Konekt Limited

ABN 79 009 155 971

Appendix 4D – Half Yearly Report 31 December 2018

Konekt Limited
Directors' Report
31 December 2018

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'Konekt', 'the Group', or 'consolidated entity') consisting of Konekt Limited (referred to hereafter as the 'company') and the entities it controlled for the half-year ended 31 December 2018.

Directors

The following persons were Directors of Konekt Limited during the half-year and up to the date of this report, unless otherwise stated:

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

Principal activities

Konekt provides new employment, return to work, mentally healthy workplace, safe employment and consulting services, to corporate, government and insurance customers. During the financial half-year, the principal continuing activities of the consolidated entity consisted of:

- Employment services;
- Workplace injury management and prevention, and Return to Work management programs;
- Mental health and safe employment consulting;

Review of operations

Konekt reports a Statutory loss after tax for the 6-month period to 31 December 2018 of $(0.1)m, an improvement of $1.2m compared to same period last year. This result is on revenue of $49.1m versus $38.3m, 28% higher than the prior corresponding period of largely due to the acquisition of Mission Providence being included for 6 months (versus 3 months in the pcp). Konekt Employment increased its revenue contribution by $14.0m vs pcp, Konekt Workcare revenue was $3.2m lower vs pcp.

As at 31 December 2018, net debt was $13.1m, reflecting total debt of $15.6m ($4.5m current, $11.1m non-current) and cash on hand of $2.4m. The company's leverage ratio (Total Debt/rolling 12-month EBITDA) was well within Debt Covenant Ratios. Gearing (net debt/shareholder funds) as at 31 December 2018 was 45% (38% pcp). Konekt's primary debt facility amortises with principal reductions of $1.0m each quarter.

Intangible assets reduced by $1.1m to $43.0m, primarily due to amortisation of client contracts ($1.8m), and continuing investment in developing internal systems ($1.1m). The company also concluded payment of deferred considerations for businesses acquired over the previous 3 years.

Operating cash flow for the half was $2.3m ($1.0m in pcp before payment of acquisition costs)

Konekt's debt facility commenced in September 2017 and has a three-year term with principal reductions of $1.0m each quarter, the first payment having been made in early January 2018. All remaining unpaid debt is payable at the end of the 3-year period.

Management Commentary

Konekt's first half FY19 performance has been mixed with Konekt Employment generally performing well in a market with lower unemployment volumes, and Konekt Workcare's performance impacted by lower volumes from MHS, icare and insurance clients, while the remaining Corporate and Government sectors held flat.

Konekt Employment revenues of $28.0m ($14.0m in pcp - 3-month contribution) - mix reflecting a softer Jobactive case load (lower unemployment) offset by NEIS and the initial contribution of Disability Employment Services (DES).

Konekt Workcare revenues of $21.1m were $3.2m lower than pcp due to lower referral volumes from two large contracts - MHS (down 27% on pcp) and icare NSW related return-to-work referrals (down 14.0% on pcp).

Konekt Employment

Konekt Employment performed solidly with revenue of $28.0m for the half ($14.0m pcp) reflecting a full 6-month contribution.

Konekt Employment provides placement services for the unemployed into long term sustainable employment under the Federal Government's Jobactive program. Improving economic outcomes and the industry-wide success of the program have seen growth in the national workforce and reduction in numbers of unemployed.

The performance of the Jobactive contract remains in line with expectations. The Konekt Employment business has delivered 5% revenue growth over pcp (on a proforma basis), showing an 11% improvement in fees from outcomes, offset by 5% reduction in administration fees, highlighting its focus on working with jobseekers to secure and maintain their job placements. Konekt has assisted more than 30,000 jobseekers in seeking employment in the last 12 months.

Both the NEIS and the new DES program, have performed well. The NEIS business continues to evolve in supporting new entrepreneurs establish and develop new business opportunities, delivering solid growth in its revenues. We successfully implemented the Disability Employment Services (DES) program into 16 regions commencing in July 2018. It is performing ahead of plan in terms of participants, revenue and earnings, and will continue to contribute positively over time.

Konekt Employment has built momentum during the period, having invested in restructuring the business and focusing its operational emphasis on maximising job placement outcomes. This is a key component of the Department of Jobs and Small Business Star Ratings, the relative performance framework for measuring the efficiency, effectiveness and quality of Jobactive providers.

The current Jobactive contract expires in June 2020, and we are mindful that recent political and media commentary has suggested a desire for improving outcomes and lower overall costs to the Commonwealth. Through our ongoing commitment to improving service delivery, demonstrated in our recent operational performance, and the company will be well placed to continue our support of job-seekers and employers into the future.

Konekt Workcare

Konekt Workcare revenues (including workcare, training and mental health operations) of $21.1m were $3.2m lower vs pcp. Konekt Workcare has seen a challenging market environment with significantly reduced referral volumes from MHS, icare NSW and insurance clients during the half.

The MHS "On-Base" service delivery continued to experience decreasing revenues by 27% against pcp, associated with having operated a full year of service provision within a fixed service fee model for the majority of referrals. The reduced volumes associated with MHS is a result of structural changes in the way services have been contracted since May 2017.

Weakness in the icare NSW workers compensation markets continued to impact as icare led initiatives drive a new model of client care and outcomes. As a result of these changes it is likely that Konekt has lost some market share in the reduced market, however, the majority of the reduction remains a smaller available market.

The Corporate, Pre-employment and Mental Health showed flat revenue performance vs the pcp. The Financial Services Royal Commission saw some reduced spending vs pcp from financial institutions, with demand now likely restored for a prospective second half. Solid performance in Pre-employments continues with Employment conditions remaining buoyant again this half.

In November 2018, MHS announced that it had not been selected as the preferred tenderer for the renewal of the Garrison Health Services contract with the Australian Government Department of Defence from 1 July 2019. Konekt Workcare's contract with MHS will expire on 30 June 2019. Konekt has forecast steady volumes off this new lower base through to the end of this financial year, however the exact nature of the transition plan is yet to be finalised.

Konekt is committed to supporting an orderly and efficient transition of this service. We expect to absorb on-base staff into the remaining Workcare business over the coming months. Until a transition out plan is formalised with MHS and the incoming service provider(s), we are unable to determine any one-off costs associated with the transition.

Opportunities continue to present in the Mental Health segment, particularly in the government and corporate space. The NDIS has now emerged as an opportunity for Konekt to consider following some recent changes in direction in that scheme.

Occupancy Synergies Program

Following the acquisition of Mission Providence in September 2017, Konekt commenced a program of rationalising its 128 locations across Australia. Konekt has maintained a presence in each of those areas and upgraded the quality of its premises, while at the same time reducing its footprint by more than 10,000 sqm, reducing to 115 locations. The occupancy synergies program has met its goals, with FY19 property costs to be broadly in line with FY18 occupancy costs (noting that FY18 includes only 9-months of Mission Providence property costs).

Balance Sheet/Cash flow

As at 31 December 2018, net debt was $13.1m, reflecting total debt of $15.6m ($4.5m current, $11.1m non-current) and cash on hand of $2.4m. The company's leverage ratio (Total Debt/rolling 12-month EBITDA) was well within Debt Covenant Ratios.

Gearing (net debt/shareholder funds) as at 31 December 2018 was 45% (38% pcp). Konekt's primary debt facility amortises with principal reductions of $1.0m each quarter.

Intangible assets reduced by $1.1m to $43.0m, primarily due to amortisation of client contracts ($1.8m), and continuing investment in developing internal systems ($1.1m). The company also concluded payment of deferred considerations for businesses acquired over the previous 3 years. The remaining benefit of $23.5m in tax losses (on- and off-balance sheet) acquired from Mission Providence are available to be utilised by the company, at 51% available fraction.

Operating cash flow for the half was $2.3m ($1.0m in pcp before including payment of acquisition costs).

Outlook

Konekt see the value of a diversified and agile business in a changing customer and business environment, noting in particular:

- The resilient Australian economy maintaining strong headline employment numbers, with Konekt ensuring emphasis on both placing new job-seekers and maintaining existing job placements in their current employment;
- The emerging prominence of Consumer-directed choice in more of our product areas, resulting in our investment in a well understood and consumer friendly brand proposition;
- New opportunities are presenting in the Disability services market, with Konekt well-placed to leverage its existing investment in this area;
- The NDIS potentially opening up to receive services from Workcare companies;
- Mentally healthy and safe workplaces are becoming more important to Australia's well-being than ever before and is driving an increase in demand for Konekt service offerings in this area.

The potential upsides are a modest recovery in insurance referral volumes, above expected conversion of Mental Health consulting enquiries into second half revenue, and above expected success in DES placements after the promising start to this program. The Konekt Employment business will see a strong NEIS performance and placement success offset by lower case volumes as a result of the strong employment markets. The risk remains in the MHS/ADF transition planning.

On balance, Konekt anticipates FY19 revenue in the range of $96.0m - $99.0m and EBITDA in the range of $9.0m - $9.5m (before MHS contract exit costs (if any)).

Konekt is committed to replace the earnings from the loss of the MHS contract with organic growth and a lower operating cost base of circa 10% by FY21, and a program is underway to achieve this result.

Dividends and Capital

The Board has determined not to declare an interim dividend. The company's policy is to balance shareholder dividends with franking credits and company's ongoing need to fund continued growth. The Board will consider future dividends on a NPAT before amortisation (NPATA) basis.

Significant changes in the state of affairs

Konekt has previously reported that Medibank Private Limited (ASX:MPL) has been verbally informed by the Australian Government Department of Defence that Medibank has not been selected as the preferred tenderer for the renewal of the Garrison Health Services contract, commencing from 1 July 2019. Konekt provides rehabilitation services to Medibank Health Services under this contract. To date, Konekt has not received formal notification of the termination of this contract, but we expect to continue to perform services under the contract with MHS until its expiry on 30 June 2019.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year, noting that the company acquired Mission Providence Pty Ltd during the prior comparative period.

Rounding of accounts

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

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 22.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Douglas Flynn
Chairman

18 February 2019
Sydney

Summary results for the 6 months to 31 December 2018

The following is a summary of the financial results for the 6 months ended 31 December 2018 (previous corresponding period 31 December 2017):

	Six months ended 31 Dec 18 $000s	Six months ended 31 Dec 17 $000s	Increase/ (decrease) $000s	Change
Revenue from services	**49,079**	38,283	**10,796**	**28%**
Profit / (Loss) before interest and tax ("EBIT")	**624**	(1,067)	**1,691**	**158%**
Net interest income / (expense)	**(610)**	(390)	**(220)**	**(56%)**
Profit / (Loss) before tax	**14**	(1,457)	**1,471**	**101%**
Income tax (expense) / benefit	**(89)**	203	**(292)**	**(144%)**
Net Profit / (Loss) attributable to members ("NPAT")	**(75)**	(1,254)	**1,179**	**94%**

Dividends

No dividend has been declared for the half year.

A final dividend on ordinary shares in respect of 2018 year of 1.00 cents per share was fully paid on 8 November 2018.

Earnings per share	Six months to 31 December 2018	Six months to 31 December 2017
Basic earnings per share (cents per share)	**(0.07)**	(1.33)

The weighted average number of ordinary shares used in the calculation of earnings per share was 105,336,835 (31 December 2017: 94,074,027).

Net tangible asset backing per share	31 December 2018	31 December 2017
Net tangible asset backing per share (cents per share)	(21.85)	(22.98)

Control Gained over entities in the Prior Half year

On 29 September 2017, the Company acquired 100% of the issued capital of Mission Providence Pty Ltd "Mission Providence or MP". This business was rebranded Konekt Employment (Konekt Employment Pty Ltd) on 5 March 2018.

CONTENTS

Financial Report

General information

The financial report covers Konekt Limited as a consolidated entity consisting of Konekt Limited and the entities it controlled during the half year ended 31 December 2018. The financial report is presented in Australian dollars, which is Konekt Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Konekt 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 3	Level 3
338 Pitt Street	338 Pitt Street
Sydney NSW 2000	Sydney NSW 2000

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 18 February 2019.

Konekt Limited
Statement of profit or loss and other comprehensive income
For the half year ended 31 December 2018

	Notes	Consolidated 31/12/2018 $'000	Consolidated 31/12/2017 $'000
Sales Revenue	**3**	**49,079**	**38,283**
Re-measurement of contingent consideration		**-**	144
Other income		349	357
External consultants		(2,082)	(2,258)
Depreciation and amortisation expenses		(3,498)	(2,102)
Finance costs		(610)	(403)
Share based payments expense		(98)	(77)
Salaries and employment related costs		(32,660)	(24,550)
Property expenses		(5,338)	(3,868)
Communication expenses		(948)	(949)
Motor vehicle and equipment expenses		(802)	(617)
Travel and accommodation expenses		(678)	(609)
Acquisition costs expensed to profit or loss	9	-	(3,104)
Other expenses from continuing operations		(2,700)	(1,704)
Profit / (Loss) before income tax expense		14	(1,457)
Income tax benefit / (expense)		(89)	203
(Loss) / Profit after income tax expense for the half year attributable to the owners of Konekt Limited		(75)	(1,254)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive (loss)/income for the half year attributable to the owners of Konekt Limited		(75)	(1,254)
Earnings/(loss) per share for profit attributable to the owners of Konekt Limited			
Basic earnings/(loss) per share (cents per share)		(0.07)	(1.33)
Diluted earnings/(loss) per share (cents per share)		(0.07)	(1.33)

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

Konekt Limited
Statement of financial position
As at 31 December 2018

	Notes	Consolidated 31/12/2018 $'000	Consolidated 30/06/2018 $'000
Current assets			
Cash and cash equivalents		2,444	5,661
Trade and other receivables		6,381	9,818
Work in progress		340	298
Current tax receivables		363	25
Other assets		1,076	460
Total current assets		10,604	**16,262**
Non-current assets			
Other assets		148	56
Plant and equipment		4,208	4,530
Deferred tax asset		9,106	9,150
Intangibles assets	4	43,008	44,112
Total non-current assets		56,470	**57,848**
Total assets		**67,074**	**74,110**
Current liabilities			
Trade and other payables	5	10,975	13,082
Deferred revenue		4,202	5,033
Deferred consideration	7	98	1,349
Employee benefits		4,623	4,793
Provisions		1,516	1,773
Borrowings	10	4,465	5,014
Total current liabilities		**25,879**	**31,044**
Non-current liabilities			
Trade and other payables	5	110	36
Employee benefits		683	728
Provisions		472	472
Borrowings	10	11,108	11,978
Total non-current liabilities		12,373	**13,214**
Total liabilities		**38,252**	**44,258**
Net assets		**28,822**	**29,852**
Equity			
Contributed equity	6	53,334	53,334
Reserves		649	551
Profit reserves		1,987	3,040
Accumulated losses		(27,148)	(27,073)
Total Equity		**28,822**	**29,852**

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

Konekt Limited
Statement of changes in equity
For the half year ended 31 December 2018

	Contributed equity	Accumulated losses	Profits Reserve	Option Reserve	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017	**38,580**	**(26,903)**	**3,587**	**392**	**15,656**
(Loss) /Profit after income tax expense for the half year	-	(1,254)	-	-	(1,254)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive (loss) / income for the half year	**-**	**(1,254)**	**-**	**-**	**(1,254)**
Transactions with owners in their capacity as owners:					
Contributions of equity	15,772	-	-	-	15,772
Share issue costs (net of tax benefit)	(780)	-	-	-	(780)
Dividends paid or provided for	-	-	(547)	-	(547)
Share based payments	-	-	-	77	77
Balance at 31 December 2017	**53,572**	**(28,157)**	**3,040**	**469**	**28,924**
Balance at 1 July 2018	**53,334**	**(27,073)**	**3,040**	**551**	**29,852**
(Loss) /Profit after income tax expense for the half year	-	(75)	-	-	(75)
Total comprehensive (loss) / income for the half year	**-**	**(75)**	**-**	**-**	**(75)**
Transactions with owners in their capacity as owners:					
Dividends paid or provided for	-	-	(1,053)	-	(1,053)
Share based payments	-	-	-	98	98
Balance at 31 December 2018	**53,334**	**(27,148)**	**1,987**	**649**	**28,822**

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

Konekt Limited
Statement of cash flows
For the half-year ended 31 December 2018

		Consolidated	
	Notes	31/12/2018	31/12/2017
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		58,417	44,787
Payments to suppliers and employees (inclusive of GST)		(55,325)	(43,039)
Payments of one-off acquisition expenses		-	(1,036)
Interest received		2	13
Interest paid		(412)	(137)
Income taxes paid		(418)	(650)
Net cash from / (used in) operating activities		**2,264**	**(63)**
Cash flows from investing activities			
Purchase of plant and equipment		(632)	(57)
Purchase of intangible assets		(1,095)	(356)
Payments for deferred consideration	7	(1,282)	(942)
Payment for purchase of business, net of cash acquired	9	-	(25,257)
Net cash (used in) / from investing activities		**(3,009)**	**(26,612)**
Cash flows from financing activities			
Proceeds from issue of shares	6	-	15,772
Payments for cost of issue of shares	6	-	(1,091)
Proceeds from borrowings		1,130	17,945
Payments of financial lease liability		(549)	(235)
Dividends paid		(1,053)	(547)
Repayment of borrowings		(2,000)	-
Net cash (used in) / from financing activities		**(2,472)**	**31,844**
Net (decrease) / increase in cash and cash equivalents		**(3,217)**	**5,169**
Cash and cash equivalents at the beginning of the financial half-year		**5,661**	**2,848**
Cash and cash equivalents at the end of the financial half-year		**2,444**	**8,017**

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

Note 1. Significant accounting policies

These financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Konekt Ltd ("Konekt") and its controlled entities (referred to as the "Consolidated group" or "Group"). As such, these financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

<u>New, revised or amending Accounting Standards and Interpretations adopted</u>

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards or Interpretations did not have any impact on the date of transition.

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

The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers with effect from 1 July 2018, and considers the pattern of revenue and profit recognition currently adopted by the Group is compliant with the new standard. The cumulative effect of initially applying the standard was nil, so no adjustments were required to net profit or opening retained earnings.

AASB 9 Financial Instruments

The Group adopted this standard from 1 July 2018, however, the impact of adoption is not material.

AASB 16 Leases

AASB 16 Leases (issued February 2016) will supersede the existing lease accounting requirements in AASB 117 Leases and the related Interpretations. It introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks and rewards of ownership. The key requirements of AASB 16 are summarised as follows:

- Recognition of a right-of-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-of-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;
- Inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;

Note 1. Significant accounting policies (continued)

- Application of a practical expedient to permit a lessee to elect not to separate non-lease components, instead accounting for all components as a lease;
- Inclusion of additional disclosure requirements; and
- Accounting for lessors will not significantly change.

AASB 16 will affect primarily the accounting for the Group's operating leases. The Group is currently assessing to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit, financial position and classification of cash flows.

The Standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the Standard before its effective date.

Note 2. Operating segments

Segment information is provided on the same basis as information used for internal reporting purposes by the Chief Executive Officer, to make strategic decisions. There is only one reporting segment in the Group which is Employment, Work and Workplace Services. All branch operations operate under similar regulatory environments and have similar risk profile. They therefore satisfy the Aggregation criteria under paragraph 12 of AASB 8.

Total revenue as per Statement of profit or loss and other comprehensive income is the total segment revenue.

Note 3. Profit for the period

The following revenue and expenses items are relevant in explaining the financial performance for the interim period:

		Consolidated	
		31/12/2018	31/12/2017
		$'000	$'000
Sales revenue			
Rendering of services		49,079	38,283
Other expenses			
Acquisition costs	9	-	3,104

Note 4. Non-current assets – intangible assets

	Consolidated	
	31/12/2018	30/6/2018
	$'000	$'000
Goodwill		
At cost	47,729	47,286
Accumulated impairment	(14,127)	(14,127)
Total goodwill	**33,602**	**33,159**
Trademarks *		
At cost	27	27
Customer Relationships		
At cost	391	391
Accumulated amortisation	(249)	(234)
Total customer relationships	**142**	**157**
Customer contract ***		
At cost	9,988	9,988
Accumulated amortisation	(4,527)	(2,724)
Total customer contracts	**5,461**	**7,264**
Software development**		
At cost	4,913	3,840
Accumulated amortisation	(1,823)	(1,542)
Total software development	**3,090**	**2,290**
Software		
At cost	3,138	3,200
Accumulated amortisation	(2,452)	(2,000)
Total software	**686**	**1,200**
Licence		
At cost	181	181
Accumulated amortisation	(181)	(166)
Total licenses	**-**	**15**
	43,008	**44,112**

* The trademark relates to the Konektiva trade name registration.
** Software development relates to internal costs incurred on products and related systems development. These assets are amortised over the expected life of the product, which is typically 3 years.
*** Customer contract relates to Federal Government job active contract which is the main customer and main source of generating business income of Mission Providence. The customer contract value resulted from the acquisition of Mission Providence on 29 September 2017, was valued based on the discounted cash-flow method.

Konekt Limited
Notes to the financial statements
For the half-year ended 31 December 2018

Note 4. Non-current assets – intangible assets (continued)

Reconciliations

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

	Consolidated	
	31/12/2018	31/12/2017
	$'000	$'000
Reconciliation - Goodwill		
Carrying amount at the beginning of the half year	33,159	11,541
Acquisitions through business combinations	443	22,599
Reclassification to other intangibles	-	-
Carrying amount at the end of the half year	**33,602**	**34,140**
Reconciliation – Customer relationships		
Carrying amount at the beginning of the half year	157	254
Recognition of customer relationships intangibles	-	-
Additions	-	-
Amortisation	(15)	(55)
Carrying amount at the end of the half year	**142**	**199**
Reconciliation – Customer Contract		
Carrying amount at the beginning of the half year	7,264	-
Acquisitions through business combinations	-	9,988
Additions	-	-
Amortisation	(1,803)	(909)
Carrying amount at the end of the half year	**5,461**	**9,079**
Reconciliation – Software Development		
Carrying amount at the beginning of the half year	2,290	843
Additions	1,075	358
Amortisation	(275)	(197)
Carrying amount at the end of the half year	**3,090**	**1,004**
Reconciliation – Software		
Carrying amount at the beginning of the half year	1,200	-
Acquisitions through business combinations	-	1,708
Reclassification from Fixed Assets	(258)	
Additions	20	
Amortisation	(276)	(171)
Carrying amount at the end of the half year	**686**	**1,537**
Reconciliation – Licence		
Carrying amount at the beginning of the half year	15	-
Acquisitions through business combinations	-	45
Amortisation	(15)	(15)
Carrying amount at the end of the half year	-	**30**

Note 5. Trade and other payables

	Consolidated	
	31/12/2018	30/6/2018
	$'000	$'000
Current		
Trade payables	1,297	2,464
Leasehold incentives	80	48
Other payables and accruals	9,598	10,570
	10,975	**13,082**

Non-Current		
Leasehold incentives	110	36
	110	**36**

Note 6. Contributed equity

a) Issued and paid up capital

	Consolidated	
	31/12/2018	30/6/2018
	$'000	$'000
Ordinary shares	**53,334**	**53,334**
	53,334	**53,334**

The number of fully paid ordinary shares in issue at 31 December 2018 is 105,336,835 (30 June 2018: 105,336,835). All shares rank equally.

Ordinary shares

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

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

b) Movements in shares on issue

	Consolidated	
	31/12/2018	
	Number of Shares	$'000
Balance at 1 July 2018	105,336,835	53,334
Balance at 31 December 2018	**105,336,835**	**53,334**

Note 7. Deferred Consideration Payable for Acquisitions

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

Any projected earn out payments are discounted to present value, using a discount rate deemed appropriate by Konekt to account for the time value of money in addition to the inherent risk in the earn out calculation projection. The discount rate used is 15% pre-tax (2017: 15%).

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

	Consolidated			
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	$'000	$'000	$'000	$'000
	Purchase Consideration Payable for Acquisitions	Others	Purchase Consideration Payable for Acquisitions	Others
	$'000	$'000	$'000	$'000
Carrying amount at the beginning of the period	1,349	-	2,584	-
Additions	-	-	-	-
Settlement	(1,282)	-	(942)	-
Re-measurement of contingent consideration	-	-	(144)	-
Interest unwind	31	-	105	-
Carrying amount at end of the period	**98**	**-**	**1,603**	**-**

Note 8. Dividends paid

	Consolidated	
	31/12/2018	31/12/2017
	$'000	$'000
Distributions Paid		
Final Dividend in respect of 2018 full year of 1.00 cents (2017: 0.75 cents) per fully paid ordinary share 100% franked at 30% tax rate	1,053	547

Note 9. Business Combination

On 29 September 2017, the Group acquired 100% of Mission Providence, a leading provider of Employment Services and the New Enterprise Incentive Scheme (NEIS) under the Federal Government's *Jobactive* program.

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

Due to the timing of the acquisition, the accounting for the acquisition of Mission Providence had been determined only provisionally in the annual report for the year ended 30 June 2018, in accordance with AASB 3 Business Combinations. The accounting for the acquisition has now been finalised. Additional liabilities of $240,878 and additional provisions of $205,109 existing as at the acquisition date, have been identified, which were not recognised in the annual report for the year ended 30 June 2018.

The aggregate final details of the business combinations are as follows:

Fair Value of consideration transferred	Provisional Fair value $'000	Adjustment $'000	Final Fair value $'000
Amount settled in cash	27,946	-	27,946
	27,946	**-**	27,946

Recognised amounts of identifiable net assets	Provisional Fair value $'000	Adjustment $'000	Final Fair value $'000
Cash and cash equivalents	3,089		3,089
Trade and other receivables	2,160	(205)	1,955
Other assets	498		498
Intangible assets *	11,741		11,741
Plant and equipment	3,638		3,638
Deferred Tax Asset	5,790		5,790
Trade and other payables	(6,632)	(241)	(6,873)
Provisions	(2,231)		(2,231)
Employee benefits	(3,942)		(3,942)
Deferred revenue	(5,663)		(5,663)
Other liabilities	(2,120)		(2,120)
Net assets acquired	6,328	(446)	5,882
Goodwill	21,618	446	22,064
Acquisition-date fair value of the total consideration transferred	27,946	-	27,946

*: Included in intangible assets is customer contract which was recognised through the acquisition of Mission Providence, refer to Note 4 for further details

Note 9. Business Combination (Continued)

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

Cash used to acquire business, net of cash acquired:	Provisional Consolidated	Adjustment Consolidated	Final Consolidated
	31/12/2017	31/12/2017	31/12/2017
	$'000	$'000	$'000
Acquisition-date fair value of the total consideration transferred	27,946	-	27,946
Less: cash and cash equivalents acquired	(3,089)	-	(3,089)
Net cash outflow on acquisition	24,857	-	24,857
Acquisition costs expensed to profit or loss	3,104	-	3,104
Net Cash paid relating to the acquisition	**27,961**	**-**	27,961

Note 10. Borrowings

	Consolidated	
	31/12/2018	30/6/2018
	$'000	$'000
Current		
Interest bearing liabilities	4,465	5,014
Non-Current		
Interest bearing liabilities	11,108	11,978
Interest bearing liabilities comprise of:		
i) Borrowing from CBA to fund for MP acquisition	13,575	15,568
ii) Borrowing from CBA to fund for deferred consideration payment	1,130	1,406
iii) Other loan	867	18
	15,572	16,992

CBA total facility amount is $17.8m of which $14.7 is to fund borrowing for the Mission Providence acquisition and for deferred consideration payments, and $2.2m is for the provision of bank guarantees and corporate credit cards.

Note 11. Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting period.

Note 12. Fair value measurements

a. Valuation technique

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

- Level 1: Market approach uses prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Level 2: Income approach converts estimated future cash flows or income and expenses into a single discounted present value.
- Level 3: Cost approach reflects the current replacement cost of an asset at its current service capacity.

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

b. Financial instruments

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

	Level of Fair value Hierarchy	31/12/2018 $'000	30/6/2018 $'000
Financial liabilities at Fair Value:			
Deferred consideration payables	Level 3	98	1,349
		98	**1,349**

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Konekt Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors

____

Douglas Flynn
Chairman

18 February 2019
Sydney

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Level 11, 1 Margaret St
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Australia

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

As lead auditor for the review of Konekt Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

Arthur Milner
Partner

BDO East Coast Partnership

Sydney, 18 February 2019

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Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Konekt Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Konekt Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO

Arthur Milner
Partner

Sydney, 18 February 2019