# OptiComm Ltd (formerly Opticomm Co Pty Ltd) and Controlled Entity

## ABN 50 117 414 776

## Financial report for the half year ended 31 December 2018

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## Contents to Half Year Financial Report

Your directors present their report on the consolidated group for the half year ended 31 December 2018.

**Directors**

The names of the directors and secretary in office at any time during, or since the end of the half year are:

Allan Brackin (Chairman)

Paul Cross (Director)

David Redfern (Director)

Kenneth Ogden (Director)

Greg Adcock (Director)

Jennifer Douglas (Director)

John Phillips (Secretary)

The directors and secretary have been in office since the start of the financial year to the date of this report unless otherwise stated.

**Review of Operations**

The profit for the consolidated group after providing for income tax amounted to $10,267,963 (31 December 2017: $8,762,477). The growth in profit is in line with expectations, coming from increasing numbers of internet and phone services provided over OptiComm's expanding network.

**Significant Changes in the State of Affairs**

No significant changes in the consolidated group's state of affairs occurred during the financial year.

**Principal Activities**

The principal activities of the consolidated group during the financial year consisted of:

- Designing and building fibre to the premise telecommunications networks in residential apartment buildings, broadacre estates and commercial premises;
- Maintenance and operation of fibre to the premises telecommunications networks, providing wholesale access services to retail services providers and other customers.

No significant change in the nature of these activities occurred during the year.

Events Subsequent to the End of the Reporting Period

On 18 January 2019, Opticomm Co Pty Ltd became a public company. At the same time the company changed its name to Opticomm Ltd. No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations or the state of affairs of the consolidated group in future financial years.

Likely Developments and Expected Results of Operations

The consolidated group will continue to operate in the wholesale telecommunications market in the coming years, looking to continue to expand its networks and customer base across Australia.

**Environmental Regulation**

The consolidated group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

**Dividends**

A fully franked dividend of $1.85 per share was paid in December 2018, totalling $5,998,355. There were no other dividends paid or declared since the start of the financial year.

Subsequent to half year end, the board have declared a dividend of $1.85 per share, totalling $5,998,355. This dividend was paid on 30th April 2019.

**Options**

No options over issued shares or interests in the company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No shares were issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

**Indemnification of Officers and Auditors**

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Other than as noted above, no indemnities have been given during or since the end of the financial year, for any person who is or has been an officer or auditor of the consolidated group.

**Proceedings on Behalf of the Company**

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

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

**Auditor's Independence Declaration**

The Auditor's Independence Declaration on page 3 forms part of the Directors' Report.

Signed in accordance with a resolution of the board of directors of OptiComm Ltd.

K. Ogden

Kenneth Ogden
Director
Dated this 15th day of July 2019

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**DECLARATION OF INDEPENDENCE BY C K HENRY TO THE DIRECTORS OF OPTICOMM LTD**

As lead auditor for the review of OptiComm Ltd for the half-year ended 31 December 2018 and the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of OptiComm Ltd and the entity it controlled during the period.

**C K Henry**
Director

**BDO Audit Pty Ltd**

Brisbane, 15 July 2019

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

| | | Consolidated Group | |
|---|---|---|---|
| | | Dec 2018 | Dec 2017 |
| **Revenue** | **Note** | **$** | **$** |
| Revenue from contracts with customers | 3 | 29,684,016 | 29,114,982 |
| Interest revenue | | 83,421 | 64,339 |
| **Total Revenue** | | 29,767,437 | 29,179,321 |
| | | | |
| **Expenses** | | | |
| Changes in inventories of goods sold | | 4,836,541 | 8,264,025 |
| Employee benefits expense | | 5,825,527 | 4,623,478 |
| Depreciation and amortisation | | 2,326,782 | 2,009,960 |
| Finance costs | | 155,298 | 780 |
| Rent, outgoings and occupancy | | 359,059 | 272,711 |
| Directors' fees and expenses | | 195,999 | 185,782 |
| Contractors and consultants | | 319,699 | 394,122 |
| Travel | | 392,216 | 238,004 |
| Repairs and maintenance | | 183,362 | 161,548 |
| Telecommunications | | 95,529 | 82,707 |
| Other expenses | | 436,831 | 415,372 |
| **Total expense** | | 15,126,843 | 16,648,489 |
| | | | |
| **Profit before income tax expense** | | **14,640,594** | **12,530,832** |
| Income tax expense | 4 | 4,372,631 | 3,768,355 |
| Profit for the period from continuing operations | | 10,267,963 | 8,762,477 |
| Total other comprehensive income | | - | - |
| **Total comprehensive income for the half year ended 31 December 2018** | | **10,267,963** | **8,762,477** |
| | | | |
| Earnings per share (EPS) | | | |
| Basic, profit for the year attributable to ordinary equity holders of the parent | | $6.56 | $6.56 |
| Diluted, profit for the year attributable to ordinary equity holders of the parent | | $6.41 | $5.63 |

The accompanying notes form part of these financial statements.

| | | Consolidated Group | |
|---|---|---|---|
| | | Dec 2018 | Jun 2018 |
| **Assets** | **Note** | **$** | **$** |
| **Current assets** | | | |
| Cash and cash equivalents | | 10,524,465 | 11,707,761 |
| Trade and other receivables | | 8,865,729 | 7,848,446 |
| Inventories | | 984,799 | 876,993 |
| Other assets | | 452,474 | 391,502 |
| **Total Current Assets** | | **20,827,467** | **20,824,702** |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 67,494,180 | 60,633,559 |
| Intangible assets | | 111,346 | 142,184 |
| Other assets | | 61,835 | 123,309 |
| Deferred tax asset | | 5,934,704 | 1,119,993 |
| **Total Non-Current Assets** | | **73,602,065** | **62,019,045** |
| **Total assets** | | **94,429,532** | **82,843,747** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 7,527,572 | 7,428,365 |
| Borrowings | | 11,969 | 11,969 |
| Current tax liabilities | | 1,859,964 | 948,489 |
| Provisions | 8 | 1,361,844 | 545,500 |
| Contract liability | 7 | 7,910,248 | 6,401,841 |
| **Total Current Liabilities** | | **18,671,597** | **15,336,164** |
| **Non-current liabilities** | | | |
| Borrowings | | 823 | 6,937 |
| Deferred tax liability | | 5,366,246 | 5,515,418 |
| Provisions | 8 | 14,875,766 | 267,100 |
| **Total Non-Current Liabilities** | | **20,242,835** | **5,789,455** |
| **Total liabilities** | | **38,914,432** | **21,125,619** |
| **Net Assets** | | **55,515,100** | **61,718,128** |
| **Equity** | | | |
| Share capital | 9 | 8,321,066 | 8,048,902 |
| Reserves | | 81,208 | 81,208 |
| Retained earnings | | 47,112,826 | 53,588,018 |
| **Total Equity** | | **55,515,100** | **61,718,128** |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

| | Note | Ordinary Shares | Partly Paid Ordinary Shares | Share Based Payment Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|
| **Consolidated Group** | | **$** | **$** | **$** | **$** | **$** |
| **Balance at 1 July 2017** | | 7,675,065 | 263,500 | 81,208 | 37,848,374 | 45,868,147 |
| *Comprehensive income:* | | | | | | |
| Profit for the year (after tax) | | -- | -- | -- | 8,762,477 | 8,762,477 |
| Other comprehensive income | | -- | -- | -- | -- | -- |
| **Total comprehensive income for the period** | | -- | -- | -- | 8,762,477 | 8,762,477 |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Receipt of payment of partly paid ordinary shares | | -- | -- | -- | -- | -- |
| Dividend paid or provided for | | -- | -- | -- | -- | -- |
| Share-based Payment Reserve | | -- | -- | -- | -- | -- |
| **Total transactions with owners in their capacity as owners** | | -- | -- | -- | -- | -- |
| **Balance at 31 December 2017** | | **7,675,065** | **263,500** | **81,208** | **46,610,851** | **54,630,624** |

| | Note | Ordinary Shares | Partly Paid Ordinary Shares | Share Based Payment Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|
| **Consolidated Group** | | **$** | **$** | **$** | **$** | **$** |
| **Balance at 1 July 2018** | | 7,675,065 | 373,837 | 81,208 | 53,588,018 | 61,718,128 |
| Cumulative adjustment upon change in accounting policy (AASB 15) | | -- | -- | -- | (10,744,800) | (10,744,800) |
| **Balance at 1 July 2018 (Restated)** | | -- | -- | -- | 42,843,218 | 50,973,328 |
| *Comprehensive income:* | | | | | | |
| Profit for the period | | -- | -- | -- | 10,267,963 | 10,267,963 |
| Other comprehensive income | | -- | -- | -- | -- | -- |
| **Total comprehensive income for the period** | | -- | -- | -- | 10,267,963 | 10,267,963 |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Receipt of payment of partly paid ordinary shares | 9 | -- | 272,164 | -- | -- | 272,164 |
| Dividend paid or provided for | 5 | -- | -- | -- | (5,998,355) | (5,998,355) |
| **Total transactions with owners in their capacity as owners** | | -- | 272,164 | -- | (5,998,355) | (5,726,191) |
| **Balance at 31 December 2018** | | **7,675,065** | **646,001** | **81,208** | **47,112,826** | **55,515,100** |

The accompanying notes form part of these financial statements.

| | Note | Consolidated Group Dec 2018 $ | Dec 2017 $ |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Receipts from customers | | 33,082,843 | 33,308,937 |
| Payments to suppliers and employees | | (15,680,208) | (17,467,242) |
| Interest Received | | 83,421 | 64,339 |
| Finance costs paid | | 4,182 | (780) |
| Income tax paid | | (3,846,138) | (5,547,969) |
| Net cash provided by/(used in) operating activities | | 13,644,100 | 10,357,285 |
| **Cash Flows From Investing Activities** | | | |
| Proceeds from sale of plant and equipment | | - | - |
| Purchase of property, plant and equipment | | (9,150,255) | (8,085,561) |
| Receipts from non-current term deposits | | 61,474 | |
| Payments for non-current cash deposits | | - | (473,812) |
| Payments for intangibles (software) | | (6,310) | (9,299) |
| Net cash (used in)/provided by investing activities | | (9,095,091) | (8,568,672) |
| **Cash Flows From Financing Activities** | | | |
| Proceeds from calls on partly paid shares | 9 | 272,164 | - |
| Repayment of lease liability | | (6,114) | (5,984) |
| Payment of dividends on ordinary shares | 5 | (5,998,355) | - |
| Net cash provided by financing activities | | (5,732,305) | (5,984) |
| Net increase/(decrease) in cash held | | (1,183,296) | 1,782,629 |
| Cash and cash equivalents at the beginning of financial year | | 11,707,761 | 7,162,743 |
| Cash and cash equivalents at the end of financial year | | 10,524,465 | 8,945,372 |

The accompanying notes form part of these financial statements.

## Note 1. Summary of Significant Accounting Policies

### a. Basis of Preparation

The consolidated financial statements and notes represent those of OptiComm Ltd (the "Company") and Controlled Entity (the "Group" or "Consolidated Group").

The financial statements were authorised for issue on 15 July 2019 by the directors of the company.

This general purpose interim financial report for the half year ended 31 December 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. The interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the annual report of the Consolidated Group for the year ended 30 June 2018.

### b. Changes in Accounting Policies

The accounting policies and methods of computation applied in this interim financial report are consistent with those applied in the consolidated financial statements for the year ended 30 June 2018 except for the adoption of new and amended standards as set out below.

The Group adopted the following accounting standards which are mandatory for the current period (application date commencing from 1 July 2018):

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers*.

The Group has adopted the above accounting standards by using the modified retrospective method, and therefore the comparatives have not been adjusted.

**AASB 9 *Financial Instruments***

AASB 9 sets out the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments and impairment of financial assets. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

***Impact of adoption of AASB 9***

Financial assets

(i) Classification and measurements
The new classification of financial assets under AASB 9 has not had a material impact on the Group's financial statements.

The Group's trade and other receivables are held to collect contractual cash flows and the cash flows solely represent payments of principal and interest. These continue to be measured at amortised cost using the effective interest rate method. At initial recognition, the Group continues to measure trade and other receivables at their fair value, plus transaction costs (if any).

| Financial assets | Original classification under AASB 139 | New classification under AASB 9 |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Financial assets at amortised cost |
| Trade and other receivables | Loans and receivables | Financial assets at amortised cost |

**Note 1. Summary of Significant Accounting Policies (Continued)**

(ii) Impairment of financial assets
Under AASB 9, impairment of Trade and other receivables is based on an 'expected credit loss' assessment. Previously, impairment was only recorded when issues regarding the potential collectability of a receivable had been identified (impaired loss model). Under AASB 9, expected credit losses on financial assets are to be recorded either on a 12-month or lifetime basis. Trade receivables are assessed under the simplified approach permitted by AASB 9 and related expected lifetime losses are recognised immediately in the profit or loss.

The change in methodology did not have a material impact on the Group's financial statements.

Financial liabilities

The adoption of AASB 9 has had no material impact on the classification and measurement of the Group's financial liabilities, or the Group's accounting policies relating to financial liabilities. The Group's financial liabilities (Trade and other payables and borrowings) remain to be measured at amortised cost using the effective interest rate method.

***Accounting policies under AASB 9 (applies from 1 July 2018)***

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

The Group's financial instruments mainly relate to Cash and cash equivalents; Trade and other receivables; Trade and other payables; and Borrowings. These financial instruments are initially measured at fair value. On initial recognition, these financial instruments are recognised net of transaction costs directly attributable to the acquisition of these financial instruments.

Financial assets

*Classification and subsequent measurement*

Subsequent to initial recognition, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends upon whether the objective of the Group's relevant business model is to hold financial assets in order to collect contractual cash flows (business model test) and whether the contractual terms of the cash flows give rise on specified dates to cash flows that are solely payments of principal and interest (cash flow test).

The Group does not have financial assets that are classified as 'fair value through other comprehensive income' and 'fair value through profit or loss'.

*Financial assets carried at amortised cost*

Trade and other receivables are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost using the effective interest rate method.

On de-recognition of financial assets carried at amortised cost, the difference between the financial assets carrying amount and the sum of the consideration received is recognised in the profit or loss.

**Note 1. Summary of Significant Accounting Policies (Continued)**

*Impairment*
For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime credit losses to be recognised from initial recognition of the trade receivables. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Group writes-off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

<u>Financial liabilities</u>

Trade and other payables and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are de-recognised when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability de-recognised and the consideration paid is recognised in the profit or loss.

**AASB 15 *Revenue from Contracts with Customers***

AASB 15 replaces AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 introduces a 5-step approach to revenue recognition and the principle that revenue is recognised when (or as) a performance obligation is satisfied, i.e. when control of a good or service underlying the particular performance obligation is transferred to a customer- the concept of transfer of control of a good or service replaces the concept of transfer of risks and rewards.

The adoption of AASB 15 had a material impact on the developer contributions revenue, as discussed below.

***Impact of adoption of AASB 15- Developer contributions revenue (Preferred developer relationships)***

The Group has entered into long term agreements with a limited number of developers which provides for the Group to install network infrastructure in the majority of the Developers future estates. These agreements provide, in exchange for new customers, the payment of a product fee to the Developer based on the number of active users in the developer's estates.

As at 1 July 2018, in accordance with AASB15, these arrangements have resulted in the recognition of a 'Customer refund liability' reflecting the present value of the product fee for the remainder of the contractual period, with the equivalent amount being treated as a refund of the contributions received to date from the developer for the construction of network infrastructure. As these contributions to date have been reflected in the financial statements of prior periods, this adjustment has been reflected against retained earnings.

The Customer refund liability is revalued at the end of each accounting period to reflect the change in active connections in that period and the resulting re-assessment of the future product fee payable. This is recognised as an adjustment to construction revenue with the tax effect amount reflected as a deferred tax asset.

The product fee paid to the developer is offset against the Customer refund liability.

**Note 1. Summary of Significant Accounting Policies (Continued)**

***Transition to AASB 15 adjustments reflected in the December 2018 half year accounts- Developer contributions revenue (Preferred developer relationships)***

Balance sheet movements:

i) The Group calculated the opening Customer refund liability balance using the net present value of the remaining product fee payments to be made as at 1 July 2018.

ii) The closing position of the Customer refund liability has been revalued as at 31 December 2018 using the net present value of the product fee for the remaining life of the contractual at this date.

| **Balance sheet as at 31 December 2018** | **Total<br>$** |
|---|---|
| Opening Customer refund liability for product fee at 1 July 2018 | 15,263,000 |
| Developer contributions | 404,275 |
| Product fees Paid | (366,313) |
| Implied interest charge | 154,648 |
| Closing balance as at 31 December 2018 | **15,455,610** |
| Deferred tax asset for product fee at 1 July 2018 | 4,578,900 |
| Tax movement in Customer refund liability for product fee | 57,783 |
| Closing deferred tax asset as at 31 December 2018 | **4,636,683** |

Profit or loss movements:

i) The product fee paid and the movement in the Customer refund liability reduces the developer's contribution received.

ii) The product fee paid within the period has been offset against the Customer refund liability and has reduced the operating expenses recognised in the profit or loss.

iii) The implied interest charge is valued as the difference between the actual cash payments made compared to the discounted cash flows of the product fees in the period.

iv) A deferred tax asset has been recognised at the corporation tax rate of 30% at 1 July 2018. This is adjusted for any movement in the Customer refund liability each period end.

| **Profit and Loss for the half year ending 31 December 2018** | **Total<br>$** |
|---|---|
| Reduction in Developer contributions | (404,275) |
| Reduction in product fees expensed | 366,313 |
| Implied interest charge | (154,648) |
| EBITDA Increase/(Decrease) | **(192,610)** |
| NPBT Increase/(Decrease) | **(192,610)** |
| NPAT (Tax rate of 30%) Increase/(Decrease) | **(134,827)** |

**Note 1. Summary of Significant Accounting Policies (Continued)**

***Impact of adoption of AASB 15- Developer contributions (construction of backhaul and headend for an estate)***

In accordance with AASB15, developer contributions towards the construction of backhaul and headend for an estate should be recognised when the fibre installation in the estate to which the headend and backhaul are connected is practically complete. Previously, the developer contributions for headend and backhaul was recognised when the contributions were invoiced.

The change in the timing of revenue recognised has been reviewed for all construction of backhaul and headend which commenced prior to the application date of the changes for AASB 15. The impact of this change in the accounting period is shown below. The increase in net profit before tax for the half years ending December 2017 and December 2018 relate to revenue previously recognised in prior year's profit or loss.

| Recognition of backhaul revenue | Dec 2018 | Dec 2017 |
|---|---|---|
| | $ | $ |
| Increase / (Reduction) in Net profit before tax | 60,700 | 48,959 |
| Increase / (Reduction) in Net profit after tax | 42,490 | 34,271 |

The Group adopted this change in accounting policy from the 1 July 2018 and this has been applied to relevant contracts entered into from this time.

The Group has taken advantage of the relief in AASB 15 to reflect the aggregate effect of all modifications that occur before 1 July 2018. Had AASB 15 not been adopted in the period to 31 December 2018 then it would have reported the following amounts by applying AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations:

| Accounts | As reported on AASB 15 basis | Effect | As would have been report |
|---|---|---|---|
| | $ | $ | $ |
| Contract Liability | 7,910,248 | (60,700) | 7,849,548 |
| Retained earnings | 47,112,826 | 60,700 | 47,173,526 |

***Accounting policies under AASB 15 (applies from 1 July 2018)***

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Revenue is recognised in accordance with the following five-step process:
1. Identifying the contract with the customer.
2. Identifying the performance obligations in the contract.
3. Determining the Transaction price.
4. Allocating the transition price to the performance obligations in the contract.
5. Recognising revenue as and when the performance obligations are satisfied.

**Note 1. Summary of Significant Accounting Policies (Continued)**

*Developer contributions/ construction revenue*
OptiComm recognises as construction revenue, non-refundable cash contributions from developers for installation of networks in their Broadacre estates and Multi Dwelling Unit developments. Construction revenue is recognised when the network in a 'stage' is practically complete (a "connection service"). In most instances, the connection service is the primary performance obligation OptiComm has to the developer. Practical completion means the network is functional and ready for use, can be connected to a dwelling (once that dwelling is built and occupied) and allows the developer to sell the lot as it is now 'fibre ready' ('fibre ready' is a legislated mandatory requirement for a developer to sell a lot).

Within developer contributions there are two main revenue types:

- External Infrastructure (Head-End & Backhaul) contributions – these are typically a lump sum dollar amount
- The Per Lot fee (Fibre distribution and Pit & Pipe) – these are typically paid upon installation in-line with project progression (being design, pit and pipe, fibre install and completion).

Opticomm's customer is the developer. The service is to provide a "connection service" to connect the developer's property to the network infrastructure. Developer contributions attributable to the connection service are recognised as construction revenue when the connection service is satisfied according to AASB 15 paragraph 38 (performance obligations satisfied at a point in time), which is on completion of the connection.

The Group has entered into long term agreements with a limited number of developers which provides for the Group to install network infrastructure in the majority of the Developers future estates. These agreements provide, in exchange for new customers, the payment of a product fee to the Developer based on the number of active users in the developer's estates. This results in the recognition of a customer refund liability reflecting the net present value of the product fee expected to be paid in accordance with contractual arrangements with its customers.
The Customer refund liability is reassessed at the end of each accounting period to reflect the change in active connections in that period and the resulting re-assessment of the future product fee payable. This is recognised as an adjustment to construction revenue with the tax effect amount reflected as a deferred tax asset.

*Network usage revenue*
Revenue from the provision of network services includes recurring network revenue received from Retail Service Providers for network access in the form of a monthly wholesale charge. Network revenue is recognised in the accounting period in which the services are rendered.

Connection revenue
Connection revenue represents one-off connection fees as dwellings are connected to OptiComm's network. Connection revenue is recognised in the accounting period in which the connection is completed.

<u>Contract balances</u>

*Contract assets*
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

*Trade receivables*
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

**Note 1. Summary of Significant Accounting Policies (Continued)**

*Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

## c. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**Key estimates**

*Estimation of useful lives of assets*

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

**Key judgements**

*Treatment of non-refundable developer contributions*

OptiComm recognises as construction revenue, non-refundable cash contributions from developers for installation of networks in their Broadacre estates and Multi Dwelling Unit developments. Construction revenue is recognised when the network in a 'stage' (or section of the development) is practically complete (a "connection service"). In most instances, the connection service is the primary contractual obligation OptiComm has to the developer. Practical completion means the network is functional and ready for use, can be connected to a dwelling (once that dwelling is built and occupied) and allows the developer to sell the lot as it is now 'fibre ready' ('fibre ready' is a legislated mandatory requirement for a developer to sell a lot). In accordance with the guidelines outlined in AASB 108, the Company has determined that the current recognition policy is in accordance with AASB 15.

This revenue recognition policy is a key judgement as there is an alternative revenue recognition approach, recognizing that obligations may extend beyond practical completion and encompass activities such as maintenance and on-going operation over the life of the infrastructure asset. Under the alternative approach, companies defer contributions on a straight-line basis over the useful life of the asset to which the contribution relates. The Directors consider that, in the case of OptiComm, obligations of this nature are addressed in separate arrangements with RSP's and in legislation outside the contracts with developers, and have no bearing on the assessment of developer contract performance obligations or contract terms and do not impact the timing of construction revenue recognition.

**Note 1. Summary of Significant Accounting Policies (Continued)**

In applying judgement to determining the revenue recognition policy, the Directors have considered a range of matters, including:

- the commercial form and substance of the arrangements between OptiComm and the developers and these arrangements have been consistent for a number of years – that is OptiComm's primary obligation to the developer is to provide a connection service and this concludes when the fibre infrastructure, with connectivity, is installed into an estate (or a stage of an estate);
- the cash flow arrangements between OptiComm and the developer in that the developer makes a non-refundable cash contribution to OptiComm as the network infrastructure is constructed, with a final payment at practical completion;
- developers obtain significant value from the connection service that OptiComm provides in that the value of the properties it will on-sell is higher due to them being connected to the telecommunications network. Future property owners will have ready access to broadband services and will not be required to pay for this separately. As a result, developers have ability to obtain substantially all of the remaining benefits from the connection;
- the future property owners are not parties to the developer contract and are unknown at the time this contract is signed. Contracts with potential future customers are not relevant to analysing the contract between the OptiComm and developers; and
- OptiComm's obligations post fibre infrastructure installation are with firstly a resident (to connect a dwelling) and then with Retail Service Providers who pay a wholesale access charge for transmission across the network. We note that OptiComm derives separate revenue streams from these obligations.

**d. New Standards and Interpretations Not Yet Adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 half-year reporting periods. The Group has decided against early adoption of these standards. The Group's assessment of the impact of these new standards and interpretations is set out below:

**AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. Subject to exceptions, a lease liability will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A 'right of use' asset corresponding to the lease liability will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

The Company expects to adopt this standard from 1 July 2019 and the impact of its adoption will be that operating leases will be brought onto the statement of financial position with a corresponding liability. The actual amount will depend on the operating leases held on the date of adoption and any transitional elections made.

**Note 2. Segment Information**

In the segment information provided to the Senior Management team (SMT) segments are defined by the nature of the principal activities undertaken by the Group being construction and network operations. The Group's corporate function is not an operating segment under the requirements of AASB 8 as its revenue generating activities are incidental to the business.

The SMT assesses the performance of the segment based on a measure of earnings before depreciation, amortisation, net finance costs and income tax (EBITDA). Segment EBITDA reflects the contribution of each segment in the Group after allowing for direct costs and an allocation of indirect costs, in the proportion of segment revenue to total group revenue. Indirect costs that are not part of segment results are allocated to the corporate function.

**Segment Information**

*2018 Half Year*

| **Area** | **Construction** | **Network Operations** | **TOTAL** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Construction revenue | 11,750,456 | - | 11,750,456 |
| Connection revenue | 2,330,767 | - | 2,330,767 |
| Network Operations | - | 15,602,793 | 15,602,793 |
| **Total** | 14,081,223 | 15,602,793 | 29,684,016 |
| **EBITDA** | (3,457,696) | 11,361,943 | 7,904,249 |

*2017 Half Year*

| **Area** | **Construction** | **Network Operations** | **TOTAL** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Construction revenue | 16,159,289 | | 16,159,289 |
| Connection revenue | 2,045,317 | | 2,045,317 |
| Network Operations | | 10,910,376 | 10,910,376 |
| **Total** | 18,204,606 | 10,910,376 | 29,114,982 |
| **EBITDA** | 1,111,460 | 6,804,432 | 7,915,892 |

**Segment Revenue**

Revenue from external customers comprises construction, connections and network operating. There are no inter-segment revenues. Segment revenue reconciles to total statutory revenue as follows:

| | **Dec-18** | **Dec-17** |
|---|---|---|
| | **$** | **$** |
| Total segment revenue | 29,684,016 | 29,114,982 |
| Add: Other revenue – Interest | 83,421 | 64,339 |
| **Total Statutory Revenue** | 29,767,437 | 29,179,321 |

### Note 2. Segment Information (Continued)

#### Segment EBITDA

Segment EBITDA reconciles to total statutory Net Profit before tax as follows:

| | Dec 2018 $ | Dec-17 $ |
|---|---|---|
| **Total segment EBITDA** | 7,904,249 | 7,915,892 |
| Add: Network construction costs capitalised | 9,324,546 | 7,030,279 |
| Less: Corporate costs unallocated | (189,542) | (468,938) |
| **Total Statutory EBITDA** | 17,039,253 | 14,477,233 |
| Add: Other revenue – Interest | 83,421 | 64,339 |
| Less: Depreciation and amortisation | (2,326,782) | (2,009,960) |
| Less: Net finance costs | (155,298) | (780) |
| **Total Statutory Net profit before Tax** | 14,640,594 | 12,530,832 |

### Note 3. Revenue and Other Income

| | Consolidated Group | |
|---|---|---|
| | Dec 2018 $ | Dec 2017 $ |
| Revenue from contracts with customers: | | |
| Network Construction and Integration Services | 11,750,456 | 16,159,289 |
| Connections | 2,330,767 | 2,045,317 |
| Network Usage | 15,602,793 | 10,910,376 |
| | 29,684,016 | 29,114,982 |
| Other revenue: | | |
| Interest income | 83,421 | 64,339 |
| Total revenue | 29,767,437 | 29,179,321 |

### Note 4. Income Tax Expense

OptiComm Ltd and the Controlled Entity (OptiComm Integration Pty Ltd) formed a tax consolidated group with effect from the 11th February 2016. OptiComm Ltd is the head entity of the tax consolidated group.

| | Consolidated Group | |
|---|---|---|
| | Dec 2018 $ | Dec 2017 $ |
| Income Tax Expense | | |
| Profit before income tax expense from continuing operations | 14,640,594 | 12,530,832 |
| Tax at the statutory tax rate of 30% | | |
| Income tax expense | 4,392,177 | 3,759,250 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| -Entertainment expense | 9,870 | 9,105 |
| -Prior year over provision for Income Tax | (29,416) | - |
| Income Tax Expense | 4,372,631 | 3,768,355 |

### Note 5. Dividends

| | Consolidated Group | |
|---|---|---|
| | Dec 2018 | Dec 2017 |
| | $ | $ |
| Dividends paid: | | |
| Ordinary dividend of $1.85 per share, fully franked at the tax rate of 30% | 5,998,355 | - |
| (Half year at December 2017: Nil) | | |
| Adjusted franking account balance: | 19,290,903 | 15,585,215 |
| Total dividends (dollars) per ordinary share for the period | 1.85 | - |

### Note 6. Property, Plant and Equipment

| a. Plant and equipment | Consolidated Group | |
|---|---|---|
| | Dec 2018 | Jun 2018 |
| | $ | $ |
| Network Infrastructure - at cost | 79,390,000 | 70,065,454 |
| Less: Accumulated depreciation | (19,574,349) | (17,371,275) |
| | 59,815,651 | 52,694,179 |
| Network Infrastructure under construction - at cost | 6,940,011 | 7,172,954 |
| Plant and equipment - at cost | 1,389,885 | 1,341,684 |
| Less: Accumulated depreciation | (897,031) | (827,197) |
| | 492,854 | 514,487 |
| Motor Vehicles - at cost | 160,414 | 157,817 |
| Less: Accumulated depreciation | (35,396) | (27,324) |
| | 125,018 | 130,493 |
| Motor Vehicles under lease - at cost | 62,955 | 62,955 |
| Less: Accumulated depreciation | (25,322) | (22,149) |
| | 37,633 | 40,806 |
| Office Furniture and Fittings - at cost | 114,561 | 106,706 |
| Less: Accumulated depreciation | (31,548) | (26,066) |
| | 83,013 | 80,640 |
| Total property, plant and equipment | 67,494,180 | 60,633,559 |

**Note 6. Property, Plant and Equipment (Continued)**

**b. Movements in carrying amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

| | Infrastructure under Construction | Network Infrastructure | Plant and equipment | Motor Vehicles | Motor Vehicles under lease | Office Furniture and Fittings | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Balance at 1 January 2018 | 15,868,279 | 38,861,403 | 537,219 | 115,452 | 43,928 | 81,675 | 55,507,956 |
| Additions | 7,126,824 | - | 45,125 | 22,866 | - | 4,187 | 7,199,002 |
| Disposals-Proceeds | - | - | - | - | - | - | - |
| Loss on sale | - | - | - | - | - | - | - |
| WIP Transfer | (15,822,149) | 15,822,149 | - | - | - | - | - |
| Depreciation expense | - | (1,989,373) | (67,857) | (7,825) | (3,122) | (5,222) | (2,073,399) |
| **Carrying amount at 30 June 2018** | **7,172,954** | **52,694,179** | **514,487** | **130,493** | **40,806** | **80,640** | **60,633,559** |

| | Infrastructure under Construction | Network Infrastructure | Plant and equipment | Motor Vehicles | Motor Vehicles under lease | Office Furniture and Fittings | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Balance at 1 July 2018 | 7,172,954 | 52,694,179 | 514,487 | 130,493 | 40,806 | 80,640 | 60,633,559 |
| Additions | 9,091,603 | - | 51,734 | 2,597 | - | 7,855 | 9,153,789 |
| Disposals-Proceeds | - | - | (3,081) | - | - | - | (3,081) |
| Loss on sale | | | (452) | - | - | - | (452) |
| WIP Transfer | (9,324,546) | 9,324,546 | - | - | - | - | - |
| Depreciation expense | - | (2,203,074) | (69,834) | (8,072) | (3,173) | (5,482) | (2,289,635) |
| **Carrying amount at 31 December 2018** | **6,940,011** | **59,815,651** | **492,854** | **125,018** | **37,633** | **83,013** | **67,494,180** |

Assets are recognised, regardless of when the title passes or if the title passes, when the group gains control of the assets or has substantially all the risks and rewards of the ownership.

**Note 7. Current Liabilities – Contract liability**

Contract liability represents developer contributions towards the cost of installing Network Infrastructure assets that have not yet reached practical completion. These contributions are recognised as revenue when the relevant asset to which the contribution relates reaches practical completion and is ready for use.

| | Consolidated Group | |
|---|---|---|
| | Dec 2018 | Jun 2018 |
| | $ | $ |
| Contract liability | 7,910,248 | 6,401,841 |

## Note 8. Provisions

| | Consolidated Group | |
|---|---|---|
| | Dec 2018 | Jun 18 |
| **Current** | $ | $ |
| Employee benefits | 472,500 | 545,500 |
| Customer refund liability | 889,344 | - |
| Total current provisions | 1,361,844 | 545,500 |
| | | |
| **Non-current** | | |
| Employee benefits | 278,500 | 237,100 |
| Rental Lease - Make Good | 31,000 | 30,000 |
| Customer refund liability | 14,566,266 | - |
| Total Non-current provisions | 14,875,766 | 267,100 |

| Analysis of provisions | Employee Benefits $ | Customer refund liability $ | Make Good Lease $ | Total $ |
|---|---|---|---|---|
| Opening balance at 1 July 2018 | 782,600 | 15,263,000 | 30,000 | 16,075,600 |
| (Reduction)/Addition during the period | (31,600) | 192,610 | 1,000 | (162,010) |
| Balance at 31 December 2018 | 751,000 | 15,455,610 | 31,000 | 16,237,610 |

**Customer refund liability**

Customer refund liability represents the estimated discounted future cash flows of amounts due to developers from preferred supplier arrangements. These agreements provide, in exchange for new customers, the payment of a product fee to the Developer based on the number of active users in the developer's estates.

This Customer refund liability has been created as a result of the transition to AASB 15 and is detailed in note 2.

The current portion of the Customer refund liability is valued at the cash flows of trialling commissions due to be settled within the next 12 months.

The non-current portion of the Customer refund liability is the remainder of the customer refund due to be paid for the remainder of the contractual period.

## Note 9. Issued Capital

| | Dec 2018 #Shares | Jun 2018 #Shares | Dec 2017 #Shares | Dec 2018 $ | Jun 2018 $ | Dec 2017 $ |
|---|---|---|---|---|---|---|
| Ordinary shares – fully paid | 3,046,200 | 3,046,200 | 3,046,200 | 8,048,902 | 7,938,565 | 7,938,565 |
| Partly paid shares | 196,154 | 196,154 | 196,154 | 272,164 | 110,337 | |
| | 3,242,354 | 3,242,354 | 3,242,354 | 8,321,066 | 8,048,902 | 7,938,565 |

**Note 9. Issued Capital (Continued)**

| Details | Date | No. of shares | Share price | $ |
|---|---|---|---|---|
| Balance | 1 Jul 17 | 3,242,354 | | 7,938,565 |
| Balance | 31 Dec 17 | 3,242,354 | | 7,938,565 |
| Balance | 1-Jul-18 | 3,242,354 | | 8,048,902 |
| Payment for partly paid shares (196,154 shares) | Dec 18 | | | 272,164 |
| Balance | 31 Dec 18 | 3,242,354 | | 8,321,066 |

**Note 10. Contingent Liabilities and Contingent Assets**

*Bank Performance Guarantee Liability*

Secured contingent liabilities in respect of bank performance guarantee indemnities totalled $44,675 at 31 December 2018 ($1,105,907 at 31 December 2017). This facility represents a warranty in favour of certain clients and property lessors. The group has a $2,000,000 bank guarantee facility which is secured by way of a floating charge.

There are no other significant contingent liabilities or contingent assets.

**Note 11. Related Party Transactions**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following transactions occurred with related parties.

| | Consolidated Group | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Purchase of goods and services | | |
| Other related party: | | |
| Madison Technologies | 2,783 | - |
| *(A company, controlled by David Redfern, a director)* | | |
| Pitcher Partners | 94,691 | 264,905 |
| *(Kenneth Ogden, a director, is a partner of Pitcher Partners)* | | |
| Pon Project Services Pty Ltd | 2,694,008 | 2,471,052 |
| *(Paul Cross, a director, is a shareholder)* | | |
| | 2,791,482 | 2,735,957 |

**Note 12. Events after the Reporting Period**

On 18 January 2019, Opticomm Co Pty Ltd became a public company. At the same time the company changed its name to Opticomm Ltd. No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations or the state of affairs of the consolidated group in future financial years.

In accordance with a resolution of the directors of OptiComm Ltd, the directors of the company declare that:

1. The accompanying financial statements and notes comply with the *Corporations Act 2001*, including:
   a. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   b. giving a true and fair view of the consolidated group's financial position as at 31 December 2018 and 31 December 2017 and of its performance for the half years ended on those dates; and

2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Kenneth Ogden
Director
Dated this 15th day of July 2019

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# INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of OptiComm Ltd

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the half-year financial report of OptiComm Ltd (the Company) and and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018 and 31 December 2017, 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-years 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 31 December 2017 and of its financial performance for the half-years ended on those dates; 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 reports 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 31 December 2017 and its financial performance for the half-years ended on those dates 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 Pty Ltd**

BDO

**C K Henry**
Director

Brisbane, 15 July 2019