Norwood First Half Financial Report for FY19

Highlights

- Norwood launches **World Voicemail** – a high-quality Visual Voicemail value-added service for iOS and Android users targeting the Telco and Consumer markets.

- **Signed a four-year contract with Spark NZ for the supply of World Voicemail** software licences and professional services with minimum estimated committed revenue to Norwood of approximately NZD 1.1 million and targeted revenue of NZD 2.0 million over the contract term.

- **Continued discussions** over deployment of **World Voicemail** with additional Telcos and Mobile Virtual Network Operators (MVNOs) underway.

- **Partnership with Mobile Virtual Network Enabler (MVNE) ECConnect** to co-market products to both companies' respective customer bases under a Strategic Partnership Agreement (SPA).

- **Released version 2.0 of World Voicemail for iOS** featuring Norwood's first wholly internally developed machine learning module, designed to classify urgent voicemails automatically and provide different alert tones for such messages, and positioning Norwood's voicemail platform as one of the world's leading platforms for telco voicemail services.

- Broadening of Norwood's relationship with Oracle to include detailed interactions with Oracle's Communications Global Business Unit (CGBU) at a global level, primarily focusing on future potential World Voicemail opportunities. Norwood is also reviewing the potential for migrating Norwood's virtual business mobile services (VBMS) into the Telco domain to be deployed as telco "micro-services" targeting Telcos' enterprise accounts.

- Continued product development with the launch of new sentiment analysis capabilities for **World Phone** and **Corona** in anticipation of several Requests for Proposals (RFPs) for such capabilities coming from Norwood strategic partners, Oracle and Veritas.

- Detailed engagement with Norwood's Compliance Partners on several opportunities in the US, UK and Malaysia, and new engagements in progress with additional prospective compliance go-to-market partners.

'Sharing Economy' telecommunications pioneer Norwood Systems Ltd (Norwood or the Group) (ASX: NOR) is pleased to provide the Group's interim financial report for the Half Year ended 31 December 2018.

Despite a tough start to the 2019 Financial Year, the Group achieved a significant milestone in December 2018 with the signing of a multi-million-dollar contract with Spark NZ. The contract has an anticipated term of four years with minimum estimated committed revenue to Norwood of approximately NZD 1.1 million, over the term of the contract. The final revenue amount will be determined by the number of monthly users, the AUD/NZ exchange rate and out-of-scope works.

This milestone for the Group is a significant validation of Norwood's technology while delivering an important material new income stream to the business. The contract follows a successful and extensive pilot program with Spark NZ and is for the supply of **World Voicemail** software licences, white label **World Voicemail** Apps and professional services.

World Voicemail was launched at the beginning of the financial year and has garnered a significant amount of interest, as evidenced by the Spark contract. **World Voicemail 2.0** was then released in December featuring Norwood's first wholly internally developed machine learning module, designed to classify urgent voicemails automatically and provide different alert tones for such messages, and positioning Norwood's voicemail platform as one of the World's leading platforms for telco voicemail services.

The Group has continued to broaden its strategic partnerships to help market and promote its products and further the go-to-market strategy. Norwood has successfully executed an outreach to telcos and MVNOs during the past six months to pitch the value of its technology platforms, software and services, resulting both in contracts and intents by telcos to pilot one or more of Norwood's communications services offerings.

Norwood Managing Director, Paul Ostergaard, said:

"Norwood's approach to the next six months is to capitalise on the growing interest from the market in World Voicemail. Norwood has created a compelling product that telcos can use as a tool to re-engage with their customer base. The Spark NZ contract represents a huge validation of our technology and is an important milestone as we continue to commercialise our products.

The win has generated major interest and overall momentum for Norwood's offerings from a number of telcos and telco partners worldwide. World Voicemail has bolstered our already strong diversified portfolio and gives Norwood a new direction to take the Company. Our entire focus is now capitalising on this momentum and hopefully carrying it through to the end of the financial year. The Company will remain prudent and cautious of our gross cash burn, but it is pleasing to report material improvements in quarterly cash receipts.

I would like to thank the shareholders for their continued support in us and look forward to updating the market on our commercialisation objectives over the coming quarters."

<ENDS>

Company

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About Norwood Systems

Norwood Systems Ltd (ASX: NOR) is revolutionizing mobile voice, messaging, data and cyber security services through its pioneering award-winning virtual mobile services platform, Corona® and associated Apps.

The Company's breakthrough offerings deliver Over the Top (OTT) connectivity, knowledge and intelligence services. Norwood's products and services are targeted at a broad spectrum of prospective customers from individuals through to large enterprises and government agencies.

Norwood has delivered services to more than 6 million customers since launching its platform in mid-2014, servicing people in 200+ countries & territories and 5000+ cities worldwide and has achieved a 4+ App Store rating on all published Apps.

Norwood Systems listed on the ASX in June 2015 and trades with the stock ticker NOR.

Appendix 4D

ABN: 15 062 959 540
Given in accordance with ASX Listing Rule 4.2A

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Appendix 4D

SUMMARY OF RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2018

The following is a summary of the financial results for the six month period ended 31 December 2018 (previous corresponding period 31 December 2017). Unless otherwise stated all figures are provided in AUD.

Comparison to previous period	Increase/ (Decrease)	Six months ended 31 Dec 2018 $	Six months ended 31 Dec 2017 $
Revenue from continuing operations	82%	271,079	149,317
Loss from ordinary activities after tax attributable to members	(20%)	1,280,695	1,600,785
Net loss for the half year attributable to members	(20%)	1,280,695	1,600,785

Brief explanation of above figures

The net loss attributable to the members of the Group for the half year ended 31 December 2018 amounted to $1,280,695 representing an improvement of 20% compared to prior period. This is attributed to the improvement of revenue, with an increase of 82% and continued prudent cost management. Please refer to the Review of Operations on page 4 of the attached Half Yearly Report for the period ended 31 December 2018 for further detail.

Dividends

There were no dividends declared or paid during the period and the directors do not recommend that any dividend be paid.

Earnings result

The net loss of Norwood Systems Ltd for the half year ended 31 December 2018 after providing for income tax was $1,280,695 (31 December 2017: $1,600,785).

Earnings Per Share (EPS)

	31 Dec 2018	31 Dec 2017
Basic loss per share (cents per share)	(0.10)	(0.14)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,338,731,166	1,113,758,461

The amount used as the numerator in calculating basic EPS is the same as the net profit/(loss) reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Net Tangible Asset (NTA) Backing Per Share

	31 Dec 2018	31 Dec 2017
Net tangible asset backing per share (cents per share)	(0.01)	0.06

Emphasis of Matter

Please refer to page 27 of the Half Yearly Report for the period ended 31 December 2018 for more information regarding an emphasis of matter on material uncertainty regarding going concern.

Mr Paul Ostergaard
Managing Director
28 February 2019

Half Yearly Report

For the half year ended 31 December 2018

ABN: 15 062 959 540

This half yearly financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Norwood Systems Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Contents

Corporate Information

Directors:
Mr Paul Ostergaard
Managing Director

Mr Mike Edwards
Non-Executive Director

Mr Giles Everist
Non-Executive Director

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Mr Steven Wood

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Directors’ Report

For the six months ended 31 December 2018

The Directors of Norwood Systems Limited present the following report for the Half Year ended 31 December 2018.

Principal Activities

The principal activities during the period include:

- Four-year contract signed with Spark NZ for the supply of World Voicemail software licences and a minimum estimated commitment of NZD 1.1 million in revenue.
- The launch of World Voicemail for iOS and Android and an additional release of World Voicemail 2.0 for iOS
- Strategic Partnership with Mobile Virtual Network Enabler (MVNE) ECConnect to co-market products to both companies’ respective customer bases.
- Broadening of Norwood’s relationship with Oracle to include detailed interactions with Oracle’s Communications Global Business Unit (CGBU) at a global level.
- The launch of new sentiment Analysis capabilities for **World Phone** and **Corona.**
- Detailed engagement with Norwood’s Compliance Partners on several opportunities in the US, UK and Malaysia, and new engagements in progress with additional prospective compliance go-to-market partners.

Review of Operations

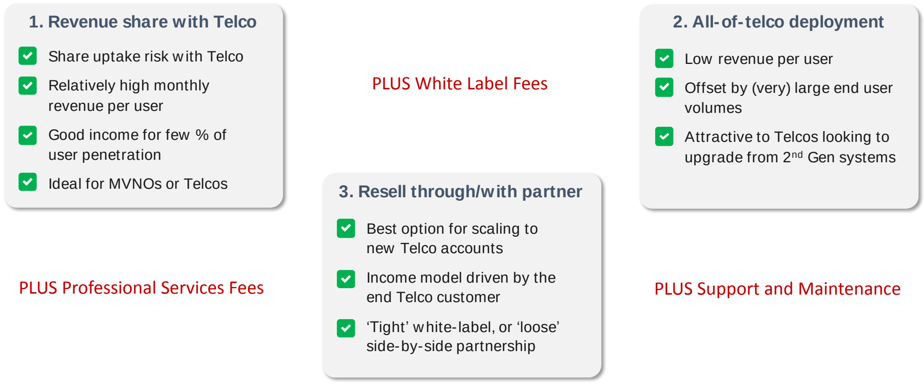
Sales and Commercialisation Activities

Norwood’s Current Focus – The Telco Voicemail Market

The Group has successfully executed an outreach to telcos and MVNOs during the past six months to pitch the value of its technology platforms, software and services, resulting both in contracts and intents by telcos to pilot one or more of Norwood’s communications services offerings.

In particular, in relation to World Voicemail, Norwood has now developed an understanding that there are potentially many telcos considering what to do with their ageing legacy voicemail platforms, representing a substantial market opportunity for vendors who are able to deliver new voicemail services with improved usability and modernised functionality.

Norwood’s approach to monetising its World Voicemail platform in the telco market follows three separate approaches.



Three approaches to monetising Norwood’s platforms and technologies with telco customers

In Norwood's limited experience to date, MVNOs are more likely to opt for a Revenue Share model to offer **World Voicemail** as a premium service to selected high-value customers, while existing telcos are more likely to consider an "all-of-telco" deployment, particularly if they are currently sitting on legacy "end-of-life" voicemail platforms.

Now with the launch of World Voicemail, Norwood Systems is at a stage where several products and services have been developed to serve three distinct market segments:

Enterprise	**BYOD, CRM,** and **Compliance** using Norwood's Virtual Mobile Services
Telco	**World Voicemail**
Loyalty	**World Wi-Fi** and **World Secure** services

Spark NZ contract

During the period, Norwood was pleased to announce it had signed a contract with Spark NZ, New Zealand's leading digital services provider.

The contract is anticipated for four years and includes committed upfront payments for initial development, installation and commissioning works to be supplied by Norwood for smartphone App software development and associated software component licenses, as well as recurring fees for a baseline minimum number of user licenses over the contract period.

Spark is New Zealand's leading digital services provider and one of the largest companies by value on the New Zealand Stock Exchange. As of 30 June 2018, Spark had 2.4 million mobile connections and 700,000 broadband connections.

This contract is a significant achievement for Norwood – the supply of software licences, white label Apps and professional services will deliver a minimum estimated committed revenue to Norwood of approximately NZD 1.1 million.

Post period end, and with Spark's approval, the Group released further details on the Spark NZ contract. The Group disclosed that these payments are derived from the supply of World Voicemail software licences, white label World Voicemail Apps and professional services that will deliver a minimum estimated committed revenue to Norwood of approximately NZD 1.1 million over four years, with estimated business plan target revenue to Norwood of approximately NZD 2 million over that period.

ECConnect Strategic Partnership Agreement (SPA)

In December, Norwood signed a SPA with ECConnect, a leading provider of all-in-one provisioning, billing and client management solutions for telco carrier Wholesale Service providers.

Under the SPA, Norwood and ECConnect have agreed to establish a framework under which ECConnect and Norwood will co-market each other's services to their respective customer bases. In addition, the companies will jointly identify further opportunities for the mutual advantage and benefit of both parties.

This partnership will greatly assist Norwood with its current outreach to Australian Mobile Virtual Network Operators (MVNOs). ECConnect is the preferred operations and management platform for a majority of Optus's MVNOs and therefore presents an ideal route to market for Norwood to address those targeted MVNO opportunities.

Both parties are working together to establish frameworks for co-marketing activities, finalising terms and covering all aspects of the partnership, including commercial terms with a target launch date expected within the upcoming months.

Tourism WA

Norwood has commenced a paid proof of concept project with Tourism WA using the World Wi-Fi App as a platform to capture detailed analytics for selected inbound visitors to Western Australia.

Partnerships with Oracle

During the past six months, Norwood has engaged with several Oracle operating units up to the Senior Vice President level, including the Communications Global Business Unit, reflecting increasingly senior engagement with Oracle decision makers. Conversations are well progressed with a view to engaging commercially on a mutual go-to market strategy, in particular for the telco voicemail market as noted above.

In January 2019 Norwood's CEO was invited to speak at Oracle's premier European partner event, Oracle OpenWorld in London in mid-January, alongside other speakers from CERN, Galliford Try and Oracle, which provided a good platform for improving Norwood visibility with Oracle's customers and partners. (See: https://www.oracle.com/uk/openworld/agenda.html)

Affinion

Norwood is awaiting a response near term from Affinion to progress with further commercial engagement on using World Secure as a loyalty benefit in the European financial services sector.

Virtual Business Mobile Services

No further developments to report. Norwood has engaged with several existing large prospects during the past six months and is awaiting in one instance for the completion of a certain large financial institution's MDM rollout as a precursor to progressing further with that specific client.

Longer term, as noted in previous ASX announcements, Norwood will consider focusing more on the network-side components for its CRM and Compliance integration technologies, to take advantage of the eventual emergence of e-SIM capable phones in the installed base.

Product Development Activities

World Voicemail

The Group launched a new service, **World Voicemail,** at the beginning of the year. Given the recent contract win with Spark NZ, the Group's primary focus since signing has been on completing the development of Norwood's telco-grade software platform to fulfil that contract.

World Voicemail 2.0

The Group released major new advancements in version 2 of World Voicemail for iOS including support for both server-side integration of World Voicemail into telco networks and support for server-side enablement of World Voicemail as voicemail front-end to enterprise phone networks. Both of these features are to support active discussions with potential and signed customers.

Norwood's new internally developed Machine Learning Urgency Filter now detects urgent voicemails automatically, with 97-98% accuracy in classifications, this arising from Norwood's own internal machine learning research. Urgent messages are highlighted in-App per message for easy viewing and users are notified with differentiated alert tones when urgent messages are detected.

An Android version of World Voicemail 2.0 is under development and will be released in the coming months. Norwood's new core network World Voicemail platform will provide a valuable alternative architecture for telco operators who want to operate their core network, rather than rely on an externally hosted solution. This will provide Norwood with the ability to cater for a broad range of deployment models, depending on the telco's requirements.

Norwood's core network telco solution will address several key emerging requirements for best practice telco core network service architecture, including support for both "virtualisation" and "containerisation", specifically including support for Network Function Virtualisation (NFV) and Kubernetes orchestration architectures, respectively.

World Wi-Fi

As a result of the Spark NZ contract, Norwood has temporarily paused most other developments until the deliverables required for the Spark contract have been completed, with work on other platforms expected to resume during the period.

World Secure

As a result of the Spark NZ contract, Norwood has temporarily paused most other developments until the deliverables required for the Spark contract have been completed, with work on other platforms expected to resume during the period.

World Message and World Phone

The Group released AI-driven mobile analytics features in the new versions of World Phone, its award-winning telephony App, and World Message, its high-performance SMS and instant messaging App.

World Phone 3.5 represents a major advance on the previous World Phone 3.0, now supporting machine learning enabled transcription of audio records via Corona Cloud and storing those transcriptions and associated analytics in third-party CRM platforms. In particular, Norwood is working with a number of partners to deliver mobile conversation sentiment analysis and related metrics based on these transcriptions.

World Message 2.5 now includes the embedded support for image detection and classification (at 95% accuracy) for multimedia image sent using the App. Classification results are then sent via Corona Cloud and stored alongside image content in the CRM (Customer Relationship Management) or Compliance Archival platform to facilitate, among others, improved E-Discovery.

A core feature of this release is embedded machine learning to help organisations characterise the sentiment of voice and messaging conversations that take place between employees and outsiders over smartphones. Advanced sentiment analysis on mobile calls and messages is a highly significant and valuable capability. Norwood is one of the few companies that has been able to deliver an advanced end-to-end application over the mobile channel, which has traditional been closed to real-time voice and messaging analytics platforms.

Norwood sees strong commercial potential for near-real-time mobile sentiment analysis in the large corporate sector, as large companies embark on digital transformation strategies that in turn rely on sophisticated analytics looking into all corporate information flows.

Corporate

The Group held a live audio Question and Answer (“Q&A”) Investor Webinar session with the CEO and Founder Mr Paul Ostergaard on 11 December 2018. A recording of the webinar session is available for replay at: https://register.gotowebinar.com/recording/85909636915017987

Capital Raising

In December, Norwood successfully closed a Rights Issue, raising a total of $545,201. The entitlement issue provided existing shareholders with an opportunity to acquire 2 new shares for every 11 existing shares held at an issue price of $0.005, plus one additional free attaching Option for every one share issued (with an exercise price of $0.008 and expiring on 31 October 2020). The Group received valid applications from shareholders under the Entitlement Issue for $319,821 with additional applications for a further $225,380.

The entitlement issue was previously underwritten by Pinnacle Corporate Finance Pty Ltd (“Pinnacle”). Subsequent to the closing of the entitlement offer, Pinnacle provided the Group with a notice of termination of the underwriting agreement. Please refer to the Supplementary Prospectus lodged with the ASX on 29 October 2018 for further background on the termination clause that was triggered.

The Board continues to manage the capital requirements of the Group to ensure the capital needs of the Group in the coming quarter will be met. This consideration includes the possibility of other material revenue generating contracts additional to the Spark NZ contract.

R&D Tax Rebate & Funding Arrangement

Norwood received a tax offset receipt of $869,481 as an R&D rebate from the ATO in relation to FY18 R&D activities. The funds were applied to the retirement of the R&D tax offset funding agreement noted in the Quarterly Activity report for the period ended 31 December 2017 (see ASX announcement 31 January 2018) and first drawn as announced on 19 February 2018, with approximately $482,000 in remaining surplus from the rebate being applied to working capital purposes.

The R&D receipts have allowed the Group to sustain R&D momentum, which so far has included the delivery of a new visual voicemail service, World Voicemail, new sentiment analysis capabilities for World Phone and Corona, and regular product updates for World Phone, World Message and World Wi-Fi.

The Group has utilised the R&D tax offset funding arrangement in the period ended 31 December 2018 in relation to FY19 R&D activities. Based on September 2018 quarter activities, the Group receiving funding of $147,231 in November 2018. Subsequent to period end, the Group received an additional $124,844 (before costs) based on December 2018 R&D activities.

Cost Reduction Initiative

During the period, Norwood conducted a thorough review of its cloud-based server infrastructure to identify further operational efficiencies and cost savings. This has led to a number of important adaptations, implementations currently underway, to how Norwood consumes third party cloud services. The Company is confident that these operational changes will deliver significant additional savings to its cloud infrastructure costs over the current and future periods.

Resignation of Non-Executive Chairman

Mr Amit Pau resigned as Non-Executive Chairman and Director of the Group on 18 September 2018.

Events Subsequent to Reporting Period

Subsequent to period end Norwood has worked on securing additional financing and working capital for the business.

Capital Raising

As at the date of this report the Company is in a trading halt pending an announcement of a material capital raising. The Company expects to be in a position to announce the details of the capital raising shortly.

Research and Development Funding Facility

At 31 December 2018, the Group had utilised a loan facility which enables the Group to receive advance funding on its expected FY19 research and development (R&D) rebate. The first advance received in the period related to R&D activities in the September 2018 quarter. Subsequent to period end, Norwood has received a second advance totalling $124,844 in relation to its December 2018 R&D activities.

No other matters or circumstances has arisen since the end of the financial period which significantly affected or any significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Results

The Group has made a positive gross underlying margin on product and services sales for the half year ended 31 December 2018. This gives the Group significant confidence in the scalability of Norwood's operating model and that increasing sales over time would lead to overall positive margins, as positive margin on sales start to overtake fixed costs on R&D and other items. Following the announcement of the Spark NZ contract and upfront revenue received, the Group expects revenue to grow in the following reporting period.

The net loss attributable to members of the Group for the half year ended 31 December 2018 amounted to $1,280,695 representing the ongoing investment in developing the Group's suite of product offerings. This is in contrast to a net loss over the same period in 2017 that amounted to $1,600,785.

Included in the net loss incurred at 31 December 2018 was:

- Non-cash, share based payment expense of $178,768 in contrast to $283,938 at 31 December 2017. The expense relates to equity instruments issued to employees, directors and advisors of the Group as described in Note 9;
- Sales and marketing expenses of $262,177 in contrast to $201,303 at 31 December 2017. These expenses relate to overall Group promotion as well as marketing of the Group's products and customer acquisition costs; and
- Reduction of administration expenses from $331,745 in the 6 months to 31 December 2017 to $282,638 in the current period reflecting the Group's focus on prudent cost management.

At 31 December 2018 Norwood holds $418,827 in cash, and the Directors remain confident in Norwood's ability to fund further growth.

Dividends

There were no dividends paid or declared during the period.

Significant Changes in State of Affairs

Apart from as set out above there has been no significant changes in the state of affairs of the Group that occurred during the financial period not otherwise disclosed in this report or the financial statements.

Likely Developments and Expected Results of Operation

Other than as disclosed elsewhere in this report, there are no likely developments in the operations of the Group that were not finalised at the date of this report.

Signed in accordance with a resolution of the Directors.
Mr Paul Ostergaard

Managing Director
28 February 2019

Financial Report

For the half year ended 31 December 2018

ABN: 15 062 959 540

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Note	31 Dec 2018 $	31 Dec 2017 $
Revenue	5	271,079	149,317
Other income	5	880,425	959,032
Cost of sales		(161,772)	(86,371)
Sales and marketing expenses		(262,177)	(201,303)
Patent, research and development expenses		(37,993)	(50,151)
IT Infrastructure Cost		(223,239)	(127,561)
Employee and director benefits expense		(934,846)	(1,245,276)
Listing expense		(23,181)	(42,566)
Consultancy and subcontractor fees		(129,159)	(172,879)
Legal fees		(64,287)	(33,722)
Rent		(48,775)	(55,519)
Finance Cost		(25,564)	(507)
Other expenses		(48,513)	(66,743)
Administration expenses		(282,638)	(331,745)
Share based payment expense	9	(178,768)	(283,938)
Depreciation		(11,287)	(10,853)
Loss before income tax		**(1,280,695)**	**(1,600,785)**
Income tax benefit		-	-
		-	-
Loss after tax for the period attributable to the members of Norwood Systems Ltd		**(1,280,695)**	**(1,600,785)**
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to the members of Norwood Systems Ltd		**(1,280,695)**	**(1,600,785)**
Basic and diluted loss per share (cents per share)	6	(0.10)	(0.14)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

	Note	31 Dec 2018 $	30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		418,827	1,079,855
Trade and other receivables		261,602	318,425
Total Current Assets		**680,429**	**1,398,280**
Non-Current Assets			
Plant and equipment		141,329	149,433
Total Non-Current Assets		**141,329**	**149,433**
TOTAL ASSETS		**821,758**	**1,547,713**
LIABILITIES			
Current Liabilities			
Trade and other payables		564,565	474,939
Provisions		185,502	199,916
Loan payable		152,384	378,099
Deferred revenue		41,582	41,587
Total Current Liabilities		**944,033**	**1,094,541**
Non-Current Liabilities			
Provisions		41,095	43,104
Total Non-Current Liabilities		**41,095**	**43,104**
TOTAL LIABILITIES		**985,128**	**1,137,645**
NET ASSETS/(LIABILITIES)		**(163,370)**	**410,068**
EQUITY			
Issued capital	7	27,721,826	27,193,337
Reserves	8	8,871,842	8,693,074
Accumulated losses		(36,757,038)	(35,476,343)
TOTAL EQUITY / (NET ASSET DEFICIENCY)		**(163,370)**	**410,068**

The above Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

Consolidated Statement of Changes of Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Issued Capital $	Option Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2018	**27,193,337**	**8,693,074**	**(35,476,343)**	**410,068**
Loss for the period	-	-	(1,280,695)	(1,280,695)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,280,695)	(1,280,695)
Transaction with owners, directly recorded in equity				
Shares issued, net of transaction costs	528,489	-	-	528,489
Share based payment	-	178,768	-	178,768
Total transactions with owners	**528,489**	**178,768**	**-**	**707,007**
Balance at 31 December 2018	**27,721,826**	**8,871,842**	**(36,757,038)**	**(163,370)**

	Issued Capital $	Option Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2017	**24,223,426**	**8,129,969**	**(31,432,120)**	**921,275**
Loss for the period	-	-	(1,600,785)	(1,600,785)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,600,785)	(1,600,785)
Transaction with owners, directly recorded in equity				
Shares issued, net of transaction costs	1,075,769	-	-	1,075,769
Share based payment	-	312,088	-	312,088
Total transactions with owners	**1,075,769**	**312,088**	**-**	**1,387,857**
Balance at 31 December 2017	**25,299,195**	**8,442,057**	**(33,032,905)**	**708,347**

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Note	31 Dec 2018 $	31 Dec 2017 $
Cash flows from operating activities			
Receipts from customers		275,977	103,880
Government grants received		878,986	959,032
Interest received		796	2,876
Payments to suppliers and employees		(2,118,447)	(2,571,623)
Finance costs		(30,197)	-
Net cash flows used in operating activities		**(992,885)**	**(1,505,835)**
Cash flows from investing activities			
Purchase of plant & equipment		(3,482)	(25,672)
Net cash flows used in investing activities		**(3,482)**	**(25,672)**
Cash flows from financing activities			
Proceeds from issue of shares		545,201	1,058,000
Proceeds from borrowings		147,230	-
Repayment of borrowings		(357,094)	-
Net cash flows from financing activities		**335,339**	**1,058,000**
Net decrease in cash and cash equivalents		(661,028)	(473,507)
Cash and cash equivalents at the beginning of the period		1,079,855	1,481,103
Cash and cash equivalents at the end of the period		**418,827**	**1,007,596**

The above Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

NOTE 1: BASIS OF PREPARATION

The half year financial report is a general purpose financial report prepared in accordance with AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

The half year financial report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity. The half year financial report should be read in conjunction with the annual financial report of Norwood Systems Ltd as at 30 June 2018 which was prepared in accordance with the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. It is also recommended that the half year financial report be considered together with any public announcements made by the Group during the period 1 July 2018 to the date of this report in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The financial report is presented in Australian currency.

Going Concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the review report for the half year ended 31 December 2018 the Group recorded a loss of $1,280,695, had net cash outflows from operating activities of $992,885 and is in a net liability position of $163,370 at period end. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the entity to continue as a going concern is dependent on securing additional funding through capital raising activities and the securing of material revenue generating contracts to continue its operational and marketing activities.

The Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis. In arriving at this position the Directors have considered the following matters:

- The completion of a rights issue to professional and sophisticated investors in December 2018 to raise $545,201;
- Contract with Spark NZ for minimum expected committed revenue of NZ$1.1m of which a material upfront payment has already been received;
- Launch of World Voicemail and version 2.0 for iOS during the half year;
- Active cost cutting measures have continued;
- Securing and drawing down on part of an R&D tax offset funding agreement to the amount of $124,844 before costs subsequent to period end; and
- Cash on hand of $418,827 as at 31 December 2018.
- The Company is in a trading halt as at the date of this report pending an announcement in respect of a material capital raising.

The Group continues to negotiate with a number of potential customers for its products. Should any of these negotiations be successful, based on its current modelling, the Group understands that due to the technology having already been developed, there will be minimal further capital required and the margins on any likely engagements will deliver surplus cash flows to the Group.

NOTE 1: BASIS OF PREPARATION (CON'T)

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

The half year financial report has been prepared on the basis of historical cost, except where stated. For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

NOTE 2: BASIS OF ACCOUNTING

The half year financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Significant Judgements and Key Assumptions

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes.

NOTE 3: ADOPTION OF ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2018, with the exception of those disclosed in note 4 below.

NOTE 4: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

These consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2018, except for the impact of the new and amended standards and interpretations issued by the AASB. The adoption of the new and amended standards and interpretations, other than AASB 15, did not result in any significant changes to the Group's accounting policies.

AASB 9 Financial Instruments
AASB 9 was adopted 1 January 2018 and the related amendments to other accounting standards introduced three significant areas of change from AASB 139 *Financial Instruments: Classification and Measurement:*

- A new model for classification and measurement of financial assets and liabilities
- A new expected loss impairment model for determining impairment allowances; and
- A redesigned approach to hedge accounting.

No change to the classification or measurement of financial assets and liabilities have been required. Based on historical losses, the expected loss impairment model has an immaterial impact on the Group. In addition, the Group does not have hedging transactions. The Group's changes to accounting policy for trade and other receivables is detailed below:

NOTE 4: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CON'T)

Trade receivables (without a significant financing component) are initial recognised at their transaction price and all other receivables are initially measured at fair value. Receivables are measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model with the objective to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the purposes of the assessment of whether contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial assets contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

For all other receivables measured at amortised cost, the Group recognised lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If on the other hand the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to expected credit losses within the next 12 months.

Expected credit losses are a probability-weighted estimated of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

The Group considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its credits, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficult or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

AASB 15 Revenue from contracts with Customers
AASB 15 was adopted by the Group on 1 January 2018. AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

NOTE 4: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CON'T)

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has considered AASB 15 in detail and determined that the impact on the Group's sales revenue from contracts under AASB 15 is not material for the current interim period.

The Group's new revenue accounting policy is detailed below:

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable amount, the Group estimates the amount of consideration to which it will be entitled.

NOTE 5: REVENUE AND OTHER INCOME

	31 Dec 2018 $	31 Dec 2017 $
Revenue and other income		
Sales revenue		
World Phone revenue	63,490	95,168
World Voicemail revenue	127,962	-
Corona revenue	59,694	50,990
Other revenue	19,125	1,455
Total sales revenue	**270,271**	**147,613**
Other revenue		
Interest revenue	808	1,704
Total other revenue	**808**	**1,704**
Total revenue	**271,079**	**149,317**
Other income		
Miscellaneous income	1,439	-
Government grant income	878,986	959,032
Total other income	**880,425**	**959,032**

NOTE 6: LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income or loss and share data used in the basic and diluted earnings per share computations:

	31 Dec 2018 $	31 Dec 2017 $
Loss used in the calculation of basic and diluted loss per share	1,280,695	1,600,785
Basic loss per share attributable to equity holders	(0.10)	(0.14)

	Number	Number
Weighted average number of ordinary shares outstanding during the half year used in calculation of basic and diluted loss per share	1,338,731,166	1,113,758,461

Options outstanding during the half year have not been taken into account in the calculation of the weighted average number of ordinary shares as they are considered anti-dilutive.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

NOTE 7: ISSUED CAPITAL

	31 Dec 2018 $	30 June 2018 $
1,442,320,744 (30 June 2018: 1,327,430,485) fully paid ordinary Shares	27,721,826	27,193,337
Total	**27,721,826**	**27,193,337**

	No.	$
Opening balance – 1 July 2017	**1,100,216,853**	**24,223,426**
Nov 2017 – Issue of ordinary shares	58,777,777	1,058,000
Nov 2017 – Issue of shares in lieu of cash payment for services at $0.022	909,091	20,000
Nov 2017 – Issue of shares in lieu of cash payment for services at $0.015	2,000,000	30,000
Nov 2017 – Issue of shares in lieu of cash payment for services at $0.028	3,526,666	98,747
Nov 2017 – Capital raising fee	-	(130,978)
Mar 2018 – Shares offered under share placement	80,000,000	1,000,000
Nov 2017 – Issue of shares as consideration for professional services received	2,000,000	25,000
Nov 2017 – Shares offered under share purchase plan	80,000,000	1,000,000
Nov 2017 – Cost of share issue	-	(130,858)
Nov 2017 – Consolidation & expiry of performance shares	98	-
Closing balance – 30 June 2018	**1,327,430,485**	**27,193,337**
Dec 2018 – Issue of shares as consideration for professional services received	3,350,000	16,000
Dec 2018 – Conversion of ZEPOs	2,500,000	-
Dec 2018 – Shares issued under rights issue	109,040,259	545,201
Dec 2018 – Cost of share issue	-	(32,712)
Closing balance – 31 December 2018	**1,442,320,744**	**27,721,826**

There are no restrictions on distributions of dividends or repayment of capital.

NOTE 8: SHARE BASED PAYMENT RESERVE

	No.	$
Opening balance – 1 July 2017	**96,374,485**	**8,129,969**
Jul 2017 – Placement options	33,333,333	-
Nov 2017 – Attaching options to placement	29,388,889	-
Nov 2017 – Supplier options	3,000,000	28,150
Dec 2017 – Director options	9,187,500	111,849
Jun 2018 – Option expiry	(16,970,401)	-
Share Based Payment – Further vesting value of options	-	423,106
Closing balance – 30 June 2018	**154,313,806**	**8,693,074**
Dec 2018 – Issue of free attaching Listed Options (i)	109,040,259	-
Dec 2018 – Director options	8,000,000	1,863
Dec 2018 – Conversion of ZEPOs	(2,500,000)	-
Dec 2018 – Option expiry & cancellation	(111,413,806)	(33,751)
Share Based Payments – Further vesting value of options	-	210,656
Closing balance – 31 December 2018	**157,440,259**	**8,871,842**

(i) Issue of free attaching listed options (ASX: NOROA) to the rights issue completed in December 2018. Listed Options have an exercise price of $0.008 and expire 31 October 2020

Nature and Purpose of Reserve
The share based payment reserve records the value of securities issued to the Group's directors, employees, and third parties.

NOTE 9: SHARE BASED PAYMENTS

Share based payments during the half year ended 31 December 2018 are summarised below.

(a) Recognised Share Based Payment Expense

	31 Dec 2018 $	31 Dec 2017 $
Expense arising from equity settled share based payment transactions	178,768	283,938

(b) Shares Granted During the Half Year

The Group granted the following fully paid ordinary shares as share based payments during the half year to 31 December 2018:

- 3,350,000 Shares having a total value of $16,000 were granted as consideration for professional services received during the period. The value was determined with reference to the vendor's invoice.

NOTE 9: SHARE BASED PAYMENTS (CON'T)

(c) Options Granted During the Half Year

Unlisted options granted during the half year to 31 December 2018 as share based payments are as follows:

Class of Options	Grant Date	Exercise Price	Expiry Date	Vesting Date	Disposal Restriction
8,000,000 Director Options	29 November 2018	Nil	2 years from date of issue	1 year after the issue date	None

In the absence of third party vendor invoices and any other information providing a more reliable indication of fair value, all options issued were valued using Black-Scholes option pricing models with the following inputs:

Dividend yield	Expected volatility	Risk-free interest rate	Expected life of options (years)	Option exercise price	Share price at grant date
-	100%	1.95%	2	Nil	$0.005

NOTE 10: SEGMENT INFORMATION

Segment information has been prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated Group. The Group's primary business segment is the provision of voice telecommunication services. The Group operates in one segment, voice telecommunication services.

Six Months Ended 31 December 2018

	Voice Telecommunications Services	Corporate	Total
Segment revenue and other income			
Sales revenue	270,271	-	270,271
Interest received	-	808	808
Government grant income	878,986	-	878,986
Other income	1,439	-	1,439
Total revenue and other income	1,150,696	808	1,151,504
Segment expenses			
Cost of Sales	(161,772)	-	(161,772)
Operating expenses	(1,704,952)	(375,420)	(2,080,372)
Share based payment expenses	-	(178,768)	(178,768)
Loss before depreciation	(716,028)	(553,380)	(1,269,408)
Depreciation	(11,287)	-	(11,287)
Loss before income tax	(727,315)	(553,380)	(1,280,695)
Segment assets and liabilities			
Cash	210,376	208,451	418,827
Trade and other receivables	191,971	69,631	261,602
Plant and equipment	141,329	-	141,329
Trade and other creditors	(289,406)	(275,159)	(564,565)
Provisions	(226,597)	-	(226,597)
Deferred revenue	(41,582)	-	(41,582)
Borrowings	(152,384)	-	(152,384)
Net assets/(liabilities)	(166,293)	2,923	(163,370)

NOTE 10: SEGMENT INFORMATION (CONT'D)

Six Months Ended 31 December 2017

	Voice Telecommunications Services	Corporate	Total
Segment revenue and other income			
Sales revenue	147,613	-	147,613
Interest received	-	-	-
Government grant income	959,032	-	959,032
Other income	-	1,704	1,704
Total revenue and other income	1,106,645	1,704	1,108,349
Segment expenses			
Cost of Sales	(86,371)	-	(86,371)
Operating expenses	(1,307,080)	(1,020,892)	(2,327,972)
Share based payment expenses	-	(283,938)	(283,938)
Loss before depreciation	(286,806)	(1,303,126)	(1,589,932)
Depreciation	(10,853)	-	(10,853)
Loss before income tax	(297,659)	(1,303,126)	(1,600,785)
Segment assets and liabilities			
Cash	199,094	808,502	1,007,596
Trade and other receivables	305,697	48,849	354,546
Plant and equipment	153,053	-	153,053
Trade and other creditors	(348,900)	(155,665)	(504,565)
Provisions	(176,775)	(75,760)	(252,535)
Deferred revenue	(49,748)	-	(49,748)
Borrowings	-	-	-
Net assets/(liabilities)	82,421	625,926	708,347

NOTE 11: EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to period end Norwood has worked on securing additional financing and working capital for the business.

Capital Raising

As at the date of this report the Company is in a trading halt pending an announcement in respect of a material capital raising. The Company expects to be in a position to announce the details of the capital raising shortly.

Research and Development Funding Facility

At 31 December 2018, the Group had utilised a loan facility which enables the Group to receive advance funding on its expected FY19 research and development (R&D) rebate. The first advance received in the period related to R&D activities in the September 2018 quarter. Subsequent to period end, Norwood has received a second advance totalling $124,844 in relation to its December 2018 R&D activities.

NOTE 12: CONTINGENT LIABILITIES

The Group has a contingent liability in respect of promotional minutes issued to and unconsumed by customers as at the reporting date. If the full balance of promotional minutes on issue were to be consumed by customers, the maximum cost to the Group is estimated to be $88,199. The ultimate cost that will be incurred by the Group, if any, is dependent upon a variety of factors including customer consumption, consumption timing, prevailing USD:AUD exchange rates, and supply agreements.

The Directors are not aware of any other contingent liabilities that may arise from the Group’s operations as at 31 December 2018.

Director's Declaration

The directors of the Group declare that:

1) the financial statements comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
   a) comply with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
   b) give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance of the half year ended on that date.
2) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

Paul Ostergaard

Mr Paul Ostergaard
Managing Director
28 February 2019

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Norwood Systems Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Norwood Systems Ltd (the Company) and its subsidiary (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, 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 *Corporations Regulations 2001*.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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 Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 28 February 2019

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DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF NORWOOD SYSTEMS LIMITED

As lead auditor for the review of Norwood Systems 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 Norwood Systems Limited and the entities it controlled during the period.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2019

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