



Arq Group Limited

(ABN: 21 073 716 793)

**FINANCIAL INFORMATION
FOR THE HALF YEAR
ENDED 30 JUNE 2019**



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Appendix 4D

1. Company information

Name of entity	Arq Group Limited
ABN or equivalent company reference	21 073 716 793
Reporting period	30 June 2019 (Comparative period – 30 June 2018)

2. Results for announcement to the market

	% Up / (Down)		\$A'000s
2.1 Total revenues	(19.1%)	to	90,898
2.2 Profit / (loss) after tax	78.3%	to	(564)
2.3 Net profit / (loss) attributable to members of the parent	77.4%	to	(607)

	Amount per security	Franked amount per security
2.4 Dividends		
<u>Current period</u>		
Final dividend	4.5 cents	100%
Interim dividend	0.0 cents	N/A
	4.5 cents	
<u>Previous corresponding period</u>		
Final dividend	7.5 cents	100%
Interim dividend	3.5 cents	100%
	11.0 cents	
2.5 The record date for determining entitlements to the dividends		N/A





2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood

Review and results of operations

Arq Group Limited – consolidated group (unaudited results)

Total consolidated revenue for the half year ended 30 June 2019 was \$90.898 million (2018: \$112.373 million), a decrease of 19.1%.

Reported Earnings before Interest, Tax, Depreciation and Amortisation⁽¹⁾ (EBITDA) for the half year ended 30 June 2019 was \$7.793 million (2018: \$8.549 million), a decrease of 8.8%

Loss after tax for the half year ended 30 June 2019 was \$0.564 million (2018: Loss after tax \$2.597 million), an increase of 78.3%.

Loss after tax attributable to members of the parent for the half year ended 30 June 2019 was \$0.607 million (2018: \$2.679 million), an increase of 77.4%. Profit after tax attributable to non-controlling interests for NetAlliance Pty Ltd was \$0.043 million (2018: \$0.082 million).

The financial measures of EBIT and EBITDA used in the Directors Report are non-IFRS measures and unaudited. The company believes this non-IFRS information is relevant to the user's understanding of its results, given its use in determining financial performance.

The following table shows a reconciliation of EBITDA⁽¹⁾ to the reported profit or loss after tax attributable to members of the parent.

	30-Jun-19 ⁽²⁾ \$'000s AASB 16	Adjustment for AASB 117 \$'000s	30-Jun-19 ⁽³⁾ \$'000s AASB 117	30-Jun-18 \$'000s AASB 117
Earnings before interest, tax, depreciation and amortisation (EBITDA)⁽¹⁾	7,793	2,486	5,307	8,549
Depreciation and amortisation	(7,670)	(2,394)	(5,276)	(8,554)
Earnings before interest and tax (EBIT) ⁽¹⁾	123	92	31	(5)
Net interest expense	(1,738)	(304)	(1,434)	(1,301)
Income tax credit/(expense)	1,051	63	988	(1,291)
Profit/(loss) after tax	(564)	(149)	(415)	(2,597)
Add: Profit after tax attributable to non-controlling interests:	43	-	43	82
Profit/(loss) after tax attributable to members of the parent	(607)	(149)	(458)	(2,679)

(1) The company believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.

(2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the half year ended 30 June 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Basis of Preparation section of the Financial Statements.

(3) For comparative purposes to the half year ended 30 June 2018, the Group has presented unaudited results for the half year ended 30 June 2019 under the previous accounting standard AASB 117: *Leases*.





Underlying Performance from Core Operations

The TPP Wholesale Reseller business together with the Telecommunications Reseller business form the SMB Indirect division. SMB Indirect together with SMB Direct form the SMB segment, which is one of the two operating segments of the Group. The other operating segment is Enterprise.

The Group divested the TPP Wholesale Reseller business unit on 31 July 2019 as disclosed in the subsequent events section of the Directors' report. As at 30 June 2019, the Indirect business remains part of the Group, and the financial results presented within this report, however to assist users in assessing the underlying financial performance of the 'Core' operations of the Group, the financial performance of the 'Non-core' SMB Indirect business has been split out from the Group's operations below.

The following table shows a reconciliation of Reported EBITDA to Underlying EBITDA from Core operations (excluding Non-core operations)⁽¹⁾⁽⁴⁾.

	30-Jun-19 ⁽²⁾ \$'000s AASB 16 7,793	30-Jun-19 ⁽³⁾ \$'000s AASB 117 5,307	30-Jun-18 \$'000s AASB 117 8,549
Reported EBITDA⁽¹⁾			
Adjustments to calculate underlying EBITDA ⁽¹⁾ :			
Loss / (Gain) on reassessment of contingent consideration liability	(98)	(98)	5,462
Integration costs	767	767	1,645
Transaction costs	427	427	376
Restructuring Cost	365	365	-
Arq brand costs	213	213	2,239
Property costs	117	117	379
Other non-operating expenses	47	47	-
Underlying EBITDA⁽¹⁾	9,631	7,145	18,650
Underlying EBITDA from Non-Core operations⁽¹⁾⁽⁴⁾	5,965	5,965	6,466
Underlying EBITDA from Core operations⁽¹⁾⁽⁴⁾	3,666	1,180	12,184

The following table shows a reconciliation of Reported EBITDA applying AASB 117 to Reported EBITDA applying AASB 16.

	30-Jun-19 \$'000s
Reported EBITDA (under AASB 117)⁽¹⁾	5,307
Leases previously classified as operating expenditure	2,486
Reported EBITDA (under AASB 16)⁽¹⁾	7,793

- (1) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.
- (2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the half year ended 30 June 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Basis of Preparation section of the Financial Statements.
- (3) For comparative purposes to the half year ended 30 June 2018, the Group has presented unaudited results for the half year ended 30 June 2019 under the previous accounting standard AASB 117: *Leases*.
- (4) In presenting Underlying EBITDA from core operations, the Group has excluded the financial contribution of the Non-core business. The Non-core business does not meet the definition of a discontinued operation under AASB 5: *Non-current Assets Held for Sale and Discontinued Operations*. The Non-core SMB Indirect business is made up of the TPP Wholesale Reseller business and the SMB Telecommunications business. The TPP Wholesale Reseller business is presented as a disposal group held for sale in the financial statements as its sale is considered highly probable whilst the SMB Telecommunications business does not yet meet that definition. The Group believes that presenting Underlying EBITDA from core operations is relevant to the user's understanding of the Group's operations. The Group has determined the TPP Wholesale Reseller business is a disposal group 'held for sale', as detailed in Note D1 of this financial report.





Underlying net loss after tax from Core operations⁽¹⁾⁽⁴⁾ was \$3.329 million (2018: net profit after tax \$4.602 million), a decrease of 172.34%. The following table shows a reconciliation of Reported NPAT to Underlying NPAT from Core operations⁽¹⁾⁽⁴⁾.

	30-Jun-19 ⁽²⁾ \$'000s AASB 16 (607)	30-Jun-19 ⁽³⁾ \$'000s AASB 117 (458)	30-Jun-18 \$'000s AASB 117 (2,679)
Loss after tax attributable to members of the parent (Reported NPAT)			
Adjustments to calculate underlying NPAT ⁽¹⁾ :			
Loss / (Gain) on reassessment of contingent consideration liability	(98)	(98)	5,462
Arq brand costs (tax effected)	149	149	1,567
Integration costs (tax effected)	537	537	1,151
Property costs (tax effected)	82	82	640
Transaction costs (tax effected)	406	406	364
Restructuring costs (tax effected)	255	255	-
Interest for InfoReady financial liability (tax effected)	59	59	-
Other non-operating expenses (tax effected)	33	33	-
Amortisation of WebCentral Brand intangible asset (tax effected)	-	-	2,495
Unwinding of discount on other financial liabilities	-	-	67
Underlying NPAT⁽¹⁾	816	965	9,067
Underlying NPAT from Non-core operations⁽¹⁾⁽⁴⁾	4,145	4,145	4,465
Underlying NPAT from Core operations⁽¹⁾⁽⁴⁾	(3,329)	(3,180)	4,602

The following table shows a reconciliation of Reported NPAT applying AASB 117 to Reported NPAT applying AASB 16.

	30-Jun-19 \$'000s (458)
Reported NPAT (under AASB 117)	
Leases previously classified as operating expenditure	2,486
Depreciation expense on right-of-use assets	(2,394)
Interest expense on lease liabilities	(397)
Interest income for sub-leases	93
Income tax expense	63
Reported NPAT (under AASB 16)	(607)

- (1) The company believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.
- (2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the half year ended 30 June 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Basis of Preparation section of the Financial Statements.
- (3) For comparative purposes to the half year ended 30 June 2018, the Group has presented unaudited results for the half year ended 30 June 2019 under the previous accounting standard AASB 117: *Leases*.
- (4) In presenting Underlying NPAT from core operations, the Group has excluded the financial contribution of the Non-core business. The Non-core business does not meet the definition of a discontinued operation under AASB 5: *Non-current Assets Held for Sale and Discontinued Operations*. The Non-core SMB Indirect business is made up of the TPP Wholesale Reseller business and the SMB Telecommunications business. The TPP Wholesale Reseller business is presented as a disposal group held for sale in the financial statements as its sale is considered highly probable whilst the SMB Telecommunications business does not yet meet that definition. The Group believes that presenting Underlying EBITDA from core operations is relevant to the user's understanding of the Group's operations. The Group has determined the TPP Wholesale Reseller business is a disposal group 'held for sale', as detailed in Note D1 of this financial report.

It is recommended that this Appendix 4D be read in conjunction with the financial report for the year ended 31 December 2018 and considered together with any public announcements made by Arq Group Limited and its controlled entities during the half year ended 30 June 2019 in accordance with the continuous disclosure obligations of the ASX listing rules.

Change in accounting policies and treatments

The Group applies for the first time, AASB 16: *Leases* ('AASB 16') for the half year ended 30 June 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Basis of Preparation section of the Financial Statements.





3. Net tangible asset backing

	Current period	Previous period
Net tangible asset backing per ordinary security	-54.08 cents	-53.88 cents

Net assets at 30 June 2019 were \$161.855 million including \$2.215 million of net deferred tax assets and \$225.693 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), WebCentral Group Pty Ltd (September 2006), Netregistry Group Limited (March 2014), Uber Global Pty Ltd (April 2015), Outware Systems Pty Ltd (June 2015), InfoReady Pty Ltd (March 2016), Web Marketing Experts Pty Ltd (May 2017), Nothing But Web Pty Ltd (May 2017) and Results First Ltd (May 2017), excluding disposal group held for sale and liabilities associated with disposal group held for sale at 30 June 2019.

4. Control gained or lost over entities having material effect

4.1 Name of entity (or group of entities) of which control was gained or lost during the period.	None.
4.2 Consolidated profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) since the date in the current period on which control was obtained.	None.
4.3 Date from which such profit has been calculated.	None.
4.4 Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) disposed during the period, for the whole of the previous corresponding period.	None.

5. Dividends

Dividends (distributions)	Amount per security	Franked amount per security	Amount per security of foreign sourced dividend
<u>Current period</u>			
Final dividend	4.5 cents	100%	N/A
Interim dividend	0.0 cents	N/A	N/A
	4.5 cents		





Previous corresponding period

Final dividend	7.5 cents	100%	N/A
Interim dividend	3.5 cents	100%	N/A

11.0 cents

Total dividends (distributions) per security	Current period	Previous period
Final dividend	4.5 cents	7.5 cents
Interim dividend	0.0 cents	3.5 cents
Total	4.5 cents	11.0 cents

Additional information on current period dividends

Date the dividend (distribution) is payable	N/A
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Details of individual and total dividends or distributions and dividend or distribution payments.	N/A
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The dividend or distribution plans shown are in operation.	N/A
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The last date(s) for receipt of election notices for the dividend or distribution plans.	N/A
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6. Material interests in entities which are not controlled entities

Not applicable, as Arq Group Limited does not have a material interest in any entity other than its subsidiaries, which are controlled entities and consolidated in this financial report.





7. Other information

Subsequent events

On 31 July 2019, the sale of the TPP Wholesale Reseller business was completed. The Group received \$21.300 million cash of total transaction proceeds, with a further \$3.100 million expected over the next two years associated with the separation of the business from the Group as part of the Transitional Services Agreement. The transaction proceeds will be used to reduce debt, providing the Group with balance sheet flexibility and increased financial capacity.

On 16 August 2019, the Group announced the appointment of Mr Karl Siegling as a non-executive Director of the Board, effective 23 August 2019. Mr Siegling has been Chairman and Managing Director of Cadence Capital Limited and Cadence Asset Management Pty Limited, one of the Group's substantial shareholders.

There has not been any other matter or circumstance in the interval between 30 June 2019 and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

8. Compliance statement

The report has been prepared based on a 30 June 2019 Half Year Financial Report which is in the process of being audited by an independent audit firm in accordance with the requirements of S302 of the *Corporations Act*.

Mr. Fraser Bearsley
Chief Financial Officer and Company Secretary
Melbourne
22 August 2019





Corporate Information

Directors

Mr. A. Reitzer (Chair)

Mr. A. Macpherson

Mr. M. Mercer

Mr. L. Bloch

Ms. N. Sparks, AM

Mr. S. Martin

Managing Director and Chief Executive Officer

Mr. M. Mercer

Chief Financial Officer

Mr. F. Bearsley

Company Secretaries

Mr. F. Bearsley

Ms. A. Jordan

Registered Office

Level 23, 680 George Street

Sydney, NSW, 2000

Tel: +61 2 9215 6300

Share Register

Link Market Services Limited

Tower 4, 727 Collins Street

Melbourne, VIC, 3000

Auditors

Ernst & Young

8 Exhibition Street

Melbourne, VIC, 3000

Internet address

<http://www.arq.group>





Directors' Report

The names of the company's directors in office during the half year ended 30 June 2019 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Directors

Mr. A. Reitzer (Chair)

Mr. A. Macpherson

Mr. M. Mercer (Managing Director and Chief Executive Officer)

Mr. L. Bloch

Ms. N. Sparks, AM

Mr. S. Martin

Company secretaries

Mr. F. Bearsley

Ms. A. Jordan

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year by operating segment are described as follows:

SMB

SMB provides domain name registrations and renewals, website and email hosting, website development, search engine marketing and social advertising campaigns for businesses in Australia and New Zealand.

Enterprise

Enterprise provides services including cloud, mobile application development, data and analytics to Australian enterprise and government organisations.

EARNINGS PER SHARE

	30-Jun-19 ⁽¹⁾	30-Jun-18
Basic loss per share	(0.51) cents	(2.27) cents
Diluted loss per share	(0.51) cents	(2.27) cents

(1) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the half year ended 30 June 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Basis of Preparation section of the Financial Statements.

DIVIDENDS

During the half year, a final dividend of 4.5 cents per share, amounting to \$5.359 million was paid on 30 April 2019. Furthermore, a dividend of \$0.109 million has been paid to the vendors of InfoReady on 31 May 2019.

The Group is not declaring an interim dividend. The final dividend will be reassessed in December 2019.





REVIEW AND RESULTS OF OPERATIONS

The following table summarises the operating results for the half year ended 30 June 2019.

	30-Jun-19 ⁽²⁾ \$'000s AASB 16	Adjustment for AASB 117 \$'000s	30-Jun- 19 ⁽³⁾ \$'000s AASB 117	30-Jun-18 \$'000s AASB 117
Revenue from contracts with customers				
Registration revenue	17,264	-	17,264	17,647
Solutions, hosting & services	73,634	-	73,634	94,726
Total revenue from contracts with customers	90,898	-	90,898	112,373
Other income	255	-	255	33
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)⁽¹⁾	7,793	2,486	5,307	8,549
Depreciation expense	(4,901)	(2,394)	(2,507)	(2,284)
Amortisation expense	(2,769)	-	(2,769)	(6,270)
Earnings/(Loss) Before Interest and Tax (EBIT)⁽¹⁾	123	92	31	(5)
Net interest expense	(1,738)	(304)	(1,434)	(1,301)
Loss before tax	(1,615)	(212)	(1,403)	(1,306)
Income tax credit/(expense)	1,051	63	988	(1,291)
Loss for the half year	(564)	(149)	(415)	(2,597)
Profit for the half year attributable to:				
Members of the parent	(607)	(149)	(458)	(2,679)
Non-controlling interests	43	-	43	82
	(564)	(149)	(415)	(2,597)
Cash flow from Operations	5,907	-	5,907	17,661

- (1) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.
- (2) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the half year ended 30 June 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Basis of Preparation section of the Financial Statements.
- (3) For comparative purposes to the half year ended 30 June 2018, the Group has presented unaudited results for the half year ended 30 June 2019 under the previous accounting standard AASB 117: *Leases*.

The Group recorded a 19.1% decrease in consolidated revenue during the period ended 30 June 2019, from \$112.373 million to \$90.898 million. The decrease has been driven by underperformance primarily in the Enterprise segment due to execution issues in the Melbourne office and in particular, unexpected delays in activating revenue from new contracts.

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of \$7.793 million (2018: \$8.549 million), a decrease of 8.8% from the previous year. The decrease has been primarily driven by the revenue shortfall and has been offset by a number of cost reduction initiatives.

Consolidated net loss after tax was \$0.564 million (2018: Loss after tax \$2.597 million), a decrease of 78.3% from the prior comparative period. The decrease has been driven by non-deductible accelerated amortization of the WebCentral Brand intangible asset in the prior year, which has not recurred in the current year, partially offset by lower earnings in the Enterprise business unit.

Operating cash flows for the half year ended 30 June 2019 were \$5.907 million (2018: \$17.661 million), a decrease of 66.6%. Included in the operating cash flows are net income tax paid of \$3.268 million (2018: net income tax paid of \$2.635 million), a difference of \$0.663 million.





The Group, excluding the disposal group assets and liabilities held for sale, recorded a net current liability position in the statement of financial position of \$13.470 million (2018: \$15.493 million), a decrease of 13.1% from the prior year. The net current liability position has been driven by income received in advance of \$28.541 million, net of prepayments of domain name registry fees.

The financial measures of EBIT and EBITDA used in the Directors Report are non-IFRS measures and unaudited. The company believes this non-IFRS information is relevant to the user's understanding of its results, given its use in determining financial performance.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In April 2019, the Group relocated to an expanded new office in Brisbane, which completed the final stage of the Australian offices relocation in Melbourne, Sydney and Brisbane over the course of 2018 and 2019.

On 20 May 2019, the Group announced the divestment of its TPP Wholesale Reseller business to CentralNic Group plc in an all-cash transaction of \$24.400 million.

On 26 June 2019, the Group announced a transformation update regarding the change programme that will progressively consolidate ten existing market brands into two; Arq Group and Netregistry. The Group announced an evolution of its organisational structure that included a flattening and broadening of the current leadership. This has resulted in three senior executive roles (Managing Director - Enterprise Services, Managing Director - SMB and Chief Technology Officer) being made redundant, and one new role being created (Executive Director - Middle and Mass Market).

Other than as stated above, there have been no other significant changes in the state of affairs of the Group during the half year ended 30 June 2019.

SUBSEQUENT EVENTS

On 31 July 2019, the sale of the TPP Wholesale Reseller business was completed. The Group received \$21.300 million cash of total transaction proceeds, with \$3.100 million expected over the next two years associated with the separation of the business from the Group as part of the Transitional Services Agreement. The transaction proceeds will be used to reduce debt, providing the Group with balance sheet flexibility and increased financial capacity.

On 16 August 2019, the Group announced the appointment of Mr Karl Siegling as a non-executive Director of the Board, effective 23 August 2019. Mr Siegling has been Chairman and Managing Director of Cadence Capital Limited and Cadence Asset Management Pty Limited, one of the Group's substantial shareholders.

There has not been any other matter or circumstance in the interval between 30 June 2019 and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

ROUNDING

The amounts contained in the accompanying financial information have been rounded to the nearest \$1,000 (where applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.





CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Arq Group Limited support and have adhered to the principles of corporate governance. The company's Corporate Governance Statement is available on the company's website www.arq.group.

Signed in accordance with a resolution of the directors.

Mr. Andrew Reitzer

Chair

Melbourne

22 August 2019





Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30-Jun-19 \$'000	31-Dec-18 \$'000
ASSETS			
Cash and cash equivalents		7,658	8,279
Trade and other receivables	B1	28,253	26,403
Prepayments of domain name registry charges		7,021	7,327
Lease receivable ⁽¹⁾		1,985	-
Current tax refund		285	-
Other assets	B2	6,151	6,634
		<u>51,353</u>	<u>48,643</u>
Assets held for sale	D1	30,486	32,698
Total Current Assets		81,839	81,341
Plant and equipment	B3	10,767	13,899
Right-of-use asset ⁽¹⁾		19,179	-
Intangible assets	B4	225,693	225,239
Prepayments of domain name registry charges		2,348	2,508
Lease receivable ⁽¹⁾		2,892	-
Deferred tax assets		11,904	6,775
Financial assets	B5	1,398	1,870
Other assets		637	696
Total Non-Current Assets		274,818	250,987
TOTAL ASSETS		356,657	332,328
LIABILITIES			
Trade and other payables	B6	17,899	17,138
Income received in advance		28,597	28,632
Current tax liability		-	1,909
Provisions	B7	4,782	3,406
Derivative financial instruments	C4	544	80
Interest bearing loans and borrowings	C1	-	-
Other financial liabilities	C2	6,957	12,971
Lease liabilities ⁽¹⁾		6,044	-
		<u>64,823</u>	<u>64,136</u>
Liabilities directly associated with assets held for sale	D1	10,985	11,292
Total Current Liabilities		75,808	75,428
Income received in advance		9,313	9,563
Provisions	B7	3,906	3,530
Deferred tax liabilities		9,689	5,469
Interest bearing loans and borrowings	C1	79,992	74,992
Other financial liabilities	C2	-	-
Lease liabilities ⁽¹⁾		16,094	850
Total Non-Current Liabilities		118,994	94,404
TOTAL LIABILITIES		194,802	169,832
NET ASSETS		161,855	162,496
EQUITY			
Contributed equity	C3	91,179	85,724
Foreign currency translation reserve		(552)	(552)
Share based payments reserve		527	1,136
Other reserves		(278)	9
Retained earnings		70,890	76,053
Equity attributable to members of the parent		161,766	162,370
Non-controlling interests		89	126
TOTAL EQUITY		161,855	162,496

(1) The Group applies, for the first time, AASB 16: *Leases* ('AASB 16') for the half year ended 30 June 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Basis of Preparation section of the Financial Statements.

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





Consolidated Statement of Comprehensive Income

For the half year ended 30 June 2019

		CONSOLIDATED	
	Notes	30-Jun-19 \$'000	30-Jun-18 \$'000
Revenue from contracts with customers	A1 (a)	90,898	112,373
Cost of sales	A2 (a)	(42,760)	(48,895)
Gross profit		<u>48,138</u>	<u>63,478</u>
Other income	A1 (b)	255	33
Gain/(loss) on reassessment of contingent consideration liability		98	(5,462)
Salaries and employee benefits expenses	A2 (a)	(29,918)	(33,738)
Depreciation expenses	A2 (b)	(4,901)	(2,284)
Amortisation of intangible assets	A2 (c)	(2,769)	(2,705)
Other expenses	A2 (d)	(9,194)	(14,641)
Finance costs	A2 (e)	(2,532)	(2,047)
Transaction costs relating to acquisitions		(427)	(376)
Restructuring Costs		(365)	-
Amortisation of marketing related intangibles		-	(3,564)
Loss before tax		<u>(1,615)</u>	<u>(1,306)</u>
Income tax (expense)/credit	A3	1,051	(1,291)
Loss after tax for the half year		<u>(564)</u>	<u>(2,597)</u>
Other comprehensive income			
<i>Items that may be reclassified to the profit or loss in subsequent periods (net of tax):</i>			
Currency translation differences		-	(14)
<i>Items that will not be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Changes in fair value of cash flow hedges, net of tax		(319)	-
Net gains on equity instruments designated at fair value through other comprehensive income		33	78
Other comprehensive income/(loss) for the period, net of tax		<u>(286)</u>	<u>64</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u>(850)</u>	<u>(2,533)</u>
Loss for the half year attributable to:			
Members of the parent		(607)	(2,679)
Non-controlling interests		<u>43</u>	<u>82</u>
		<u>(564)</u>	<u>(2,597)</u>
Total comprehensive loss attributable to:			
Members of the parent		(893)	(2,615)
Non-controlling interests		<u>43</u>	<u>82</u>
		<u>(850)</u>	<u>(2,533)</u>
Loss per share		30-Jun-19	30-Jun-18
Basic loss per share	A5	(0.51) cents	(2.27) cents
Diluted loss per share	A5	(0.51) cents	(2.27) cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.





Consolidated Statement of Changes in Equity

For the half year ended 30 June 2019

	FOREIGN CURRENCY RESERVE \$'000	SHARE BASED PAYMENTS RESERVE \$'000	OTHER CONTRIBUTED RESERVES \$'000	CONTRIBUTED EQUITY \$'000	TREASURY SHARES \$'000	RETAINED EARNINGS \$'000	TOTAL NON-CONTROLLING INTERESTS \$'000	TOTAL EQUITY \$'000	
As at 1 January 2019	(552)	1,136	9	85,724	-	76,053	162,370	126	162,496
Impact of change in accounting policy	-	-	-	-	-	911	911	-	911
Profit/(loss) for the period	-	-	-	-	-	(607)	(607)	43	(564)
Other comprehensive income	-	-	(286)	-	-	-	(286)	-	(286)
Total comprehensive income for the period	-	-	(286)	-	-	(607)	(893)	43	(850)
Transactions with owners in their capacity as owners:									
Share based payment/(writeback)	-	(137)	-	-	-	-	(137)	-	(137)
Issue of shares for long term incentive plan	-	(472)	-	472	-	-	-	-	-
Issue of shares for InfoReady earn out liability settlement	-	-	-	4,000	-	-	4,000	-	4,000
Dividend reinvestment plan	-	-	-	983	-	-	983	-	983
Dividend associated with InfoReady earn out	-	-	-	-	-	(109)	(109)	-	(109)
Equity dividends	-	-	-	-	-	(5,359)	(5,359)	(80)	(5,439)
As at 30 June 2019	(552)	527	(277)	91,179	-	70,889	161,766	89	161,855
As at 1 January 2018									
As at 1 January 2018	(547)	2,331	(211)	83,507	(1,884)	91,503	174,699	100	174,799
Profit/(loss) for the period	-	-	-	-	-	(2,679)	(2,679)	82	(2,597)
Other comprehensive income	(14)	-	78	-	-	-	64	-	64
Total comprehensive income for the period	(14)	-	78	-	-	(2,679)	(2,615)	82	(2,533)
Transactions with owners in their capacity as owners:									
Share based payment	-	513	-	-	-	-	513	-	513
Issue of shares for long term incentive plan	-	(685)	-	685	-	-	-	-	-
Issue of shares for Outware accelerated purchase settlement	-	(1,000)	-	1,000	-	-	-	-	-
Dividend reinvestment plan	-	-	-	1,853	-	-	1,853	-	1,853
Capital raising (net transaction costs)	-	-	-	(72)	-	-	(72)	-	(72)
Equity dividends	-	-	-	-	-	(8,841)	(8,841)	(65)	(8,906)
Transfer from/(to) contributed equity	-	-	-	(1,884)	1,884	-	-	-	-
Transfer from/(to) financial liabilities	-	-	73	-	-	-	73	-	73
As at 30 June 2018	(561)	1,159	(60)	85,089	-	79,983	165,610	117	165,727

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





Consolidated Statement of Cash Flows

For the half year ended 30 June 2019

	CONSOLIDATED	
	30-Jun-19	30-Jun-18
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	96,680	123,191
Payments to suppliers and employees	(86,095)	(100,815)
Interest received	19	33
Interest paid	(1,728)	(1,399)
Bank charges and credit card merchant fees	(682)	(714)
Income tax refunds	-	854
Income tax paid	(3,268)	(3,489)
NET CASH FLOWS FROM OPERATING ACTIVITIES	4,927	17,661
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment and intangible assets	(1,875)	(9,547)
Payment of financial liability for InfoReady earn out	(2,001)	(5,668)
Return of capital from Tiger Pistol	506	-
Transaction costs relating to acquisitions	(241)	(85)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(3,611)	(15,300)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	5,000	-
Payment of dividend on ordinary shares	(4,378)	(6,991)
Payment of dividend to InfoReady vendors	(109)	-
Payment of dividend to non-controlling interests	(80)	(65)
Payment of lease liabilities	(3,350)	(60)
Proceeds from subleases	980	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(1,937)	(7,116)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(621)	(4,755)
Net foreign exchange differences	-	(14)
Cash and cash equivalents at beginning of period	8,279	20,250
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7,658	15,481

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





Notes to the Financial Statements

Corporate information

The financial information in this report for Arq Group Limited for the half year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on 22 August 2019.

Arq Group Limited is a for-profit company limited by shares and incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described within note A6.

Basis of preparation

The financial information in this report does not include all 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 as the full financial report.

It is also recommended that the half year financial report of Arq Group Limited for the half year ended 30 June 2019 be considered together with any public announcements made by Arq Group Limited and its controlled entities during the half year ended 30 June 2019, in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting methods of computation are the same as those adopted in the most recent annual financial report, except for those disclosed in the Changes in accounting policy below.

Changes in accounting policy

The accounting policies adopted in the preparation of the half year financial report are consistent with those followed in the preparation of the Group's annual report for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 16: Leases

AASB 16 supersedes AASB 117: *Leases* ('AASB 117'), AASB Interpretation 4: *Determining whether an Arrangement contains a Lease*, SIC-15: *Operating Leases-Incentives* and SIC-27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. As the Group adopted the modified retrospective method, there was no restatement of previous financial statements.





Practical expedients applied

In applying AASB 16 for the first time, the Group elected to use the following practical expedients permitted by the standard:

- As a lessee, apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on the Group's previous assessment of whether leases are onerous applying AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review;
- As a lessee, the Group has not separated non-lease components from lease components, and instead account for each lease component and any associated leases components as a single lease component;
- The exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application

a) Nature of the effect of adoption of AASB 16

Impacts on transition

The Group has lease contracts for office premises as both a lessor (in relation to sub-leases) and lessee and for IT equipment as a lessee. Before the adoption of AASB 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease.

Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised, and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of AASB 16, the Group applied a single on balance sheet approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

In accordance with the modified retrospective method of adoption, the Group applied AASB 16 at the date of initial application and elected on a lease by lease basis to measure the carrying amount of ROU assets as if AASB 16 had been applied since the commencement date of the lease or to measure the ROU asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Accordingly, the comparative information in the interim consolidated financial statements has not been restated.





The effect of adopting AASB 16 is, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019

Assets	\$'000
Right-of-use assets	16,341
Lease receivable	5,343
Plant and equipment	(1,647)
Other assets	(101)
Deferred tax assets	5,578
Total Assets	25,514
Liabilities	
Lease liabilities	19,566
Provisions	(124)
Other liabilities	(850)
Deferred tax liabilities	6,011
Total Liabilities	24,603
Equity	
Retained earnings	911
Total Equity	911

There is no impact on the statement of comprehensive income, basic and diluted EPS or the statement of cash flows for the prior period as the Group as elected to adopt the modified retrospective approach.

The following table presents a reconciliation to the opening balance for lease liabilities as at 1 January 2019 based upon the operating lease obligations as at 31 December 2018.

Reconciliation	\$'000
Operating lease obligations at 31 December 2018	31,792
Change in lease term	(959)
Lease-type obligations (service components)	92
Items not previously considered as lease	79
Future commitments ⁽¹⁾	(10,117)
Gross lease liabilities at 1 January 2019	20,887
Weighted average incremental borrowing rate as at 1 January 2019	3.86%
Discounting	(1,321)
Lease liabilities at 1 January 2019	19,566

(1) Future commitments represent leases that have been committed to as at 31 December 2018 and have a commencement date during the half year ended 30 June 2019.

As at 1 January 2019:

- Additional ROU assets of \$16,341,000 were recognised and is presented separately in the statement of financial position;
- Additional lease liabilities of \$19,566,000 were recognised and is presented separately in the statement of financial position under 'other liabilities';
- Make good assets and accumulated depreciation previously under property, plant and equipment of \$1,647,000 was derecognised;
- Prepaid rent of \$101,000 and accrued rent of \$850,000 recognised under other assets and other liabilities, respectively were derecognised;
- An onerous lease provision of \$124,000 was derecognised;
- Deferred tax assets increased by \$5,578,000 and deferred tax liabilities increased by \$6,011,000; and
- The net effect of these adjustments is an increase to retained earnings of \$911,000.





Impacts on the half year ended 30 June 2019

The Group has recognised depreciation and interest costs in relation to the right-of-use assets and lease liabilities.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets			Lease liabilities
	Premises \$'000s	Other equipment \$'000s	Total \$'000s	
As at 31 December 2018	-	-	-	-
Additions on transition	16,058	283	16,341	19,566
Additions during the half year	5,499	-	5,499	5,526
Depreciation expense	(2,548)	(113)	(2,661)	-
Interest expense	-	-	-	396
Payments	-	-	-	(3,350)
As at 30 June 2019	19,009	170	19,179	22,138

Set out below, are the amounts recognised in profit or loss:

	30-Jun-19 \$'000s
Depreciation expense of right-of-use assets	2,661
Interest expense on lease liabilities	397
Rent expense - short-term leases	30
Rent expense - leases of low-value assets ⁽¹⁾	21
Rent expense - variable lease payments	975
Total amount recognised in profit or loss	4,084

(1) Leases of low-value assets excludes short-term leases of low value

The impact on basic and diluted EPS is, as follows:

Basic earnings per share	(0.13) cents
Diluted earnings per share	(0.13) cents

Set out below is a maturity analysis of lease liabilities:

	30-Jun-19 \$'000s	30-Jun-19 \$'000s	30-Jun-19 \$'000s
	Leases committed to but not yet commenced	Leases in effect during half year ended	Total
Maturity analysis - contractual undiscounted cash flows			
Less than one year	777	6,785	7,562
One to five years	3,009	16,990	19,999
More than five years	-	91	91
Total undiscounted lease liabilities at 30 June⁽¹⁾	3,786	23,866	27,652
Lease liabilities included in the Statement of Financial Position at 30 June			22,138
Current			6,044
Non-current			16,094

(1) The amount of undiscounted contracted cash flows includes leases committed but not yet commenced as at 30 June 2019, as presented in a separate column.

Set out below, are amounts related to finance leases where the Group is a lessor:

	30-Jun-19 \$'000s
Finance income on the net investment in the lease	93
Total amount recognised in profit or loss	93





Impacts on the half year ended 30 June 2019 (cont.)

Set out below is a maturity analysis of lease receivables for finance leases where the Group is a lessor:

	30-Jun-19
	\$'000s
Maturity analysis - contractual undiscounted cash flows	
Less than one year	2,129
One to five years	2,984
More than five years	-
Total undiscounted lease receivable at 30 June	5,113
Unearned finance income	(236)
Net investment in lease	4,877

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16:

Right-of-use assets

The Group recognises right-of-use ('ROU') assets at the commencement of a lease. Subsequently, ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes:

- the amount of lease liabilities recognised;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

Lease liabilities

At the commencement date of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the date of initial application if the interest rate implicit in the lease is not readily determinable. After the date of initial application, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, which is not accounted for as a separate lease, a change in the lease term, a change in the in-substance fixed lease payments, a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or a change in the assessment to purchase the underlying asset.





Lease receivable

The Group is an intermediate lessor of some subleases, which were previously classified as operating leases under AASB 117. The Group accounts for a head lease and sublease as two separate contracts, applying both lessee and lessor accounting requirements respectively. On the date of initial application, the Group reassessed its existing operating subleases to determine whether the sublease is classified as an operating or finance lease under AASB 16. The reassessment is based on the remaining contractual terms of the head lease and sublease with reference to the right-of-use assets associated with the head lease and not the underlying asset.

On identifying finance subleases that were previously classified as operating subleases, the Group derecognises the ROU asset relating to the head lease that is transferred to the sublessee and recognises the net investment in the sublease equal to the present value of lease receivables. Where the interest rate implicit in the sublease cannot be readily determined, the Group utilises the incremental borrowing rate from the head lease (adjusted for any initial direct costs associated with the sublease) to discount the lease receivable to its present value.

The Group is required to calculate an expected credit loss for the lease receivable in accordance with AASB 9: *Financial Instruments* and elected to apply the simplified approach to recognise the lifetime expected credit losses of the lease receivable. The Group considered both historical information and a forward outlook in determining the lifetime expected credit loss on lease receivables.

Short-term leases and leases of low-value assets exemptions

The Group applies the short-term lease recognition exemption made by class of underlying assets to the right-of-use asset related to its short-term leases (i.e. those leases that have a lease term at the commencement date of 12 months or less from the date of initial application and do not contain a purchase option).

The Group applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below \$7,000 AUD). This amount has been determined with reference to the threshold example set by the International Accounting Standards Board in the Basis for Conclusion on IFRS 16 Leases BC of \$5,000 USD. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its premises leases to lease the assets for additional terms of five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. The Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group excluded the renewal period as part of the lease term for leases of rental premises as the Group is not reasonably certain to exercise the renewals.





Significant judgement in determining the incremental borrowing rate

The Group has applied judgement to determine the incremental borrowing rate, which significantly affects the amount of lease liabilities or ROU assets recognised. The Group applies the incremental borrowing rate on a lease by lease basis based on the remaining lease term from the initial date of application. The Group reassesses the incremental borrowing rate for any leases with commencement dates after the initial date of application.





Section A: Financial performance

A1. REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregation of revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Segments	CONSOLIDATED		
	For the half year ended 30 June 2019		
	\$'000s SMB	\$'000s Enterprise	\$'000s Total
Types of goods of service			
Registration revenue	17,264	-	17,264
Solutions, hosting & services	29,401	44,233	73,634
Total revenue from contracts with customers	46,665	44,233	90,898
Timing of revenue recognition			
Services/goods transferred at a point in time	291	89	380
Services transferred over time	46,374	44,144	90,518
Total revenue from contracts with customers	46,665	44,233	90,898

Segments	CONSOLIDATED		
	For the half year ended 30 June 2018		
	\$'000s SMB	\$'000s Enterprise	\$'000s Total
Types of goods of service			
Registration revenue	17,647	-	17,647
Solutions, hosting & services	33,763	60,963	94,726
Total revenue from contracts with customers	51,410	60,963	112,373
Timing of revenue recognition			
Services/goods transferred at a point in time	533	275	808
Services transferred over time	50,877	60,688	111,565
Total revenue from contracts with customers	51,410	60,963	112,373

(b) Other income

	CONSOLIDATED	
	30-Jun-19	30-Jun-18
	\$'000s	\$'000s
Dividend income	124	-
Interest income	112	33
Sundry income	19	-
	255	33





A2. EXPENSES

	CONSOLIDATED	
	30-Jun-19	30-Jun-18
	\$'000s	\$'000s
(a) Salaries and employee benefits expenses:		
Included in cost of sales:		
Salaries and employee benefits expenses	14,814	19,649
Superannuation expense	1,263	1,662
Included in Salaries and employee benefits expenses:		
Salaries and wages	23,898	25,332
Superannuation expense	3,343	3,852
Expensing of share-based payments	(106)	515
(b) Depreciation of non-current assets		
Right-of-use assets	2,662	-
Plant and equipment	1,135	1,340
Leasehold improvements	841	795
Furniture	263	57
Leasehold make-good	-	92
Total depreciation of non-current assets	4,901	2,284
(c) Amortisation of identifiable intangible assets		
Capitalised software	1,626	1,422
Customer contracts	1,143	1,283
Marketing related intangibles	-	3,564
Total amortisation of identifiable intangible assets	2,769	6,269
(d) Other Expenses		
Included in other expenses:		
Marketing	2,146	2,724
Equipment	2,049	1,854
Consulting fees	1,355	2,855
Premises	1,239	3,903
Bad debts and doubtful debts	637	808
Training and recruitment	650	860
Communications	574	560
Onerous contract	-	238
Foreign exchange (gain)/loss	(24)	(17)
(e) Finance costs		
Interest expense on debt and borrowings	1,424	1,266
Interest expense on lease liabilities	397	-
Bank charges and credit card merchant fees	682	714
Unwinding of discount on other financial liabilities	29	67
	2,532	2,047





A3. INCOME TAX

The major components of income tax expense are:

(a) Statement of comprehensive income

	CONSOLIDATED	
	30-Jun-19	30-Jun-18
	\$'000s	\$'000s
<i>Current income tax</i>		
Current income tax charge	532	3,700
Adjustments in respect of current income tax of previous periods	(486)	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(1,097)	(2,409)
Income tax expense/(credit) reported in the statement of comprehensive income	(1,051)	1,291

(b) Statement of changes in equity

	CONSOLIDATED	
	30-Jun-19	30-Jun-18
	\$'000s	\$'000s
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Net (loss)/ gain on revaluation of cash flow hedges	(139)	(23)
Deferred tax asset recognised on equity raise costs	72	72
Income tax expense/(credit) reported in equity	(67)	49

(c) A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before income tax	(1,615)	(1,306)
At the Group's statutory income tax rate of 30% (2018: 30%)	(485)	(392)
Adjustments in respect of current income tax of previous years	(486)	-
Non-deductible expenses	108	281
Other non operating income	-	-
Reassessment of contingent consideration	(30)	1,639
Adjustments in deferred tax balances	(77)	(192)
Unwinding of discount on other financial liabilities	9	20
Estimated R&D tax incentive claims	-	-
Other	(90)	(65)
Income tax expense/(credit) at the effective income tax rate	(1,051)	1,291
Income tax expense/(credit) reported in the statement of comprehensive income	(1,051)	1,291

As at 30 June 2019, the Group had \$359,000 unused carry forward tax losses (2018: \$366,000). These carry forward tax losses arose on the acquisition of Nothing But Web Pty Ltd.





A4. DIVIDENDS

Equity dividends on ordinary shares

(a) Dividends declared and paid during the year on ordinary shares

	CONSOLIDATED	
	30-Jun-19	30-Jun-18
	\$'000s	\$'000s
(i) Final franked dividend for the financial year ended 31 December 2017: 7.5 cents per share (2016: 6.0 cents per share)	-	8,841
(ii) Final franked dividend for the financial year ended 31 December 2018: 4.5 cents per share (2017: 7.5 cents per share)	5,359	-
(iii) Dividend for the InfoReady earn out half year ended 30 June 2019:	109	-
	<u>5,468</u>	<u>8,841</u>

As part of the InfoReady Deed of Variation, a share placement of \$4,000,000 was issued to the InfoReady vendors. The issue of ordinary shares also resulted in a \$109,000 dividend based on 4.5 cents for each ordinary share issued. See further discussion in note C2.

(b) Dividends proposed and not recognised as a liability

Final franked dividend for the half year ended 30 June 2019: 0.0 cents per share (2018: 5.0 cents per share)	-	5,944
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A5. LOSS PER SHARE

	CONSOLIDATED	
	30-Jun-19	30-Jun-18
	\$'000s	\$'000s
Basic loss per share	(0.51) cents	(2.27) cents
Diluted loss per share	(0.51) cents	(2.27) cents

The following reflects the income and share data used in the calculations of basic and diluted loss per share:

Loss for the half year attributable to members of the parent	(607)	(2,679)
Number of shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	119,622,854	117,852,713
Effect of dilution:		
Share rights	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>119,622,854</u>	<u>117,852,713</u>

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of this report.

Performance rights granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive where an operating loss is incurred performance rights are not dilutive. These options have not been included in the determination of basic earnings per share.





A6. OPERATING SEGMENTS

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers.

SMB

SMB provides domain name registrations and renewals, website and email hosting, website development, search engine marketing and social advertising campaigns for businesses in Australia and New Zealand.

Enterprise

Enterprise provides services including cloud, mobile application development, data and analytics to Australian enterprise and government organisations.

The following tables present the revenue and profit information regarding business unit segments for the half years ended 30 June 2019 and 30 June 2018.

Half year ended 30 June 2019	SMB \$'000	Enterprise \$'000	Total \$'000
Segment revenue from contracts with customers			
Registration revenue	17,264	-	17,264
Solutions, hosting & services	29,401	44,233	73,634
Total segment revenue from contracts with customers	46,665	44,233	90,898
Result			
Segment results	10,094	(443)	9,651
Unallocated income/(expenses):			
- Dividend from Tiger Pistol			124
- Corporate costs (including transaction costs relating to acquisition)			(1,867)
- Gain on reassessment of contingent consideration liability			98
- Arq brand costs			(213)
Earnings before interest, tax, depreciation & amortisation			7,793
Net Interest			
Interest income			112
Interest expense on debt and borrowings			(1,424)
Interest expense on lease liabilities			(397)
Unwinding of discount on other financial liabilities			(29)
Total Net Interest			(1,738)
Depreciation & amortisation			(5,008)
Depreciation on right-of-use assets			(2,662)
Loss before tax for the half year			(1,615)
Income tax credit			1,051
Loss after tax for the half year			(564)





A6. OPERATING SEGMENTS (cont.)

Half year ended 30 June 2018

	SMB \$'000	Enterprise \$'000	Total \$'000
Segment revenue from contracts with customers			
Registration revenue	17,647	-	17,647
Solutions, hosting & services	33,763	60,963	94,726
Total segment revenue from contracts with customers	51,410	60,963	112,373
 Result			
Segment results	8,418	13,074	21,492
Unallocated expenses:			
- Corporate costs (including transaction costs relating to acquisition)			(5,242)
- Loss on reassessment of contingent consideration liability			(5,462)
- Arq brand costs			(2,239)
Earnings before interest, tax, depreciation & amortisation			8,549
 Net interest			
Interest income			33
Interest expense on debt and borrowings			(1,267)
Unwinding of discount on other financial liabilities			(67)
Total net interest			(1,301)
Depreciation & amortisation			(8,554)
Loss before tax for the half year			(1,306)
Income tax expense			(1,291)
Loss after tax for the half year			(2,597)





Section B: Operating assets and liabilities

B1. TRADE AND OTHER RECEIVABLES

(a) Disaggregation of trade and other receivables

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Trade receivables	29,415	27,179
Allowance for expected credit losses	(1,801)	(1,370)
Other receivables	638	594
Total trade and other receivables (current)	<u>28,253</u>	<u>26,403</u>

Significant judgements regarding recoverability of trade and other receivables

During the year ended 31 December 2018, a customer disputed the calculation of amounts being charged in relation to a contract for services. As at 30 June 2019 an amount recorded in trade receivables of \$7,956,000 (31 December 2018: \$5,445,000) is subject to this dispute. Based on the Group's interpretation of the contract applied over a number of years and supporting legal advice, the Group is confident that the amount will be fully recovered.

B2. OTHER CURRENT ASSETS

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Accrued revenue	2,867	4,363
Prepayments	3,284	2,168
Lease incentive receivable	-	103
Total other assets (Current)	<u>6,151</u>	<u>6,634</u>

Accrued revenue is defined as a contract asset under AASB 15: *Revenue from Contracts with Customers*.





B3. PLANT AND EQUIPMENT

	CONSOLIDATED	
	30-Jun-19 \$'000s	31-Dec-18 \$'000s
Carrying Amount of Plant and Equipment		
Leasehold improvements	8,233	8,232
Accumulated depreciation	(3,011)	(2,202)
	<u>5,222</u>	<u>6,030</u>
 Plant and equipment	 21,714	 21,137
Accumulated depreciation	(17,725)	(16,721)
	<u>3,989</u>	<u>4,416</u>
 Furniture and fittings	 2,392	 2,370
Accumulated depreciation	(836)	(564)
	<u>1,556</u>	<u>1,806</u>
 Make good assets	 -	 2,006
Accumulated depreciation	-	(359)
	<u>-</u>	<u>1,647</u>
 Total Plant and Equipment	 <u>10,767</u>	 <u>13,899</u>

The Group applies AASB 16 for the first time for the half year ended 30 June 2019. Leasehold make good assets with a cost of \$2,006,000 has been reclassified to a Right-of-use asset account. As at 30 June 2019, the carrying amount of the leasehold make good asset was \$Nil (31 December 2018: \$1,647,000).





B4. INTANGIBLE ASSETS

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Carrying Amount of Intangible Assets		
Goodwill (a)	213,774	211,671
Marketing Related Intangibles (b)	1,924	9,053
Accumulated Amortisation	(35)	(7,164)
	1,889	1,889
Customer Contracts (c)	10,520	10,520
Accumulated Amortisation	(8,452)	(7,309)
	2,068	3,211
Software Intangibles (d)	19,623	18,503
Accumulated Amortisation	(11,661)	(10,035)
	7,962	8,468
Total intangible assets	225,693	225,239

(a) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impacted.

(b) Marketing Related Intangibles

Marketing related intangibles represent brand names of past acquisitions. They have been assessed as having indefinite useful lives as they are expected to contribute to future economic benefits indefinitely as Arq Group Limited continues to sell its products under these brand names indefinitely and therefore invests in these brands through its marketing activities. An annual impairment assessment is required for intangible assets with an indefinite useful life.

(c) Customer Contracts

Customer contracts are amortised over the period of three to five years based on the historical attrition rate.

(d) Capitalised software

Included in capitalised software is software acquired from Netregistry Pty Ltd with a carrying value of \$1,231,000, cloud platform software with a carrying value of \$1,994,000, product and service customer platform enhancements of \$1,856,000, Oracle Financials, the common financial reporting system used by all entities in the Group with a carrying value of \$125,000 and software acquired from the acquisition of WME Group with a carrying value of \$311,000. Included in capitalised software are capitalised labour and other directly attributable costs of \$2,327,000 which amortisation has not yet commenced, relating to product and service customer platform enhancements.





B4. INTANGIBLE ASSETS (cont.)

(e) Impairment testing

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets or CGUs are written down to their recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell, and it does not generate cash inflows that are largely independent of those from other assets, or groups of assets; in which case, the recoverable amount is determined for the CGU to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At 30 June 2019, the below budget performance of the Group was identified as a potential indicator of impairment such that a formal impairment assessment of both CGUs has been performed.

Carrying amount of intangible assets allocated to each of the CGUs (excluding 'held for sale' assets):

	SMB		Enterprise		Total	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Goodwill	112,047	109,944	101,727	101,727	213,774	211,671
Market-related intangibles	1,889	1,889	-	-	1,889	1,889
Customer contracts	1,170	1,915	898	1,296	2,068	3,211
Capitalised software	4,361	4,430	3,601	4,038	7,962	8,468

Under the impairment testing, the carrying amount of each CGU is compared to its recoverable amount. The recoverable amount of each CGU is determined based on a value in use calculation for each CGU to which goodwill and other intangible assets have been allocated.





Key assumptions used in value in use ('VIU') calculations:

2019

	SMB	Enterprise
Average EBITDA growth rate years 1-5 ⁽¹⁾	0.20%	24.80%
Terminal growth rate years 5+ ⁽²⁾	2.50%	2.50%
Pre-tax discount rate ⁽³⁾	15.00%	17.14%

2018

	SMB	Enterprise
Average EBITDA growth rate years 1-5 ⁽¹⁾	(3.19%)	1.14%
Terminal growth rate years 5+ ⁽²⁾	2.50%	2.50%
Pre-tax discount rate ⁽³⁾	15.71%	15.71%

- (1) All value in use calculations are based on management's estimates of achievable EBITDAs for the respective CGUs. In accordance with AASB 136: *Impairment of Assets*, the calculations exclude any estimated cash inflows or outflows attributable to future restructuring and/or asset enhancement initiatives. The growth rates utilised in the estimation of value in use is for the purpose of testing for impairment only, and may not reflect the Group's view of the long-term growth rates of the underlying businesses.
- (2) Cash flows beyond Year 5 are extrapolated using a 2.5% growth rate, which is the company's estimate of the long-term average growth rate for the industry in which the company operates.
- (3) The discount rate used reflects risks specific to the Group and its operating segments, and is derived from its weighted average cost of capital. Segment-specific risk is incorporated by applying individual beta, which is assessed annually based on publicly available data.

Results of impairment test and impact of reasonably possible changes in key assumptions

A sensitivity analysis was undertaken to examine the effect of a change in a variable on each CGU.

SMB

While the estimated recoverable amount of the SMB Solutions CGU was greater than its carrying value, an adverse reasonably possible change in either one of the following assumptions would result in an impairment loss as follows: a decrease in the year 1-5 average EBITDA growth rate to -2.00% would result in an impairment loss of \$4,016,000; a decrease in the terminal growth rate to 0.00% would result in an impairment loss of \$2,648,000.

Enterprise

The year 1-5 average EBITDA growth rate for Enterprise (24.80%) is driven by unusually soft trading results during the 12-month period ended 30 June 2019, which is the base year (year 0) in the VIU calculations. Using the 12-month period ended 31 December 2018 as the base year, the average EBITDA growth rate over 5 years is 4.3%.

While the estimated recoverable amount of the Enterprise CGU was greater than its carrying value, an adverse reasonably possible change in the year 1-5 average EBITDA growth rate to 18.00% would result in an impairment loss of \$3,980,000. No reasonably possible change in the terminal growth rate or pre-tax discount rate would give rise to an impairment of the Enterprise CGU.

Key judgement and estimates

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis and when there are indicators of impairment. This requires an estimation of the recoverable amount of the CGU, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. Key assumptions requiring judgement include projected cash flows based on forecast EBITDA, growth rate estimates, and discount rates.





B5. NON-CURRENT FINANCIAL ASSETS

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Investment in Tiger Pistol - ordinary shares	1,398	1,870

The Group holds 603,205 shares Tiger Pistol. These shares have been accounted for as a financial asset and valued by reference to the most recent arm's length transaction of Tiger Pistol shares. During the half year ended 30 June 2019, the Group received a return of capital \$0.838 per share from the sale of a segment of Tiger Pistol.

B6. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Trade creditors	4,494	2,682
Sundry creditors	4,223	5,408
Deposits received in advance	446	829
Accrued expenses	8,736	8,219
Total trade and other payables	<u>17,899</u>	<u>17,138</u>

Terms and conditions relating to trade and sundry creditors:

- Trade creditors are non-interest bearing and are normally settled within agreed trading terms.
- Sundry creditors are non-interest bearing and are normally settled within agreed trading terms.

The carrying amount of trade and other payables is a reasonable approximation of fair value.





B7. Provisions

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Current		
Employee benefits	4,417	3,406
Restructuring	365	-
	<u>4,782</u>	<u>3,406</u>
Non-current		
Employee benefits	1,282	1,207
Other	2,624	2,323
	<u>3,906</u>	<u>3,530</u>
Total provisions	<u>8,688</u>	<u>6,936</u>

On 26 June 2019, the Group announced a transformation update and evolution of the Group's organisational structure that included a flattening and broadening of executive leadership. The Group has recorded a restructuring provision of \$365,000 for a redundancy and consultant costs.

Other non-current provisions represent leasehold make-good provisions for the Group. Properties occupied by the Group are subject to make-good costs when vacated at the termination of the lease. Any difference between the provision and the amount paid in the final settlement is recognised as a make-good expense or gain in the statement of comprehensive income.





Section C: Capital and financial risk management

C1. INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Current		
Bank loan	-	-
	-	-
Non-current		
Bank loan	79,992	74,992
	79,992	74,992

C2. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Current		
Contingent consideration liability	-	12,971
Financial liability	6,957	-
	6,957	12,971
Non-current		
Contingent consideration liability	-	-

Other financial liabilities comprise the financial liabilities in relation to acquisition of InfoReady Pty Ltd.

As part of the Share Purchase Agreement ('SPA') with the previous owners of InfoReady, three earn out payments have been agreed. The earn out payments are calculated based on the excess of the EBITDA performance during the earn out periods over the EBITDA threshold amount specified in the SPA for each of the earn out periods multiplied by three. The earn out periods start from 1 April to 31 March the following year with the final earn out period ended 31 March 2019. The maximum amount payable is dependent upon the excess of the of the EBITDA performance during the earn out period over the EBITDA threshold amount specified in the SPA for each of the earn out period multiplied by three.

As at the acquisition date, the fair value of the contingent consideration was estimated to be \$9,337,000 representing the total of the three earn out amounts. Key input assumptions used in the determination of the contingent consideration include forecast EBITDA performance for the first earn out period (1 April 2016 to 31 March 2017), and revenue and EBITDA growth rates for the second and third earn out periods from the end of the first earn out period. The fair value is determined using the discounted cash flow method.

The final earn out amount of \$12,872,000 was agreed between Arq Group and InfoReady vendors. In March 2019, Arq group has entered into a Deed of Variation in relation to the payment arrangement of the earn out amount. The default payment option was enacted which resulted an initial instalment of \$1,500,000 plus a share placement representing a value of \$4,000,000, followed by 6 monthly instalments with a final balloon payment in December with interest calculated at 14% on the third earn out amount less \$5,000,000. The issue of ordinary shares also resulted in a \$109,000 dividend paid based on 4.5 cents for each ordinary share issued. The remaining unpaid balance as at 30 June 2019 is \$6,957,000.





C3. CONTRIBUTED EQUITY AND PERFORMANCE RIGHTS

Ordinary shares

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Issued and fully paid	91,179	85,724

Movements in ordinary shares on issue

	30-Jun-19		31-Dec-18	
	No. of Shares	\$'000s	No. of Shares	\$'000s
Beginning of the financial period	118,876,222	85,724	117,368,988	83,507
Issued during the year				
- Performance rights vested	271,100	472	584,054	685
- Dividend reinvestment plan	544,778	983	923,180	2,633
- Infoready third earnout liability settlement	2,439,024	4,000	-	-
- Outware accelerated purchase settlement	-	-	-	1,000
- Transfer from treasury shares	-	-	-	(1,884)
- Transaction costs on capital raising and share repurchase, net of tax	-	-	-	(217)
End of the financial period	122,131,124	91,179	118,876,222	85,724

Performance rights

	30-Jun-19	31-Dec-18
	No. of Rights	No. of Rights
Unissued ordinary shares under performance rights	593,493	1,185,303

C4. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

Disaggregation of derivative financial assets / (liabilities)

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Foreign exchange contracts (i)	-	(80)
Interest rate swap (ii)	(544)	-
	(544)	(80)

(i) Foreign exchange contracts

At 30 June 2019, the Group held no (2018: six) foreign exchange contracts designated as cash flow hedges of expected net USD cash payments for which the Company has firm commitments. The terms of these foreign exchange contracts were negotiated to match the terms of the commitments. The exchange contracts were used to reduce the exposure of foreign exchange risk.

(ii) Interest rate swap

At 30 June 2019, the Group held one (2018: nil) interest rate swap contract designed to hedge the variable interest rate exposure relating to the interest-bearing bank loan.





Section D: Group structure

D1. DISPOSAL GROUP HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH DISPOSAL GROUP HELD FOR SALE

On 5 December 2018, the Board of Directors approved the sale of the TPP Wholesale Reseller business. The TPP Wholesale Reseller business together with the Telecommunications Reseller business form the SMB Indirect division. SMB Indirect together with SMB Direct form the SMB segment, which is one of the two operating segments of the Group. The other operating segment is Enterprise.

The sale of the TPP Wholesale Reseller business is considered highly probable as the transaction was completed on 31 July 2019, as detailed in note E1. At 30 June 2019, the TPP Wholesale Reseller business was classified as a disposal group held for sale. It has not been classified as a discontinued operation on the basis that the TPP Wholesale Reseller business represents less than 10% of the Group's revenue and is not considered a separate major line of business.

The major classes of assets and liabilities of the TPP Wholesale Reseller business classified as held for sale as at 30 June 2019 are, as follows:

	CONSOLIDATED	
	30-Jun-19	31-Dec-18
	\$'000s	\$'000s
Prepayments of domain name registry charges	6,728	6,771
Deferred tax asset	32	98
Goodwill (note B4)	23,726	25,829
Assets held for sale	<u>30,486</u>	<u>32,698</u>
Provisions	(40)	(54)
Income received in advance	(10,560)	(10,871)
Deposits in advance	(385)	(367)
Liabilities directly associated with assets held for sale	<u>(10,985)</u>	<u>(11,292)</u>
Net assets directly associated with disposal group	<u>19,501</u>	<u>21,406</u>

Immediately before the classification of a disposal group as held for sale, the carrying amount of all the assets and liabilities in the disposal group were measured in accordance with the applicable accounting standard. The carrying amount of Goodwill attributable to the disposal group has been calculated at each reporting date based on its estimated recoverable amount relative to the estimated recoverable amount of the SMB CGU. Due to an improvement in the forecast cash flows, and therefore recoverable amount, of the wider, ongoing operations of the SMB CGU, the proportion of Goodwill allocated to the disposal group decreased from \$25,829,000 at 31 December 2018 to \$23,726,000. Goodwill allocated has not been tested for impairment.





Section E: Other information

E1. EVENTS AFTER THE BALANCE SHEET DATE

On 31 July 2019, the sale of the TPP Wholesale Reseller business was completed. The Group received \$21,300,000 cash of total transaction proceeds, with \$3,100,000 expected over the next two years associated with the separation of the business from the Group as part of the Transitional Services Agreement. The transaction proceeds will be used to reduce debt, providing the Group with balance sheet flexibility and increased financial capacity.

On 16 August 2019, the Group announced the appointment of Mr Karl Siegling as a non-executive Director of the Board, effective 23 August 2019. Mr Siegling has been Chairman and Managing Director of Cadence Capital Limited and Cadence Asset Management Pty Limited, one of the Group's substantial shareholders.

There has not been any other matter or circumstance in the interval between 30 June 2019 and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.





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Independent Auditor's Review Report to the Members of Arq Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Arq Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) 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, anything has come to our attention that causes us to 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 consolidated financial position as at 30 June 2019 and its consolidated 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*.

The Ernst & Young logo is written in a stylized, cursive script.

Ernst & Young

A handwritten signature in black ink, which appears to read 'David Petersen'.

David Petersen
Partner
Melbourne
22 August 2019



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Auditor's Independence Declaration to the Directors of Arq Group Limited

As lead auditor for the review of the half-year financial report of Arq Group Limited for the half-year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Arq Group Limited and the entities it controlled during the financial period.

Ernst & Young

David Petersen
Partner
22 August 2019