-Use	Customer List / Relationships	Goodwill	TOTAL
Class:		Limited Life	Limited Life	Limited Life	Indefinite Life	
Treatment:		Amortised and Impaired	Amortised and Impaired	Amortised and Impaired	Impaired	
Rate:		Forecast Use of Brand	Length of Lease	Churn/ Customer Retention		
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<b>VPN Solutions</b>						
Purchase Price:	17,350					
Less: Working Capital Adjustment	(647)					
Add: Identifiable Net Assets	741					
Add: Deferred tax liability recognised on limited life intangibles	2,775					
Intangible Assets upon Acquisition	<u>20,219</u>					
Allocation of Intangibles:		250	-	9,000	10,969	20,219
Estimate Useful Life of Limited Life Assets:		5 Years		10 Years		
Annual Forecast Amortisation		50		900		950

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS

	Note	CONSOLIDATED	
		2018 \$ ,000	2017 \$ ,000
<b>Borrowings</b>			
IBM Equipment Finance	28	-	38
Cisco Finance Lease	28	77	139
NAB Term Loan		-	1,485
Westpac Term Loan*		9,128	-
<b>Total Borrowings</b>		<b>9,205</b>	<b>1,662</b>

Borrowings increased due to the Term Loan taken out as funding for the acquisition of VPN Solutions (which also refinanced the previous NAB Term Loan).

Westpac has approved the following facilities, with the balance of the facilities as at 30 June 2018 being as follows:

Facility:	Limit \$ ,000	Used \$ ,000
Bank Bill Business Loan	18,000	13,053

This facility is secured by an interlocking guarantee and indemnity given by all entities in the Group supported by a first registered general security agreement over all present and subsequently-acquired property over each of the entities in the consolidated group.

#### Loan Covenants

Under the terms of the Group's major borrowing facility, the Group is required to comply with the following financial covenants:

- (i) Debt Service Coverage Ratio must at all times exceed 1.75 times
- (ii) Financial debt / EBITDA Ratio must at all times be less than 2.25x

As at 30 June 2018, the Group had complied with these covenants.

### NOTE 21: NON-CURRENT LIABILITIES – EMPLOYEE BENEFITS

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Employee Benefits</b>		
Provision for Long Service Leave	186	89
<b>Total Employee Benefits Payable</b>	<b>186</b>	<b>89</b>

### NOTE 22: EQUITY – ISSUED CAPITAL

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Issued Capital</b>		
Ordinary Shares – Fully Paid	12,246	11,308
<b>Total Issued Capital</b>	<b>12,246</b>	<b>11,308</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Movements in ordinary share capital

	Date	No. of Shares ,000	Issue Price \$	Paid up Amount \$,000
Balance	30 June 2016	43,500		11,280
Employee Share Plan	28 Apr 2017	31	2.50	77
Tax Effect of Capitalised Costs of IPO	30 Jun 2017	-	-	(49)
<b>Balance</b>	<b>30 June 2017</b>	<b>43,531</b>		<b>11,308</b>

	Date	No. of Shares ,000	Issue Price \$	Paid up Amount \$,000
Balance	1 Jul 2017	43,531		11,308
Shares Issued on Acquisitions	1 Nov 2017	382	2.04	781
ESOP Shares Vested from Performance Rights	26 Feb 2018	50	-	109
Employee Share Plan	18 Apr 2018	35	2.77	97
Tax Effect of Capitalised Costs of IPO	30 Jun 2018	-	-	(49)
<b>Balance</b>	<b>30 June 2018</b>	<b>43,998</b>		<b>12,246</b>

### ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

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

### SHARE BASED PAYMENTS - EMPLOYEE SHARES

On 18 April 2018, 34,920 ordinary shares were issued to employees under an Employee Share Plan with an issue price of \$2.77 per share and for nil consideration.

Shares acquired under this plan carry all of the same rights and obligations of other shares, except for any rights attaching to shares by reference to a record date prior to the date of issue or transfer.

### SHARE BASED PAYMENTS – PERFORMANCE RIGHTS

On 26 February 2018, 50,000 performance rights (2017 Tranche 1) vested and were converted to Ordinary Shares.

On 1 April 2018, the consolidated entity issued 99,732 performance rights to key management personnel and select senior staff under an Employee Share Plan as a means of rewarding and incentivising key employees.

Further details of the performance rights, including details of rights issued during the financial year, are set out in note 34.

### CAPITAL RISK MANAGEMENT

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 23: EQUITY – RETAINED PROFITS

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Retained Profits</b>		
Retained Profits at the Beginning of the Financial Year	7,713	4,876
Profits After Income Tax Expense for the Financial Year	5,531	3,598
Dividends Paid	(984)	(761)
<b>Retained Profits at the End of the Financial Year</b>	<b>12,260</b>	<b>7,713</b>

### NOTE 24: EQUITY – DIVIDENDS

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Dividends</b>		
Interim fully franked ordinary dividend of 1.00 cents per share franked at the tax rate of 30% for the 30 June 2018 Financial Year	439	326
Final fully franked ordinary dividend of 1.25 cents per share franked at the tax rate of 30% for the 30 June 2017 Financial Year	545	435
<b>Total Dividends for the Financial Year</b>	<b>984</b>	<b>761</b>

Subsequent to year-end, on 22 August 2018, the Company declared a fully franked final dividend of 1.50 cents per share, for the year ended 30 June 2018. The dates of the dividend are as follows:

Ex date	17 September 2018
Record Date	18 September 2018
Payment Date	9 October 2018

As this final dividend was declared subsequent to year-end, no provision has been made in the accounts for the dividend.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Franking Credits</b>		
Franking Credits Available at the Reporting Date Based on a Tax Rate of 30%	5,138	4,455
Franking Credits that Will Arise From the Payment of the Amount of the Provision for Income Tax at the Reporting Date Based on a Tax Rate of 30%	977	379
<b>Franking Credits Available for Subsequent Financial Years Based on a Tax Rate of 30%</b>	<b>6,115</b>	<b>4,834</b>

### NOTE 25: FINANCIAL RISK MANAGEMENT

#### FINANCIAL RISK MANAGEMENT OBJECTIVES

The group's financial instruments consist mainly of deposits with banks, local money market instruments, accounts receivable and payable, loans to and from subsidiaries, and leases.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not have any derivative instruments at 30 June 2018 or 30 June 2017.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows.

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
<b>Financial Assets</b>		
Cash & Cash Equivalents (Note 8)	7,013	5,484
Trade & Other Receivables (Note 9)	4,357	3,242
<b>Total Financial Assets</b>	<b>11,370</b>	<b>8,726</b>
<b>Financial Liabilities</b>		
Trade & Other Payables (Note 15)	7,298	4,867
Borrowings (Notes 16,20)	13,232	3,902
<b>Total Financial Liabilities</b>	<b>20,530</b>	<b>8,769</b>

#### TREASURY RISK MANAGEMENT

The Boards overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

#### FINANCIAL RISK EXPOSURES AND MANAGEMENT

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOREIGN CURRENCY RISK

The group has no material exposure to fluctuations in foreign currencies.

### LIQUIDITY RISK

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Cash flows realised from financial assets in the table below reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed.

Contracted maturities at 30 June 2017	0 – 12 Months	1 – 2 Years	2 – 5 Years	> 5 Years	Total Cash Flows	Carrying Amount
	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000
Cash & Cash Equivalents	5,484	-	-	-	5,484	5,484
Trade & Other Receivables	3,242	-	-	-	3,242	3,242
<b>TOTAL</b>	<b>8,726</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,726</b>	<b>8,726</b>

Contracted maturities at 30 June 2018	0 – 12 Months	1 – 2 Years	2 – 5 Years	> 5 Years	Total Cash Flows	Carrying Amount
	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000
Cash & Cash Equivalents	7,013	-	-	-	7,013	7,013
Trade & Other Receivables	4,357	-	-	-	4,357	4,357
<b>TOTAL</b>	<b>11,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,370</b>	<b>11,370</b>

The consolidated entity has recognised a loss of \$249K (2017 \$79K) in profit and loss in respect of impairment of receivables for the year ended 30 June 2018. The movements in the provision for impairment of receivables were outlined in Note 9.

The table below sets out the maturity periods of the financial liabilities of the consolidated group as at 30 June 2018 and 30 June 2017. All carrying amounts of equipment finance are discounted contractual cash flows.

Contracted maturities at 30 June 2017	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	> 5 Years	Total Cash Flows	Carrying Amount
	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000
Trade & Other Payables	4,867	-	-	-	-	4,867	4,867
Borrowings	1,217	1,145	1,615	92	-	4,069	3,902
<b>TOTAL</b>	<b>6,084</b>	<b>1,145</b>	<b>1,615</b>	<b>92</b>	<b>-</b>	<b>8,936</b>	<b>8,769</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Contracted maturities at 30 June 2018	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	> 5 Years	Total Cash Flows	Carrying Amount
	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000	\$ ,000
Trade & Other Payables	7,298	-	-	-	-	7,298	7,298
Borrowings	2,016	2,017	9,195	13	-	13,241	13,232
<b>TOTAL</b>	<b>9,314</b>	<b>2,017</b>	<b>9,195</b>	<b>13</b>	<b>-</b>	<b>20,539</b>	<b>20,529</b>

### CREDIT RISK

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

There are no material amounts of collateral held as security at 30 June 2018 or 30 June 2017.

Credit risk is managed on a group basis and reviewed regularly by the Board. It arises from exposures to customers as well as through deposits with financial institutions.

The Board monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- only major Australian banks and financial institutions are utilised;
- potential customers with a monthly spend in excess of \$1,000 are often rated for credit worthiness taking into account their size, market position and financial standing; and
- Customers that do not meet the group's strict credit policies may only purchase in cash or using recognised credit cards.

The following table provides information regarding the credit risk relating to cash and money market securities based on Moody's counterparty credit ratings.

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Cash &amp; Cash Equivalents</b>		
Aa2 Rated	-	-
Aa3 Rated	7,009	5,480
A1 Rated	4	4
<b>Total Cash &amp; Cash Equivalents</b>	<b>7,013</b>	<b>5,484</b>

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### INTEREST RATE AND MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

All of the Group's equipment finance leases are at a fixed interest rate, and while the Group has term debt, the pricing is a fixed-margin above BBSY, the Group has significant cash and cash equivalents, and generally maintains a Debt-to-EBITDA ratio of less than 1:1, and accordingly the Directors consider interest rate and market risk to be low.

### Sensitivity analysis

As the Group's equipment finance leases are not material to the Group and at a fixed interest rate, no sensitivity analysis has been performed, as any +/- variation in interest rates would not have a material impact on the post-tax profit for the remaining period of the loans.

A change in interest rates on the Westpac Term Loan would have the following impact on the post-tax profit over the remainder of the expected term of the loan:

	CONSOLIDATED	
	2019 \$,000	2020 \$,000
2% Decrease in Interest Rates	225	61
1% Decrease in Interest Rates	113	31
1% Increase in Interest Rates	(114)	(32)
2% Increase in Interest Rates	(230)	(64)
3% Increase in Interest Rates	(346)	(98)

### DEBT MATURITY AND REFINANCING RISK

Refinancing risk is the risk that the Company is not able to refinance the full amount of its ongoing debt requirements on appropriate terms and pricing. To reduce this risk, Group maintains significant cash and cash equivalents, generally maintains a Debt-to-EBITDA ratio of less than 1:1 making the company an attractive lending proposition, and maintains regular contact and good relationships with a variety of debt and equity funding institutions.

### NOTE 26: REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2018 \$,000	2017 \$,000
During the financial year the following fees were paid or payable for services provided by PKF Hacketts Audit, the auditor of the consolidated entity		
PKF Hacketts Audit		
Audit Services	85	66
PKF Hacketts Pty Ltd		
Other Services – Tax compliance services	31	39
<b>Total</b>	<b>116</b>	<b>105</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 27: CONTINGENT ASSETS & LIABILITIES

#### CONTINGENT ASSETS

The consolidated entity had no contingent assets as at 30 June 2018 or 30 June 2017.

#### CONTINGENT LIABILITIES

The consolidated entity had bank guarantees in place totalling \$269,174 as at 30 June 2018 and \$119,174 as at 30 June 2017.

### NOTE 28: CAPITAL & LEASING COMMITMENTS

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Lease commitments - Operating</b>		
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	1,134	1,110
One to five years	1,791	1,542
More than five years	69	-
<b>Total Lease commitments - Operating</b>	<b>2,994</b>	<b>2,652</b>

Operating lease commitments include contracted amounts for various offices under non-cancellable operating leases expiring within one to ten years with, in some cases, options to extend. On renewal, the terms of the leases will be renegotiated.

#### Commitments in relation to non-cancellable finance leases are as follows:

Not Later Than 1 Year	105	258
Later Than 1 Year But Not Later Than 5 Years	83	187
Minimum Lease Payments	188	445
Less Future Finance Charges	(9)	(28)
	<b>179</b>	<b>417</b>
Representing Finance Lease Commitments		
Current (Note 16)	102	240
Non-Current (Note 20)	77	177
<b>Total Lease Commitments - Financing</b>	<b>179</b>	<b>417</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 29: CASH FLOW INFORMATION

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
<b>Reconciliation of Cash Flows from Operations with Profit After Income Tax</b>		
<b>Profit After Income Tax</b>	<b>5,531</b>	<b>3,598</b>
<b>Non cash flows in profit/(loss):</b>		
Depreciation	2,075	1,513
Amortisation	1,862	817
Provision for Doubtful Debts	156	(69)
(Write-down) / Increase of Earn-out Payments	5	18
Other Non Cash Movements	105	(20)
<b>Changes in Assets and Liabilities</b>		
(Increase) / Decrease in Trade and Other Receivables	(238)	(318)
(Increase)/ Decrease in Inventories	(74)	(33)
(Increase)/ Decrease in Other Assets	(617)	(7)
(Decrease)/ Increase in Deferred Tax Liabilities	(672)	(269)
(Decrease)/ Increase in Payables	1,277	906
(Decrease)/ Increase in Provisions	191	151
(Decrease)/ Increase in Current Tax Liabilities	744	(1,191)
<b>Net Cash Flows from Operating Activities</b>	<b>10,345</b>	<b>5,096</b>

### RECONCILIATION OF CASH FLOWS FROM FINANCE ACTIVITIES

	Cisco Lease Financing \$ ,000	NAB Term Loan \$ ,000	Westpac Term Loan \$ ,000	IBM Equip Finance \$ ,000	Dividends Payable \$ ,000
Balance at 1 July 2017	203	3,485	-	214	-
Dividends declared	-	-	-	-	984
Net cash (used in) financing activities	(62)	(3,485)	13,053	(176)	(984)
Other changes	-	-	-	-	-
Balance at 30 June 2018	141	-	13,053	38	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 30: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

#### PARENT ENTITY STATEMENT OF FINANCIAL POSITION

As At 30 June 2018

	2018 \$,000	2017 \$,000
<b>Assets</b>		
Current Assets	2,747	1,692
Non-Current Assets	33,846	17,146
<b>Total Assets</b>	<b>36,593</b>	<b>18,838</b>
<b>Liabilities</b>		
Current Liabilities	15,577	3,065
Non-Current Liabilities	9,128	5,009
<b>Total Liabilities</b>	<b>24,705</b>	<b>8,074</b>
<b>Net Assets</b>	<b>11,888</b>	<b>10,764</b>
<b>Equity</b>		
Issued Capital	12,246	11,308
Retained Profits	(358)	(544)
<b>Total Equity</b>	<b>11,888</b>	<b>10,764</b>

#### PARENT ENTITY STATEMENT OF COMPREHENSIVE INCOME

For Year Ended 30 June 2018

	2018 \$,000	2017 \$,000
<b>Total Profit</b>	<b>1,170</b>	<b>16</b>
<b>Total Comprehensive Income</b>	<b>1,170</b>	<b>16</b>

#### GUARANTEES AND CONTRACTUAL COMMITMENTS

During the reporting period, Over the Wire Holdings Limited has a parent entity guarantee in place over the credit card facilities with NAB operated by two of its subsidiaries (OTW Corp Pty Ltd and Over the Wire Pty Ltd) totalling \$150,000, as well as a bank guarantee facility with ANZ for \$119,174.

#### CONTINGENT LIABILITIES

Other than the bank guarantees above, the parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 31: RELATED PARTY TRANSACTIONS

Over the Wire Holdings Limited is the ultimate parent entity in the wholly owned group comprising the Company and its wholly owned controlled entities. Transactions between the Company and its controlled entities have been eliminated in the consolidated financial statements.

The aggregate amounts of transactions between the Company and its controlled entities are in the respective classification categories in the financial statements. The nature, terms and conditions of each different type of transaction area are as follows:

- Fees charged by OTW Corp Pty Ltd to the members of the group are in respect of the company acting as a central provider of corporate services to the group, including employing all staff, providing office and administration services.
- Management fees charged by Over the Wire Holdings Limited to cover the costs of being listed on the Australian Stock Exchange.
- A limited number of re-charged costs between Over the Wire Pty Ltd, Netsip Pty Ltd, Faktortel Pty Ltd and Telarus Pty Ltd, for discretionary operational reasons such as ease of reconciliations, facilitating a customer to receive a single invoice despite ordering services from multiple companies, etc.
- Operational Loans for day-to-day working capital between the Company and its controlled entities are unsecured and advanced on an interest free basis.

During the year, the Group has conducted the following related party transactions:

- Management fees paid to Over the Wire Holdings by its controlled entities for 2018: \$2.4m (2017: \$0.3m)
- Fees charged by OTW Corp to the members of the group for 2018: \$12.99m (2017: \$9.35m)
- Operational recharged costs between group companies for 2018: \$1.2m (2017: \$1.2m)

### KEY MANAGEMENT PERSONNEL (KMP) COMPENSATION

	CONSOLIDATED	
	2018 \$ ,000	2017 \$ ,000
Short -Term Employee Benefits	1,259	1,160
Long-Term Employee Benefits	17	14
Post-Employment Benefits	84	87
Termination Payments	-	-
Share based Payments	388	4
<b>Key Management Personnel Compensation</b>	<b>1,748</b>	<b>1,265</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 15 to 19.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 32: SUBSIDIARIES

		CONSOLIDATED	
		2018	2017
The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in Note 1:			
Name of Entity	Country of Incorporation	Equity Holding	Equity Holding
Over the Wire Pty Ltd	Australia	100 %	100 %
Netsip Pty Ltd	Australia	100 %	100 %
Faktortel Pty Ltd (Acquired 28 July 2015)	Australia	100 %	100 %
Faktortel Holdings Pty Ltd (Acquired 28 July 2015)	Australia	100 %	100 %
Aero Telecom Pty Ltd (Acquired 28 July 2015)	Australia	100 %	100 %
Sanity Holdings Pty Ltd (Acquired 30 November 2015)	Australia	100 %	100 %
OTW Corp Pty Ltd (Registered 25 September 2015)	Australia	100 %	100 %
Telarus (Acquired 16 January 2017)	Australia	100 %	100 %
VPN Solutions (Acquired 1 November 2017)	Australia	100 %	0 %

### NOTE 33: SUBSEQUENT EVENTS

On 22 August 2018, the Company declared a fully franked final dividend of 1.50 cents per share, for the year ended 30 June 2018. The dates of the dividend are as follows:

Ex date	17 September 2018
Record Date	18 September 2018
Payment Date	9 October 2018

As this final dividend was declared subsequent to year-end, no provision has been made in the accounts for the dividend.

No other matter or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 34: SHARE-BASED PAYMENTS - PERFORMANCE RIGHTS

In line with its remuneration policy, the Board approved the issue of performance rights under the OTW Performance Rights Plan during the 2017 and 2018 financial years to key management personnel.

The Performance Rights will not give the holder a legal or beneficial interest in ordinary fully paid shares in Over the Wire until those Performance Rights vest. Prior to vesting, Performance Rights do not carry a right to vote or receive dividends. When the Performance Rights have vested, ordinary fully paid shares will be allocated, and these shares will rank equally with existing Over the Wire Shares.

The Performance Rights over Ordinary Shares have been issued in tranches as set out below.

	2017 Tranche 1 (2017-1)	2017 Tranche 2 (2017-2)	2017 Tranche 3 (2017-3)	2018
Issue Date	29 June 2017	29 June 2017	29 June 2017	1 April 2018
Vesting Date & Test Date	31 January 2018	1 July 2018	3 December 2018	30 September 2020
Expiry Date	28 February 2018	1 August 2018	3 January 2019	31 October 2020
Exercise Price	\$0.00	\$0.00	\$0.00	\$0.00
Amount Payable on Grant	\$0.00	\$0.00	\$0.00	\$0.00
Performance Hurdles	Service tenure from Grant to Vesting. Issued in recognition of the FYE2016 short term incentive achievement and represent an STI deferral benefit.	Service tenure from Grant to Vesting. Issued in recognition of the FYE2016 short term incentive achievement and represent an STI deferral benefit.	Service Tenure and TSR absolute Compound Annual Growth Rate from IPO date to vesting: <10% pa.: 0% 10%-15%: 50-100% pro-rata >15% pa.: 100%	Service Tenure & EPS absolute Compound Annual Growth Rate hurdle from FY2017 to FY2020: <10% pa.: 0% 10%-15%: 50-100% pro-rata >15% pa.: 100%
Performance Rights Granted to:				
Mike Stabb	25,000	25,000	50,000	29,920
Ben Cornish	25,000	25,000	50,000	29,920
Dennis Muscat	-	-	-	19,946
Daniel Roates	-	-	-	19,946

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FAIR VALUE OF PERFORMANCE RIGHTS ISSUED

30 June 2017	Opening Balance Qty	Granted Qty	Vested Qty	Closing Balance Qty	Fair Value \$
Mike Stabb	-	100,000	-	100,000	218,292
Ben Cornish	-	100,000	-	100,000	218,292
<b>TOTAL</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>200,000</b>	<b>436,584</b>

30 June 2018	Opening Balance Qty	Granted Qty	Vested Qty	Closing Balance Qty	Weighted Average Fair Value \$
Mike Stabb	100,000	29,920	(25,000)	104,920	249,882
Ben Cornish	100,000	29,920	(25,000)	104,920	249,882
Dennis Muscat	-	19,946	-	19,946	57,572
Daniel Roates	-	19,946	-	19,946	57,572
<b>TOTAL</b>	<b>200,000</b>	<b>99,732</b>	<b>(50,000)</b>	<b>249,732</b>	<b>614,908</b>

The weighted average fair value of the performance rights granted to employees has been calculated by an independent valuer at the date the performance rights were granted.

The weighted average fair value of performance rights granted is set out below. This value was calculated using the Black-Scholes pricing model applying the following inputs:

	CONSOLIDATED	
	2018	2017
Weighted average fair value	\$2.8864	\$2.1829
Weighted average life of the rights	2.5 Years	1.11 Years
Expected share price volatility	40.6%	50%
Risk-free interest rate	2.04%	1.75%

Historical share price volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future volatility.

## DIRECTORS' DECLARATION

In the directors' opinion:

- 1) The financial statements and notes set out on pages 22 to 68 are in accordance with the Corporations Act 2001, including:
  - a) complying with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS) and the Corporations Regulations 2001; and
  - b) giving a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the company and consolidated group;
- 2) There are reasonable grounds to believe that the consolidated group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.



Michael Omeros  
Managing Director

Brisbane

22 August 2018



John Puttick  
Chair Person

Brisbane

22 August 2018

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF OVER THE WIRE HOLDINGS LIMITED

#### Report on the Financial Report

##### Opinion

We have audited the accompanying financial report of Over the Wire Holdings Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion the financial report of Over the Wire Holdings Limited is in accordance with the *Corporations Act 2001*, including:

- a) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

##### Independence

We are independent of the consolidated entity 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.

##### 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

## 1. Impairment testing of intangible assets

### Why significant

As at 30 June 2018 the carrying value of intangible assets was \$36.6m (2017: \$17.7m), as disclosed in Note 13.

The Group's accounting policy in respect of intangible assets is outlined in Note 1. This represents 68% of total assets.

An annual impairment test for goodwill and other indefinite life intangible assets is required under Australian Accounting Standard (AASB) 136 Impairment of Assets.

The evaluation of the recoverable amount requires the Group to exercise significant judgement in determining the key assumptions, which include:

- 5 year cash flow forecast
- Terminal growth factor
- Discount rate
- The determination that the Group has one CGU, being the whole Group

The outcome of the impairment assessment could vary if different assumptions were applied. As a result, the evaluation of the recoverable amount of intangible assets including goodwill is an area of significant estimation and judgement

### How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- assessing and challenging:
  - the FY19 budget by comparing the budget to FY18 and FY 17 actuals
  - the assumptions used for the growth rate by comparing normalised average growth rate from FY17 to FY18 to the growth rate adopted in the impairment model
  - the key assumptions for long term growth in the forecast cash flows by comparing them to historical results and industry forecasts; and
  - the discount rate applied by comparing the WACC to industry benchmarks
- testing, on a sample basis, the mathematical accuracy of the cash flow models;
- agreeing inputs in the cash flow models to relevant data including approved budgets and latest forecasts
- performing sensitivity analysis in relation to key assumptions including discount rate, growth rate and terminal value

Additionally, as part of our procedures:-

- we assessed the Group's determination of Cash Generating Units (CGUs); and
- we assessed the appropriateness of the disclosures including those relating to sensitivities in the assumptions used, included in Note 13.

## 2. Business Combinations, including valuation of acquired identifiable intangible assets and allocation of goodwill

### Why significant

During the year, the Group acquired the shares of VPN Solutions Pty Ltd. As disclosed in Note 19, as part of the transaction, goodwill of \$11.0m, brand names of \$0.3m, and customer contracts \$9m were recognised.

Significant judgement is required in valuing the acquired identifiable intangible assets and allocation of goodwill. The Group engaged an independent expert to assist in the valuation of identifiable intangible assets.

### How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- Obtaining a detailed understanding of the acquired business
- Assessing the competency and objectivity of the independent expert and the scope of their work
- Analysing the independent expert's report to understand the valuation methodology and key judgements made in determining the fair values such as:
  - EBIT multiples
  - Growth rates
  - Customer retention rates
  - Estimated useful lives
  - Internal rate of return
- Assessing the appropriateness of the valuation methodology of the intangible assets employed by the external expert and evaluating the key assumptions used in determining the fair values

In addition, we assessed the appropriateness of the disclosures in relation to both the business combination and intangible assets acquired included in note 19.



### 3. Recognition of Revenue

#### Why significant

The recognition of revenue, totalling \$53.6m and associated unearned revenue liabilities of \$1.0m is considered a key audit matter due to the number of different revenue streams and the complexity in the nature and timing of revenue generated by the Group through each stream.

Note 3 to the financial statements details the revenue streams of the Group and associated accounting policies. Revenue amounts are disclosed in the Consolidated Statement of Comprehensive Income, and associated unearned revenue liabilities are disclosed in Note 15 and the Consolidated Statement of Financial Position.

#### How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

We performed procedures on the significant revenue streams as noted below and as disclosed in Note 3 to the financial statements:

- Data networks and internet
- Voice
- Cloud and managed services
- Data centre co-location

For a sample of contracts across each of the revenue streams, we evaluated the individual contract and agreed revenue amounts to the financial statements and other records such as bank statements. As part of these procedures we assessed the values recorded and the timing of recognition over the service period.

We considered the adequacy of the Group's revenue recognition accounting policies and assessed compliance with the policies in terms of applicable Australian Accounting Standards.

#### Other Information

The Directors are responsible for the other information. The other information comprises the information included in the consolidated entity's Annual Report, but does not include the financial report and our auditor's report thereon.

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

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

#### Directors' Responsibilities 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 Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. 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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

### Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018. 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.

### Opinion

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

PKF HACKETTS

PKF HACKETTS AUDIT



LIAM MURPHY  
PARTNER

22 AUGUST 2018  
BRISBANE