Arq Group

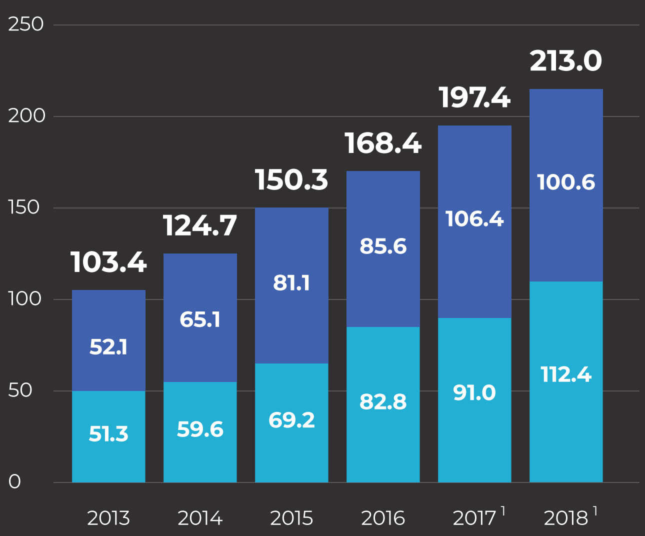
Annual Report 2018

Contents

Financial Highlights of 2018

During 2018, Arq Group invested in transforming the Group, setting up a return to growth in 2019.

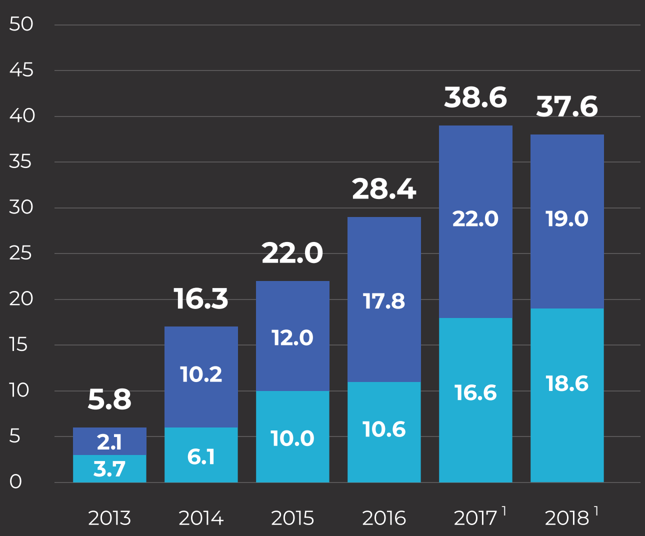
Revenue ($m)



Revenue increased by 8% in 2018, and increased by a compounded annual growth rate of 16% from 2013 to 2018.

1. The Group applies, for the first time, AASB 15: ***Revenue from Contracts with Customers*** ('AASB 15') and AASB 9: ***Financial Instruments*** ('AASB 9'). The application of AASB 15 has required a restatement of previous financial statements. The nature and effect of these changes are disclosed in the respective notes to the financial statements.
2. A one-off special dividend of 25.0 cents per share was paid in 2013 following the divestment of the Group's DBS business unit. No other dividend was paid to shareholders in that year

Underlying EBITDA ($m)



Arq Group's preferred measure of evaluating profitability is Underlying EBITDA (earnings before interest, taxation, depreciation and amortisation), which adjusts for one-off and non-recurring items and the pro forma impacts of acquisitions and divestments made in the financial period. Underlying EBITDA decreased by 3% in 2018. Underlying EBITDA increased by a compounded annual growth rate of 45% from 2013 to 2018.

2018 Highlights

In 2018, Group revenue increased by 8%. This was primarily driven by strong organic growth in Enterprise Mobile and Data & Analytics practices, with new customer wins continuing and strong customer renewals.

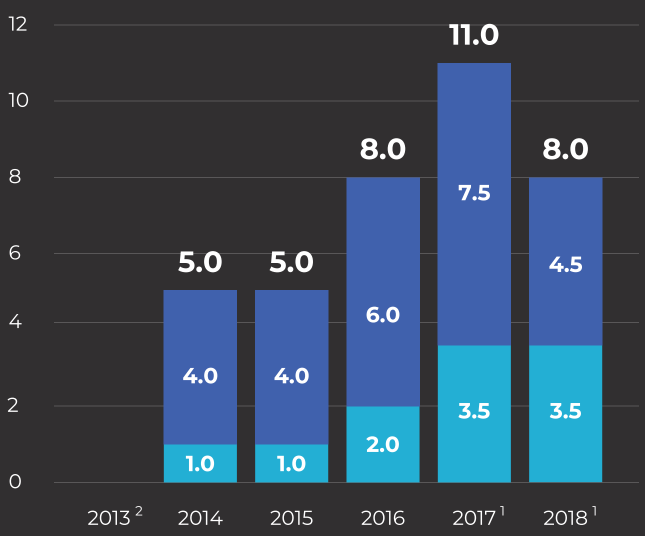
Group operating cash flow increased by 36% in 2018 as a result of continued efforts to improve working capital.

The Group entered into a new three-year $142 million finance facility with ANZ Bank and National Australia Bank. This provides Arq Group with access to facilities to fund future growth and strengthen the balance sheet.

8.0 cents

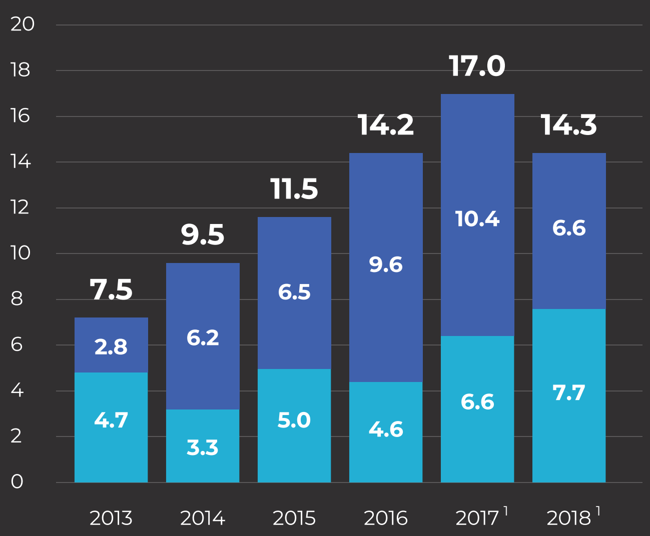
The Group declared and paid an interim dividend of 3.5 cents per ordinary share, and declared a final dividend of 4.5 cents for 2018. Both the interim and final dividend are fully franked (100% franked in the prior year).

Dividend (cents per share)



Dividend CPS (cents per share) decreased by 27% in 2018. Dividend CPS increase by a compounded annual growth rate of 12% from 2014 to 2018. A one-off special dividend of 25.0 CPS was paid in 2013 following the divestment of the Group's DBS business unit. No other dividend was paid to shareholders that year.

Underlying EPS (cents)



Underlying EPS (earnings per share) presents earnings per share after adjusting for one-off and non-recurring items, and the pro forma impact of acquisitions and divestments made in the financial period. Underlying EPS decreased by 16% in 2018. Underlying EPS increased by a compounded annual growth rate of 14% from 2013 to 2018.

H1 H2

Chair & CEO's Review

Andrew Reitzer
Chair

Following five years of very strong growth, in 2018, the Group invested heavily to set up the next leg of growth. The company rebranded to Arq Group, reshaped its platforms and service offerings and grew its work force.

The year that was

In recent years our annual messages have tracked the progress of the turnaround plan that began in 2014. They have documented the growth, the investments, the acquisitions, and the milestone achievements. In retrospect, 2018 witnessed more change than any of the preceding years. We continued to reshape the Board including the appointment of a new Chair, Mr Andrew Reitzer, in August 2018. We began the re-branding of our business, we outgrew our existing premises in Sydney and Melbourne and moved into new, contemporary, fit-for-purpose offices, we refinanced our debt, and we continued to recruit.

Today's business is almost unrecognisable from the business of 2014. We have grown from a team of approximately 250 people to one of almost 700 people, and 80% of our people are doing jobs that didn't exist five years ago. Our Enterprise division has been transformed from a business that sold flavours of hosting to a leading digital services partner for Australian businesses. In the process the division has grown from 70 people to 396 people.

While the changes in our Small to Medium Business (SMB) division are less obvious, they are no less significant. This division has evolved from the leading provider of domain names and hosting services to also being a leading provider of digital marketing services, fueling the growth of thousands of small business customers. These new revenue streams now account for more than 23% of the revenue in our SMB division and approximately half of the people are doing jobs that didn't exist three years ago.

Over the six years of our turnaround, revenue has grown by a compounded annual growth rate (CAGR) of 16%, Underlying EBITDA (CAGR) of 45% and Underlying EPS (CAGR) of 14%. Similarly, measured staff engagement has, over the past four years, grown from 23% to 52%, and our Net Promoter Score has almost doubled. On all objective measures the business has been fundamentally reshaped over the past five years.

Five years of growth and development reached a natural culmination in 2018 with our re-branding to Arq Group. This was not a step that the company took lightly. We are conscious of the proud history of Melbourne IT and its strong brand legacy but the Melbourne IT brand no longer reflected the markets we serve and the values of the combined business. It spoke to the past, not to the future.

The re-branding and the office move created the ideal circumstances in which we can accelerate the cultural integration of the acquired businesses. Together with a focus on hygiene factors such as market competitive remuneration and the core systems to enable us to recruit and on-board people at scale, it forms the 'platform' that will enable us to grow sustainably.

Martin Mercer
CEO

Looking ahead

In recent years our focus has been on building a sustainable business serving customers in growing markets with leading edge services and solutions. We have grown both organically and through acquisition. Considerable management time and attention has been devoted to the major change initiatives, the challenges of integrating acquired businesses and big projects such as the office moves and the re-branding.

This accelerating pace of change has ultimately come at a cost. We can see this in our performance in 2018 where an ambitious change agenda finally distracted us from the disciplines of operational performance. While our revenue continued to grow in 2018, Underlying EBITDA and Underlying EPS stalled.

> Following five years of re-shaping our business, we are well positioned in rapidly growing markets providing critical digital platforms and services to businesses, big and small.

This is understandable, and we are determined to regain momentum in 2019. This will be driven by a single-minded operational focus and a pivot away from big internal projects to a greater focus on customers, markets, and our people.

Following five years of re-shaping our business, we are well positioned in rapidly growing markets providing critical digital platforms and services to businesses, big and small. In 2019 we will deepen our understanding of customer needs and the drivers of value and back this up with an unrelenting focus on execution and delivering value.

In the context of our Enterprise division this will entail the move to one customer-facing brand and an associated focus on breathing life into our new brand promise. The market for digital services is evolving rapidly and we are confronting new competitors with new propositions seeking to satisfy the expanding scope of customer expectations. We are adapting to these changing competitive challenges and our breadth of capability means that we are well placed to meet the expanding requirements of customers who increasingly want complete solutions. This year we will accelerate the development of new capability to keep ahead of the competition and to meet the ever-expanding expectations of customers.

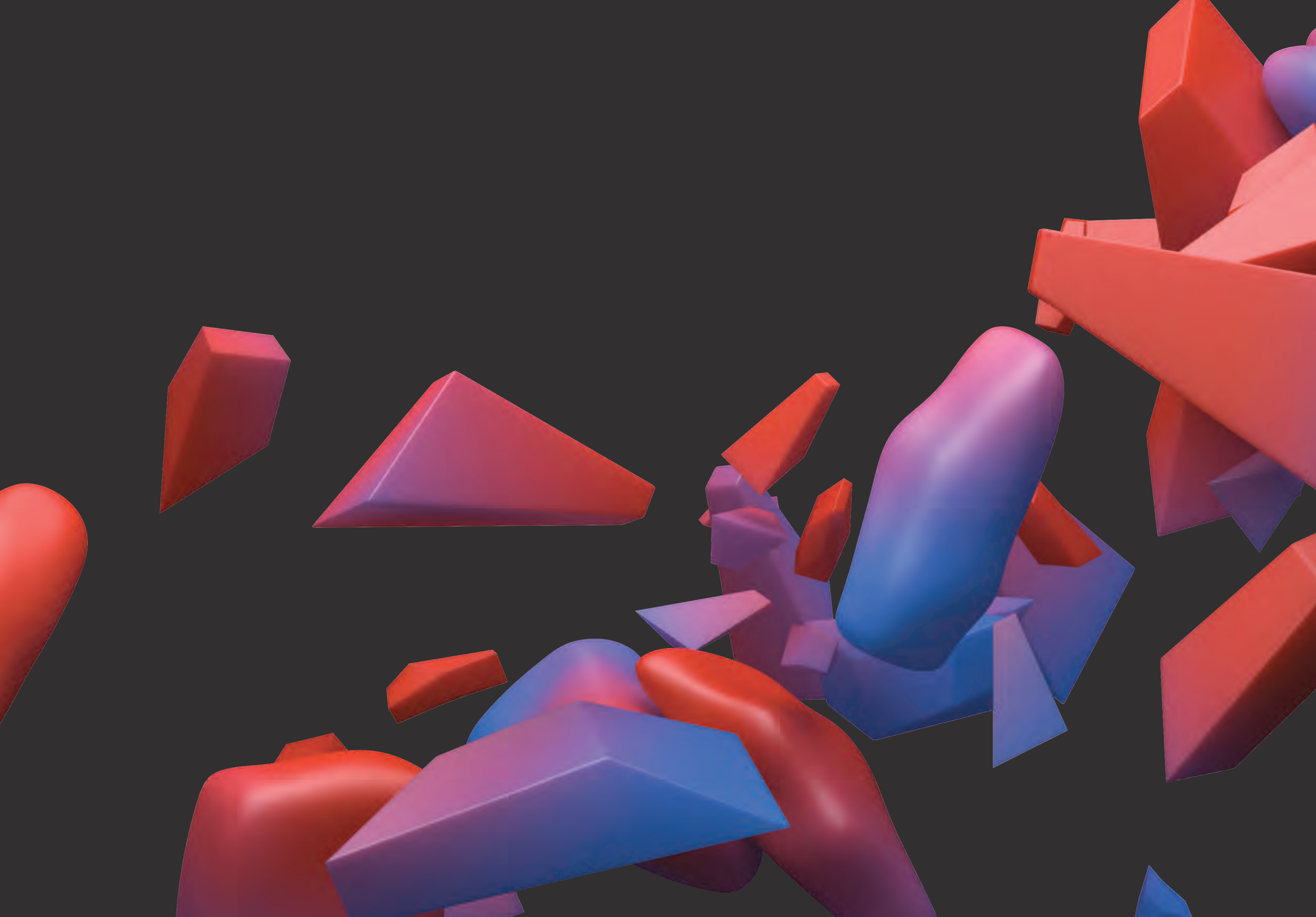
The focus in our SMB division will be subtly different. We will continue to focus on understanding and delivering value to our customers. But this will be achieved through operational discipline and business model innovation rather than expanding our scope of services. There are very significant gains to be made from improving our acquisition of new customers and more importantly from retaining and growing the value of existing customers. This will entail a continuing investment in our managed marketing services business and its evolution to a true digital agency.

It will be clear from the description of the changes that have happened in our business and our focus for 2019 that we have evolved from a platform business to one that scales with people. The solutions and services that are driving the strong growth of recent years are developed by people, delivered by people, and supported by people. In 2019, we expect to welcome another 300 people.

The imperative of attracting, developing and retaining talented people while continuing to foster a vibrant workplace will be a major focus for us this year. It will traverse the territories of remuneration and benefits, brand, culture, premises and platforms. Together, we expect these will make us a destination for talent.

A sustained focus on the financial, operational, and cultural health of our company is transforming the business and has delivered significant shareholder value. In 2018, growth in profit stalled. We understand the reasons for this and have a plan to remedy it. With the dramatic reshaping of our business over the past five years we are well placed to enjoy the growth driven by the demand for digital services and solutions. We are confident that a 'back-to-basics' focus on customers, our people, and operational excellence will see us steadily regain momentum over 2019 and 2020.

We unleash the possibilities between business and people



Enterprise

2018 was another significant year for Enterprise as we move towards our goal of becoming the leading Australian digital solutions provider for enterprise and government organisations.

Enterprise 2018 highlights

Our focus on designing, building and ever-greening digital products and channels in partnership with our customers has meant that we have become the trusted partner to many of Australia's largest organisations.

Continued growth

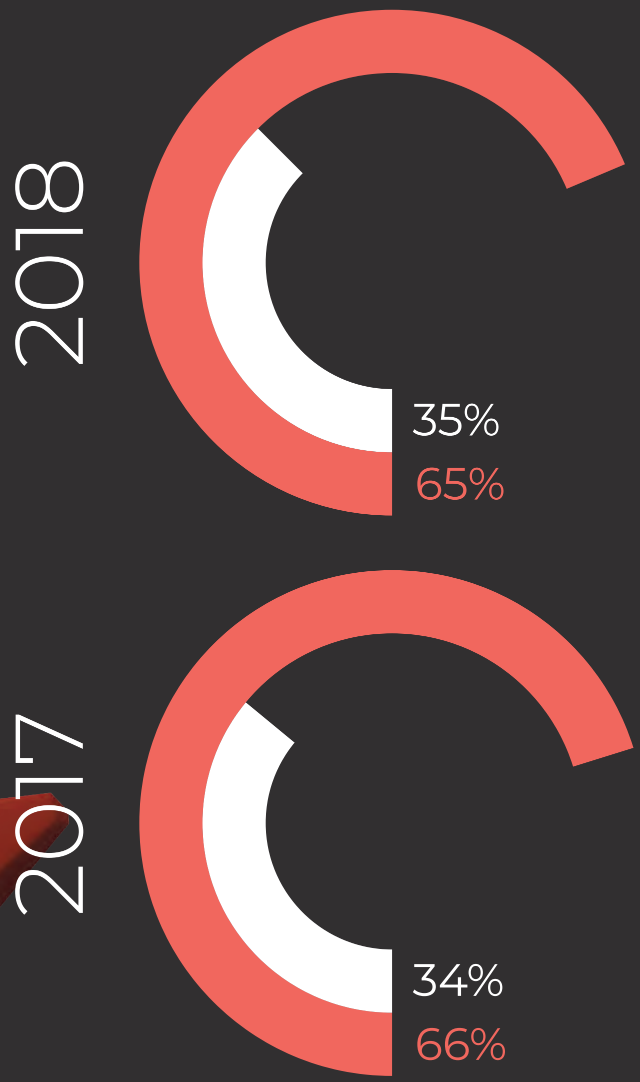
Enterprise has delivered another strong year of organic growth with revenue up 18% to $112.9 million and Underlying earnings up 26% to $22.2 million. Staff numbers totalled 396 in offices across Queensland, New South Wales and Victoria.

Our relationships with corporate Australia continued to expand with new customer wins including Bunnings, Linfox, Eclipx, K-Mart, Endeavour Drinks Group, Ambulance Victoria, National Disability Insurance Agency and Queensland Ambulance Service. The continued development of our customer relationships and the breadth of our solutions to existing customers supports our ongoing strong organic growth.

Re-brand to Arq Group

This reporting year was particularly seminal for Enterprise with the launch of the Arq Group brand in May 2018. Before the re-brand, we engaged enterprise and government clients with a collection of brands representing specific foundation digital capabilities: Outware for mobile solutions, Inforeadу for data and analytics solutions and Melbourne IT for cloud solutions. Our re-brand reflected the changing needs of our customers. In order to support our purpose of helping our customers unleash the possibilities between business and people, we recognised the need to combine our digital technology capabilities in order to deliver impactful digital products and channels. Coming together under Arq Group unifies and simplifies our identity, speaking to the complete digital partnering solutions we deliver and making it easier for our customers to work with us.

Our new brand has been well received in the market and with staff, and we are excited to continue to build on these brand credentials as we broaden the solutions we provide for customers.



Revenue split by numbers

Multi-practice Customers

Single-practice customers

Segment result

18% CHANGE

$95.3m
FY17

$112.9m
FY18

Revenue

26% CHANGE

$17.6m
FY17

$22.2m
FY18

Underlying EBITDA Contribution

Innovation, recognition & awards

Our growth in market-facing digital solutions is underpinned by our strong culture of innovation that helps our customers differentiate themselves in their markets and delights end consumers with digital offerings and channels that help them be better organised, more productive, learn, thrive and be entertained.

We continue to invest in new and emerging digital technologies in order to help our customers achieve their go-to-market ambitions. An ongoing commitment to training and staff development, and our commitment in supporting formal certifications and qualifications makes Arq Group an attractive place to work and reinforces our enterprise grade credentials.

During 2018, a number of Arq Group staff members shared their experiences in embedding new innovation approaches in a digital context at a range of global technology forums.

Amazon Web Services (AWS) recognised our innovation and capabilities, naming Arq Group as AWS' Asia Pacific Innovation Partner of the Year. We were also acknowledged as AWS ANZ Innovation Partner of the Year.

In 2018 we maintained our exclusive AWS Premier Partner status, AWS Marketing Competency, AWS Public Sector Competency and AWS Managed Services Provider Competency.

We expanded our certifications with Microsoft, achieving Azure Expert MSP and Gold Partner cloud hosting; we were awarded Dynatrace Cloud Service Partner of 2018 and we have maintained our ISO 9001:2015, ISO 27001:2013 certifications and recertified a number of client PCI/DSS solutions.

Our work on LinktGO (see case study on page 12) was recognised at both the Melbourne and Sydney Design Awards. Our design capabilities were also recognised at the Government Design Awards and the CRN Impacts Awards. Arq Group took home a total of five Design Awards, awards recognising creativity and courage of those designers who are leading the way, and we won a further design award at the CNR Impact Awards.

Enterprise has continued to build on its credibility and value in the marketplace. We help our customers innovate and deliver projects that are reliable and enterprise grade.

Outlook for 2019

Digital technologies have become pervasive, affecting so many aspects of people's lives. Enterprise and government organisations will continue to invest in powering their products and sales and marketing channels with the latest digital technology if they are to effectively reach their customers, constituencies, or employees.

Over the past five years we have seen organisations building out first-generation digital solutions. In many cases, the solutions were based around specific digital capabilities to address a targeted use case. More recently we are seeing organisations wanting more integrated and sophisticated solutions that deliver a unifying experience across multiple external consumer touch points.

Arq Group is well placed to expand its partnerships with enterprise and government organisations as demand moves to broader digital solutions. The work we have done on integrating our capabilities means we are customer led in designing and building new digital products and channels. Our breadth of capability, and the extent of our customer partnerships in the enterprise and government market, provides our customers with the confidence to work with us on high profile, high impact solutions across their product and channel portfolios.

By partnering with our customers to create digital products and channels, we will continue to create value for companies and utility for consumers.

Toll roads affect many people, in some cases daily, in some cases only once a year - but all have been traditionally treated the same.

Transurban recognised that infrequent travellers wanted to interact with its toll roads in a different way to everyone else. They wanted a simple way to manage and pay for tolls, without having to commit to an ongoing account or e-Tag. And Transurban wanted to give it to them.

They approached Enterprise to develop an app and back-end system to allow these infrequent toll road users to travel on toll roads using only their smartphone.

Our first step was to see if it was possible. We ran a workshop to test the feasibility of using a smartphone to geo-tag a journey, and the results were very positive.

With a successful Proof of Concept in place, we worked on developing what would become the LinktGO app. The idea was to have the phone's GPS technology identify when a driver entered and exited any Australian toll road (replacing the need for a tag), while also giving users clear visibility of their toll road trips and associated costs.

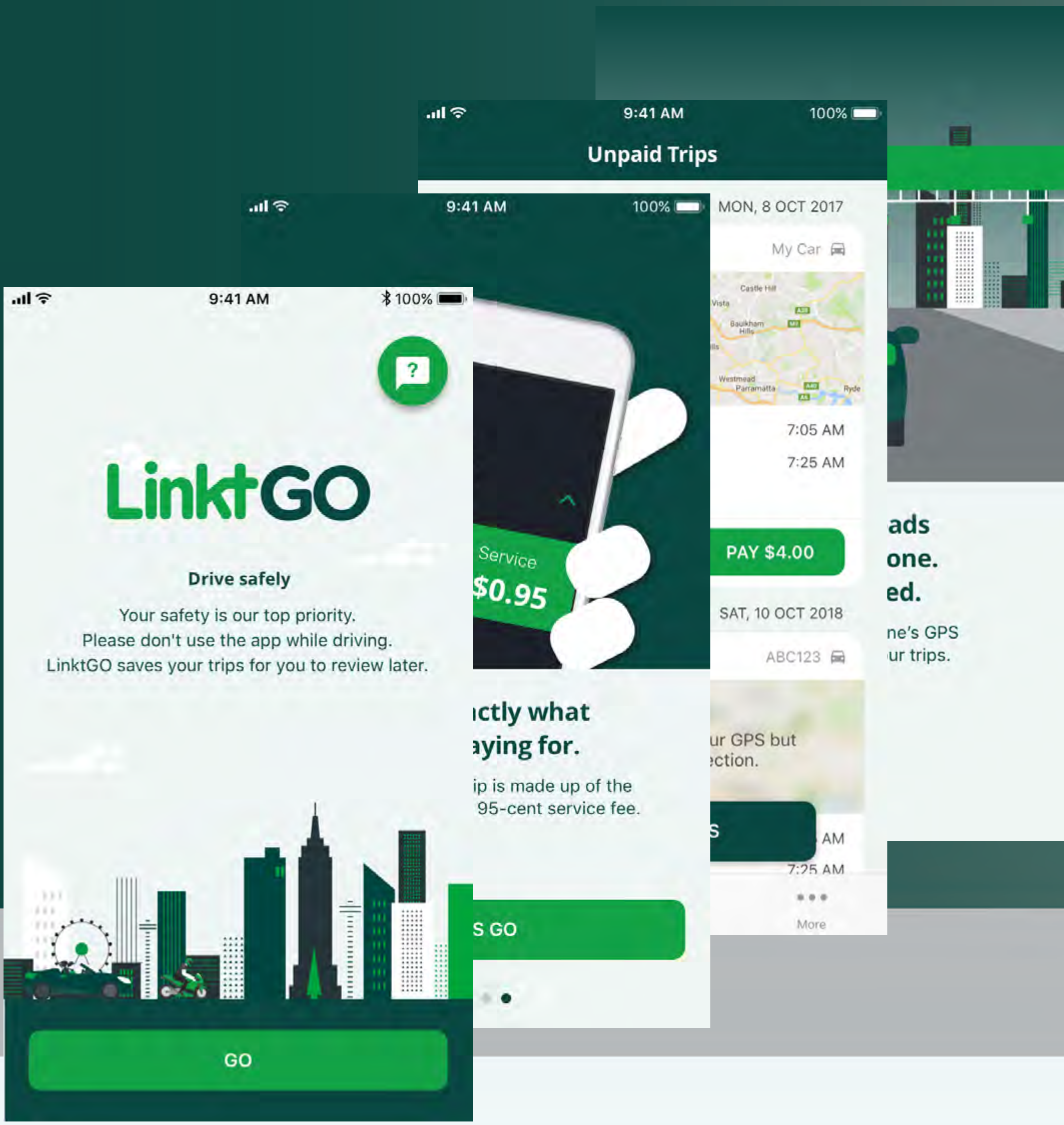
When we'd developed an app that could achieve all this seamlessly and intuitively, we moved into the testing phase. Detailed, regular testing sessions with more than a thousand different drivers allowed us to refine and improve the user experience.

The result was a simple, easy-to-use app that users can sign up to using their mobile phone number, licence plate number and a credit card. And as they drive, they only pay per trip on Transurban toll roads - with a push notification reminding them when a payment is due.

The LinktGO app was downloaded 50,000 times in the first six months, and has been featured on Smart Company, ITWire, and 7News - highlighting its unique user experience and the clear benefit it provides to Transurban customers.

The LinktGO app has also picked up a number of awards at the Melbourne Design Awards, including Gold for Product Design (Technology), and Silver for both Digital (TravelTech) and Digital (New Service or Application).

It is available on both App Store and Google Play Store.



SMB

2018 was another significant year for SMB as we continued to make progress on becoming the leading provider of digital marketing services for Australian small businesses.

The year in review

Through 2018, we continued to see small businesses grapple with how best to approach their online strategies. In Australia, 50% of businesses still don't have a web presence, and only 26% are thinking about how they get found online via search marketing, or have any digital marketing strategy underpinning their business plan. In this context, we continued to focus on investing in our digital marketing services business, with solutions revenue growing 21% from 2017 and contributing 24% of SMB revenue, up from 19% in 2017.

Netregistry is our core brand supporting small businesses and a key focus for us in 2018 was to extend the legacy Netregistry brand proposition, from being focused on traditional domains and hosting services, into a brand that reflects that we are the complete online solutions partner for small business. We repositioned the digital marketing portfolio to ensure our products focused on the outcomes that online marketing campaigns deliver, rather than referring to services using three letter acronyms such as PPC and SEO, which create confusion, and don't explain to our customers the business impact these solutions can have.

At the same time, by increasing focus and support for our front line teams, in 2018 our customer satisfaction scores increased 98% from 2017. Having come to the end of the customer migration programs, we were able to invest in capability and service experience enhancements with these customer-facing teams, many of whom are located offshore.

This focus and investment continues into 2019 and we anticipate ongoing improvements as we continue to increase our understanding and focus on delivering value to our customers.

We are also well advanced on our plan of having all of our customers on a single customer management platform. We extended our use of SalesForce across the sales and account management teams, and implemented SalesForce Marketing Cloud to enable tracking and engagement from the moment a customer responds to a piece of marketing material all the way through the sales and onboarding process, and into subscription renewal.

With these important foundations in place, the SMB business is well-positioned for growth in 2019.

The year ahead

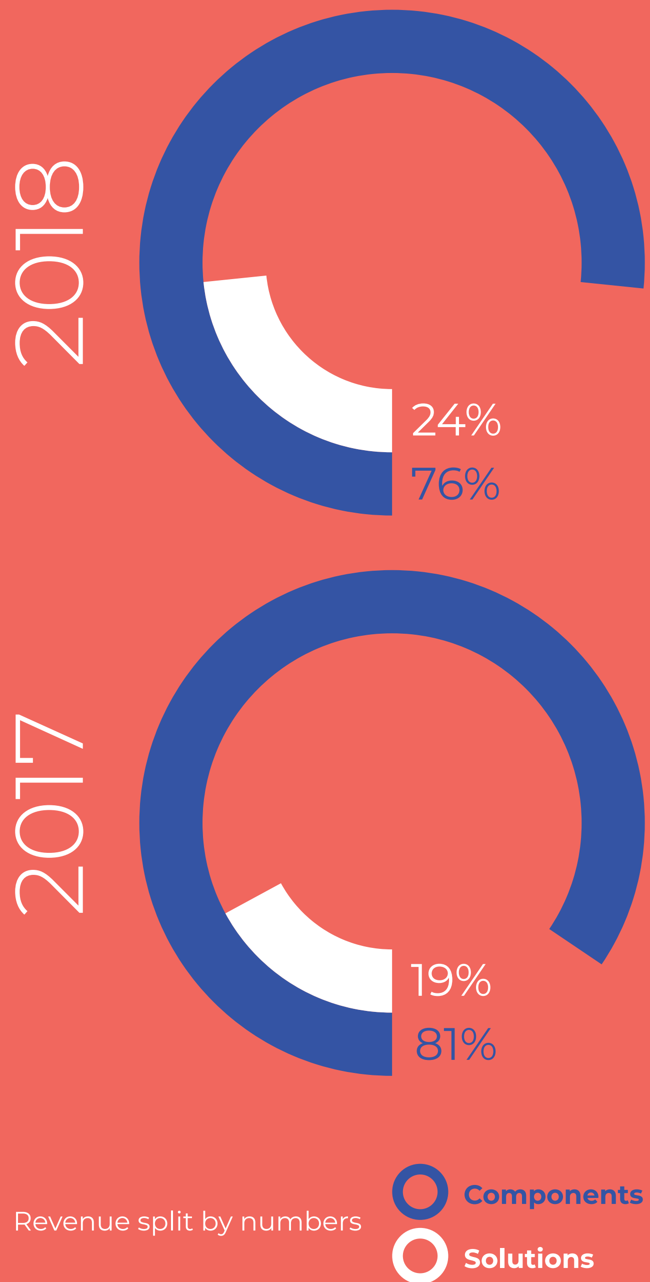
In 2019, the SMB business will regain growth momentum through a relentless focus on our customers. We will be highly targeted in our strategies to acquire and onboard new customers, and leverage data and insights to drive market leading retention and customer growth rates.

There are significant gains to be made from improving the way we acquire and support new customers in the first three months of their services with us. In 2019 we will upgrade our search marketing services so that they continue to be responsive to the changing nature of consumer search behaviour and search engine algorithms, and we will continue to focus on ensuring the first 90 days of a new marketing campaign or website experience are absolutely aligned with delivering the business goals of our new customers.

Equally, there is substantial value to be created in retaining and growing the value of our large existing customer base. Our Account Management and Servicing teams will leverage data models made possible through the single customer management platform to develop and test propensity models, designed to increase the value of each customer relationship. Alongside this, a relentless focus on operational discipline with customer engagement and satisfaction rates being key to driving market-leading retention and renewal rates. By delivering truly exceptional customer experiences and outcomes, our digital experts will be deeply entrenched in the operating models of small businesses across the country.

Key to our success in 2019 will be our people - our digital experts partnering with customers to deliver valuable and impactful results. Attracting, developing and retaining top talent will continue to be a priority. Our move to larger premises in both Sydney's and Melbourne's CBD means that all of our people are now together in one location. We are now well placed to attract and retain digital experts who understand the challenges small businesses face as they navigate the digital landscape.

By focusing single-mindedly on our customers and operating discipline, we are confident that the SMB division will steadily regain growth momentum in 2019.



Segment result

2% CHANGE

$102.0m FY17

$100.1m FY18

Revenue

18% CHANGE

$27.3m FY17

$22.3m FY18

Underlying EBITDA Contribution

SMB CASE STUDY

Melissa Hope Hair & Makeup

“I’ve noticed since taking on the Netregistry SEO packages, I have taken on a lot more business, had a lot more enquiries and I’ve had more interesting work come my way.”

- Melissa Hope

Like many small business owners, Melissa Hope had a dream of financial freedom while balancing family commitments. Before engaging Arq Group, Melissa promoted her eponymous hair and makeup business via word of mouth and social media.

She had built a website, and was seeing regular organic traffic, but she was keen to rank better on search engines and lift her business profile. Melissa recognised that hair and makeup is a competitive field, and potential clients are often using Google to find what she offers.

Arq Group started working with Melissa in 2017. Following in depth research into her business goals, as well as a discussing potential marketing channels, our expert advice was to implement a search engine optimisation (SEO) strategy to help with organic Google rankings.

Account Manager Mark Tran said the goal was to increase visibility of Melissa’s salon in Sydney’s Surry Hills.

“We researched, shortlisted and chose keywords with Melissa’s final sign off. By continually monitoring and optimising, we were then able to focus on the phrases, like ‘hair salon Surry Hills’, that delivered the right traffic to Melissa’s website,” he said.

The research carried out ensures there is ample search volume. And it equips us with information to help rank the queries with the resources required and within Melissa’s budget.

“Keywords alone don’t rank in searches. There is a methodical approach. We adjust certain elements, we refer to this as the ‘onsite’. A technical onsite ensures search engine can crawl and understand structure and any new content of website.”

The project included supplying the client with quantifiable results through monthly benchmark reports, alongside web analytics comparing traffic and enquiries from various channels.

Over the past 12 months, this strategy had boosted exposure of Melissa’s hair and beauty salon using targeting keywords, and driven more qualified enquiries for her business.

To complement the SEO, Melissa has also been marketing her business on Facebook, Instagram and through blogs on her website. This digital marketing strategy has seen an increase of 65% of unique visitors to the website, comparing Q4 2018 with Q4 2017.

Melissa’s goal is to have a team beside her, to grow her business and her brand.

Brand, People & Culture

Re-brand to Arq Group

After a rigorous internal and external brand review, we launched our new name, as well as unifying visual identity, in 2018.

The re-branding to Arq Group was a detailed process. During 2017, we worked with an external research agency to help us understand the awareness and equity in each of our brands and how they were perceived in the market. We also consulted with our investors, our staff, our customers, and other stakeholders.

The re-brand recognises our transition from a business that primarily sold domains and hosting, to one of the country's leading digital partners for businesses, big and small.

It is a large step among many small steps that have enabled us to integrate the businesses we acquired over the past five years.

New offices opened

During 2018, we moved into new offices in both Melbourne and Sydney. This was a 'bottom up process' involving literally hundreds of our people. The result is larger, fit-for-purpose premises that enable us to embrace workplace flexibility and a working environment that adjusts to our changing needs. With options such as breakout rooms, libraries, quiet and collaboration areas, event spaces and large communal rooms for taking some time out, we have a lot of options to accommodate all working preferences. Our Brisbane team will move into new offices in early 2019.

These premises reflect our new brand and our commitment to agile ways of working. The new offices include flexible workspaces that reflect the style and activities of our staff and allow us to work more effectively.

Supporting change

We've experienced significant change these past few years and to support our employees through this we continued to develop leadership capabilities across our workforce. During 2018 we trained more than 160 people in effective leadership and people management skills, as well as offering ongoing coaching and training support for individual development and career growth.

To be Australia's leading digital partner, powering the growth of business, big and small.

Our established talent and capability review process, held quarterly across the organisation, ensures we can identify, develop, promote and retain high achievers and talented staff members.

Our culture

Over the past five years we have grown from a team of approximately 250 people to a team of almost 700 people. This has been a function of acquisition and organic growth. This process of transformation and growth, has been accompanied by inevitable cultural change.

With no new acquisitions during the year, we committed to integrating and building on the culture, brand and identities that came with our past acquisitions and work towards an aligned culture and operating model.

Our re-brand was the culmination of a long process of creating a collective vision, purpose and cultural identity that unites all of our businesses. We will take the resulting Group brand and vision and build on it to position ourselves as an employer of choice in a competitive market.

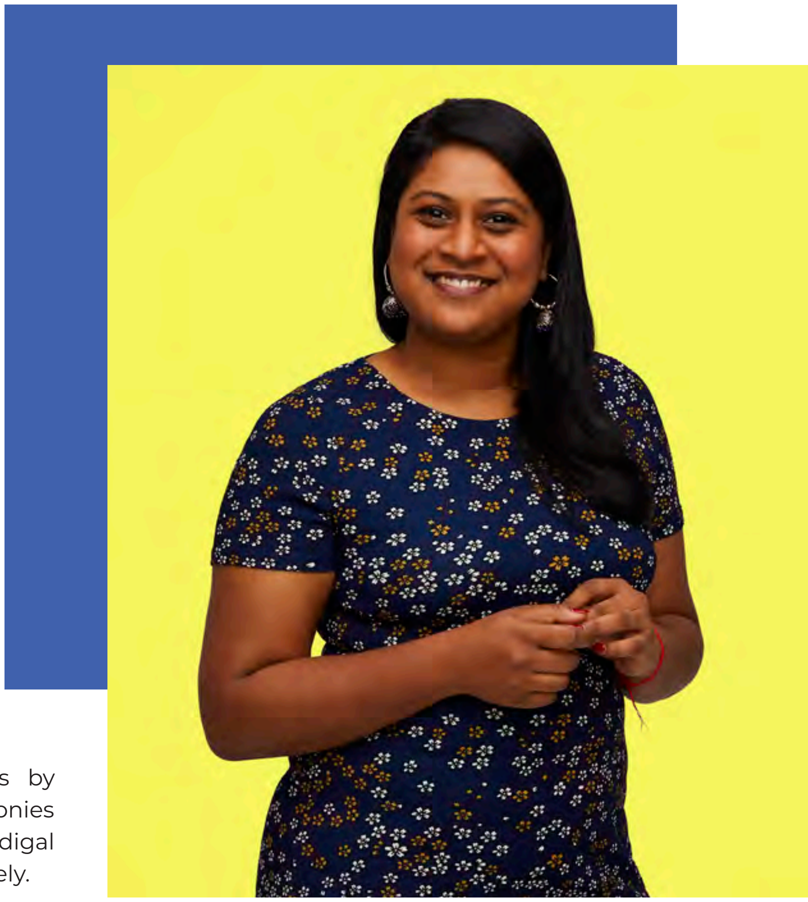
An important part of our culture is the recognition that in order to succeed in the fast-paced tech industry, we must create an environment that allows innovation to thrive. We are committed to investing in and developing the skills, knowledge and leadership capabilities of our people, as well as allowing the curiousity and creativity that are the hallmarks of a progressive business.

We support our people through hackathons (officially called Arqathons), innovation hubs, learning labs and tech-creative working groups. We celebrate experimentation and sharing thought leadership through blogs, guest speaking opportunities and 'proof of concept' development initiatives. The engagement of our people continues to remain an important focus. Employee engagement is measured and reviewed bi-annually. How our people feel, their employee experience and their feedback for improvements on areas such as the workplace, leadership, development, environment and communication is important to the ongoing cultivation of our culture.

Inclusion & wellbeing

Arq Group is committed to the health and wellbeing of our people and we dedicate resources to a variety of activities celebrating inclusion and diversity.

Our staff represent more than 50 nationalities and we take pride in this cultural mix. In 2018, we recognised key cultural events including Taste of Harmony, NAIDOC week, Rosh Hashanah, Ramadan, Eid Al-Fitr and Bodhi Day.



We also honoured our First Australians by hosting Welcome to Country ceremonies performed for us by the Wurundjeri and Gadigal elders for Melbourne and Sydney respectively.

We shared informative emails, blog posts and small tokens with our people marking particular celebrations, for example chocolate coins during Hanukkah, and lights during Diwali.

We have 51% female representation in senior leadership and KMP levels and continue to run internal campaigns promoting gender diversity and equality. To ensure pay equity, we conducted a pay equity analysis and used the data to determine pay scales.

During 2018, we were a Bronze sponsor of the Women in Technology Summit, Australia's biggest women's conference. Our Chief Executive Officer, Chief People Officer and Chief Technology Officer spoke at the event and Arq Group hosted an exhibition booth, highlighting the achievements of our female team members. More than 20 Arq Group women attended the conference.

Arq Group was also naming sponsor for the Educational Leadership Award at the inaugural Women in Digital Awards.

We held breakfast and morning tea events on both International Women's Day and International Men's Day to raise awareness and promote gender equality and cohesion.

As part of our goal to become an employer of choice for women, we are proud to be a Premium Partner of Work180, an international job board, networking and social media agency for women.

On a more practical level, our new offices in Melbourne and Sydney now have dedicated breastfeeding rooms and we are working towards our Breastfeeding Friendly Workplace Accreditation.

We acknowledge and support our LGBTI+ community and talent. During the year, we held a Rainbow Flag competition, with prizes of passes to the LGBTI+ film festivals. We also held an Equali-tea in honour of our LGBTI+ colleagues, friends and family and to raise awareness of the issues they face.

Space to (change)

For International Day of People with Disability we ran an educational campaign publishing a dictionary and etiquette guide for including people with disabilities.

We partner with an Employee Assistance Program provider, giving staff free access to counselling, meditation sessions, and other wellbeing support services.

2018 was a year of rapid change and evolution at Arq Group. We recognise the hard work and commitment required of everyone to adjust to such an ambitious transformation agenda, and thank our staff for their patience and dedication.

Board of Directors

Andrew Reitzer

Non-Executive Director and Chair
(Appointed 1 Augustl 2018)

Qualifications

- Bachelor of Commerce - University of South Africa
- Master of Business Leadership - University of South Africa

Experience and Expertise

Andrew Reitzer brings more than 35 years of global experience in the technology, retail and wholesaling industries. Andrew has extensive experience in M&A, post-acquisition integration and organisational change.

From 1988 to 30 June 2013 Andrew was CEO of Metcash Limited. Prior to his appointment to CEO, Andrew held various management roles at METRO Cash & Carry and led the establishment of METRO's operations in Israel and Russia and served as the Group Operations Director.

In addition to the Non-Executive Directorships listed below, Andrew is a Director of several private companies.

Other Current Listed Company Directorships

- Non-Executive Chair - Amaysim Limited (ASX: AYS) (Appointed June 2015)
- Non-Executive Chair - SG Fleet Limited (ASX: SGF) (Appointed February 2014)

Former Listed Company Directorships In Last Three Years

Nil

Special Responsibilities

- Chair of the Board

Martin Mercer

Managing Director & CEO
(Appointed 7 April 2014)

Qualifications

- Bachelor of Arts (Hons) – University of Sydney
- Bachelor of Laws – University of Sydney
- Graduate Diploma Finance – Securities Institute of Australia

Mr Mercer studied economics and finance at the Woodrow Wilson School of Public and International Affairs, Princeton University, and is a former Harkness Fellow.

Experience and Expertise

Mr Mercer has over 20 years' experience in the telecommunications and technology sectors. In addition to his reputation for excellence in both strategy and execution, he has an impressive résumé in strategy, sales, marketing and product development, and general management.

Prior to joining Arq Group (formerly Melbourne IT), he was Managing Director, Strategy and Fixed, at Optus following four successful years as CEO of Vividwireless, and ten years in a number of significant leadership positions at Telstra.

Other Current Listed Company Directorships

Nil

Former Listed Company Directorships In Last Three Years

Nil

Special Responsibilities

- Managing Director

Larry Bloch

Non-Executive Director

(Appointed 3 April 2014)

Qualifications

- Bachelor of Science and Post-graduate Honours degrees in Pure Mathematics and Computer Science - University of Cape Town

Experience and Expertise

Mr Bloch has been a serial entrepreneur, pioneer and leader in the online business services industry for 20 years. He was the founder and former MD of NetBenefit (UK) in 1994, which rapidly became the largest domain and hosting provider in Europe. He also founded Virtual Internet (France) in 1996. After re-locating to Australia in 1997, he co-founded Netregistry Group and was its major shareholder, CEO and Chair for 17 years, before selling it to Arq Group in 2014.

Other Current Listed Company Directorships

Nil

Former Listed Company Directorships In Last Three Years

Nil

Special Responsibilities

- Member of the Human Resources, Remuneration and Nomination Committee

Simon Martin

Non-Executive Director

(Appointed 19 July 2017)

Qualifications

- Bachelor of Commerce - University of Melbourne
- Master of Business Administration (MBA) – University of Melbourne
- Member of Chartered Accountants Australia and New Zealand, Member of the Australian Institute of Company Directors

Experience and Expertise

Mr Martin has more than 25 years of financial and commercial experience, most recently as an investor and Director. The majority of his executive career was spent in leadership, strategy and finance roles in the technology sector. He was CFO and a Director of MYOB from 2004 to 2012, before joining iCareHealth as CEO until the sale of its Australian operations to Telstra Health in 2014.

Mr Martin is also an investor in, and Director of, a number of technology businesses focused on the SME and healthcare sectors in Australia and the UK.

Mr Martin is also a Non-Executive Director of Tandem Corporation Pty Ltd (appointed April 2018), BIG4 Holiday Parks of Australia Pty Ltd (appointed May 2016) and Methodist Ladies' College Ltd in Melbourne (appointed January 2016).

Other Current Listed Company Directorships

Nil

Former Listed Company Directorships In Last Three Years

Nil

Special Responsibilities

- Chair of the Audit and Risk Management Committee
- Member of the Human Resources, Remuneration and Nomination Committee

Naseema Sparks AM

Non-Executive Director
(Appointed 19 April 2012)

Qualifications

- Master of Business Administration - Melbourne Business School, University of Melbourne
- Fellow of the Australian Institute of Company Directors

Experience and Expertise

Ms Sparks is an experienced top-line growth director with experience across a range of sectors, particularly technology. Her expertise includes corporate strategy, mobile digital, data, customer and consumer segmentation, media, branding and marketing. She was formerly Managing Director and Global Partner of M&C Saatchi Ltd.

Ms Sparks is a Non-Executive Director of Knight Frank Australia (appointed February 2017) and AIG Australia (appointed 2010).

Ms Sparks also serves on the boards of several emerging technology companies at scale-up and pre-IPO stage.

Other Current Listed Company Directorships

- Australian Vintage Ltd (McGuigan Wines) (ASX - AVG) (appointed February 2015)
- IncentiaPay Ltd (ASX:INP), Chair and Non-Executive Director (appointed May 2018)

Former Listed Company Directorships In Last Three Years

- Non-Executive Director - PMP Ltd (2010 – 2016)
- NED, Grays eCommerce Group Ltd (2014 – 2016)

Special Responsibilities

- Member of the Audit and Risk Management Committee
- Member of the Human Resources, Remuneration and Nomination Committee

Andrew Macpherson

Non-Executive Director
(Appointed 19 July 2017)

Qualifications

- Bachelor of Industrial Engineering (Hons) – University of NSW

Experience and Expertise

Mr Macpherson is an experienced senior executive with strong interests, and specific experience, in the use of technology to transform traditional businesses.

Mr Macpherson worked with global consulting firm Accenture for 27 years, specialising in implementing complex technology-enabled change projects in large enterprises and government in Australia, Asia and Europe. He retired as APAC Regional Managing Director - Technology in 2005. Over the following 13 years he has been actively involved as an investor, director and executive in the agribusiness, retail, hospitality and services sectors.

Mr Macpherson is the Chair of Workventures (appointed April 2017), a non-for-profit social enterprise with a focus on providing training and support networks to excluded communities and individuals that lead to employment.

Mr Macpherson is also the Chair of Sirca Ltd (appointed July 2016), a not-for-profit providing data analytics and research capabilities into Asia-Pacific financial markets. SIRCA Limited merged with Capital Markets CRC Limited (ABN 80 096 930 406) in October 2018 and Mr Macpherson has accepted an invitation to join the

Board of the merged entity and is a Director of Rozetta Technology, which is a wholly owned subsidiary of SIRCA (now CMCRC-SIRCA).

Other Current Listed Company Directorships

- OneVue Holdings (ASX – OVH) - (appointed October 2016)
- Ruralco Holdings (ASX – RHL) - (appointed December 2017)

Former Listed Company Directorships In Last Three Years

Nil

Special Responsibilities

- Member of the Audit and Risk Management Committee
- Chair of the Human Resources, Remuneration and Nomination Committee

John Armstrong

Non-Executive Director
(Retired May 2018)

Qualifications

- Bachelor of Business (Accounting)
- Member of the Australian Institute of Company Directors

Experience and Expertise

Mr Armstrong was appointed to the Board on 23 February 2016. Mr Armstrong is an experienced company director and financial professional. He was the former CFO of SEEK Limited, a role he held for over 12 years, and Director of SEEK's business in China, Zhaopin Ltd and SEEK Asia. He also held management roles at Carlton & United Breweries, and commenced his career at Ernst & Young.

Other Current Listed Company Directorships

- Non-Executive Director - Blackmores Ltd (appointed May 2015)

Former Listed Company Directorships In Last Three Years

- Non-Executive Director – iProperty (2014 – 2016)

Special Responsibilities

- Member of the Audit and Risk Management Committee, and appointed Chair of the Committee on 27 May 2016

Gail Pemberton, AO

Chair

(Retired May 2018)

Qualifications

- Master of Arts - University of Technology Sydney
- Fellow of the Australian Institute of Company Directors

Experience and Expertise

Ms Pemberton joined the Board on 27 May 2016, and was appointed Chair on 1 February 2017. Ms Pemberton is a company director with more than 30 years of executive experience in the financial services industry. She held various senior roles as CEO and Managing Director for Australia and New Zealand, then Chief Operating Officer UK, at BNP Paribas Securities Services; and Group CIO then Chief Operating Officer of the Financial Services Group at Macquarie Bank. She is a member of Chief Executive Women and was awarded the Order of Australia (AO) in the Australia Day Honours list 2018.

Other Current Listed Company Directorships

- Non-Executive Director - Eclipx Ltd (appointed 2015)
- Chair - Prospa (appointed 2019), Non-Executive Director (appointed 2018)

Former Listed Company Directorships In Last Three Years

- Chair - OneVue Holdings Ltd (2007 - 2017)
- Non-Executive Director - PayPal Australia (2011 - 2018)

Special Responsibilities

- Member of the Audit and Risk Management Committee
- Member of the Human Resources, Remuneration and Nomination Committee

Directors' Report

Your Directors submit their report for the year ended 31 December 2018.

Directors were in office for the entire period unless otherwise stated.

Directors

Mr. A. Reitzer (Appointed as a Director and Chair on 1 August 2018)

Mr. A. Macpherson (Interim Chair from 29 May 2018 to 31 July 2018)

Ms. G. Pemberton, AO (Chair to 29 May 2018, retired on 29 May 2018)

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

Mr. L. Bloch

Ms. N. Sparks, AM

Mr. S. Martin

Mr. J. Armstrong (Retired on 29 May 2018)

Company Secretary

Mr. F. Bearsley (Appointed on 15 December 2017)

Ms. A. Jordan (Appointed on 22 August 2018)

Details of Directors' experience, expertise and directorships

Full details of the Directors' experience, expertise and directorships can be found on page 26 to 31.

Interests in the shares and performance rights of the company

As of date of this report, Directors hold the following interests in the shares and performance rights in the company. In accordance with the Group's Share Trading Policy, there are no changes to Ordinary shares set out in the below table compared to 31 December 2018, except for the vesting of performance rights for Executive KMP.

	Ordinary shares	Performance rights[1] over ordinary shares
Mr Andrew Reitzer (Chair)	-	-
Mr Larry Bloch	8,558,363	-
Ms Naseema Sparks, AM	19,128	-
Mr Simon Martin	41,899	-
Mr Andrew Macpherson	38,000	-
Mr Martin Mercer	509,157	385,164

1. Performance rights have been granted through the Long Term Incentive Plans.

Table 1: Director shares and performance rights

Directors' Report

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 in Australia and New Zealand.

Enterprise

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

Review and results of operations

Earnings per share

Earnings per share have decreased by 116%. The decrease has been driven by reassessment of contingent consideration liability, integration and Arq Group brand costs and the accelerated amortisation of the WebCentral Brand intangible asset.

	2018 Cents	2017 Restated[1] Cents
Basic earnings per share	(2.08) cents	12.58 cents
Diluted earnings per share	(2.08) cents	12.41 cents

1. The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* ('AASB 15') and AASB 9: *Financial Instruments* ('AASB 9'). The application of AASB 15 has required a restatement of previous financial statements. The nature and effect of these changes are disclosed in the respective notes to the financial statements.

Table 2: Earnings per share

Dividends

During the year, a final dividend of 7.5 cents per share, amounting to $8.8 million, was paid on 30 April 2018 and an interim dividend of 3.5 cents per share, amounting to $4.1 million, was paid on 28 September 2018.

After 31 December 2018, a final dividend of 4.5 cents per share, amounting to $5.3 million, was declared by the Directors. The final dividend has not been recognised as a liability as at 31 December 2018.

The Arq Group Limited Dividend Reinvestment Plan (DRP) continues to operate for the final dividend payment for the year ended 31 December 2018. The election date for participation in the DRP is 9 April 2019.

Review of operations

Overview

The following table summarises the operating results for the year ended 31 December 2018.

	2018 $'000	2017 $'000 Restated[1]
Revenue from contracts with customers		
Registration revenue	35,004	38,100
Solutions, hosting and services	178,008	159,270
Total revenue from contracts with customers	**213,012**	**197,370**
Interest income	68	53
Total income	**213,080**	**197,423**
Total earnings before net interest, tax, depreciation and amortisation[2]	**19,513**	**31,970**
Depreciation expense	4,916	3,301
Amortisation expense	10,791	6,327
Total earnings before net interest and tax	**3,806**	**22,342**
Net interest expense	(2,714)	(2,300)
Profit before tax	**1,092**	**20,042**
Income tax expense	(3,418)	(5,737)
Profit/(loss) for the year	**(2,326)**	**14,305**
Profit/(loss) for the year attributable to:		
Members of the parent	(2,457)	13,983
Non-controlling interests	131	322
	(2,326)	**14,305**
Cash flow from operations	**18,267**	**13,444**

1. The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* ('AASB 15') and AASB 9: *Financial Instruments* ('AASB 9'). The application of AASB 15 has required a restatement of previous financial statements. The nature and effect of these changes are disclosed in the respective notes to the financial statements.
2. The Group believes this unaudited non-International Financial Reporting Standards (IFRS) information is relevant to the user's understanding of the Group's underlying performance.

Table 3: Summary of operating results

Directors' Report

The Group recorded a 7.9% increase in consolidated revenue for the year ended 31 December 2018, from $197.4 million to $213.0 million. The increase has been driven by continued growth in the Group's Enterprise business.

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of $19.5 million (2017 restated: $32.0 million), a decrease of 39.0% from the previous year. The decrease has been driven by one-off and non-recurring cost associated with the reassessment of the Infoready contingent consideration liability, integration activities and the re-branding of Arq Group.

Consolidated net loss after tax was $2.3 million (2017 profit restated: $14.3 million), a decrease of 116.3% from the previous year. The decrease has been driven by one-off and non-recurring costs associated with the reassessment of InfoReady contingent consideration liability, integration activities, the re-branding of Arq Group and the accelerated amortisation of the WebCentral brand intangible asset.

Operating cash flow for the year ended 31 December 2018 was $18.3 million (2017: $13.4 million), an increase of 35.9%. Included in the operating cash flows are net income tax paid of $5.6 million (2017: net income tax paid of $5.8 million), a difference of $0.2 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 $15.5 million (2017 restated: $9.9 million), an increase of 56.0% from the prior year. The net current liability position has been driven by income received in advance of $21.3 million, net of prepayments of domain name registry fees.

In line with the Group's strategy of becoming the leading digital solutions partner for Australian businesses, the Board has determined that the SMB Indirect operation is not core to the Group's operations, and as a result, has resolved to divest Indirect as soon as practicable, with the proceeds reinvested back into the growth of our digital services strategy.

The following table shows a reconciliation of Reported EBITDA to Underlying EBITDA from core operations (excluding SMB Indirect)[2,3].

	2018 $'000	2017 $'000 Restated[1]
Reported EBITDA[2]	**19,513**	**31,970**
Adjustments to calculate Underlying EBITDA[2]:		
Loss on reassessment of contingent consideration liability	9,702	985
Integration costs	3,870	3,432
Arq Group brand costs	2,835	-
Transaction costs	892	809
Property costs	619	-
Other non-operating expenses	137	421
Gain on accelerated settlement of Outware option liability	-	(5,814)
Remuneration expense on accelerated settlement of Outware option liability	-	3,733
Contribution from acquisitions (assuming 100% owned from 1 January)	-	3,051
Underlying EBITDA[2]	**37,568**	**38,587**
Underlying EBITDA from non-core operations (SMB Indirect)[2,3]	**13,004**	**13,419**
Underlying EBITDA from core operations[2,3]	**24,564**	**25,168**

1. The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* ('AASB 15') and AASB 9: *Financial Instruments* ('AASB 9'). The application of AASB 15 has required a restatement of previous financial statements. The nature and effect of these changes are disclosed in the respective notes to the financial statements.
2. The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.
3. In presenting Underlying EBITDA from core operations, the Group has excluded the financial contribution of the SMB Indirect business, which it deems as non-core to the Group. At the date of this report, the SMB Indirect business does not meet the definition of a discontinued operation under AASB 5: *Noncurrent Assets Held for Sale and Discontinued Operations*. The SMB Indirect business is made up of the SMB Reseller business and the SMB Telecommunications business. The SMB Reseller business is presented as a disposal group held for sale in the financial statements as its sale is considered highly probable, while 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 SMB Reseller business is a disposal group ''held for sale', as detailed in Note D3 of this financial report.

Table 4: Underlying and Reported EBITDA

Underlying net profit after tax (NPAT) from core operations[2,3] was $8.0 million (2017 restated: $10.6 million), a decrease of 24.8%. The following table shows a reconciliation of Reported NPAT to Underlying NPAT from core operations[2,3].

	2018 $’000	2017 $’000 Restated[1]
Profit/(loss) after tax attributable to members of the parent	**(2,457)**	**13,983**
Adjustments to calculate Underlying NPAT[2]:		
Loss on reassessment of contingent consideration liability	9,702	985
Accelerated amortisation of WebCentral brand intangible asset (tax effected)	3,742	1,247
Integration costs (tax effected)	2,709	2,402
Arq brand costs (tax effected)	1,985	-
Transaction costs (tax effected)	689	668
Property costs (tax effected)	433	-
Adjustments in current income tax of previous years of completed acquisitions	(372)	-
Accelerated depreciation of leasehold improvements (tax effected)	374	-
Other non-operating expenses (tax effected)	100	295
Unwinding of discount on contingent consideration liability (tax effected)	67	189
Gain on accelerated settlement of Outware option liability	-	(5,814)
Remuneration expense on accelerated settlement of Outware option liability	-	3,733
Contribution from acquisitions (assuming 100% owned from 1 January) (tax effected)	-	2,051
Profit after tax attributable to non-controlling interests of Outware	-	153
Underlying NPAT[2]	**16,972**	**19,892**
Underlying NPAT from non-core operations (SMB Indirect)[2,3]	**8,980**	**9,270**
Underlying NPAT from core operations[2,3]	**7,992**	**10,622**

1. The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* (‘AASB 15’) and AASB 9: *Financial Instruments* (‘AASB 9’). The application of AASB 15 has required a restatement of previous financial statements. The nature and effect of these changes are disclosed in the respective notes to the financial statements.
2. The Group believes this unaudited non-IFRS information is relevant to the user’s understanding of the Group’s underlying performance.
3. In presenting Underlying EBITDA from core operations, the Group has excluded the financial contribution of the SMB Indirect business, which it deems as non-core to the Group. At the date of this report, the SMB Indirect business does not meet the definition of a discontinued operation under AASB 5: *Noncurrent Assets Held for Sale and Discontinued Operations*. The SMB Indirect business is made up of the SMB Reseller business and the SMB Telecommunications business. The SMB Reseller business is presented as a disposal group held for sale in the financial statements as its sale is considered highly probable, while 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 SMB Reseller business is a disposal group ‘’held for sale’, as detailed in Note D3 of this financial report.

Table 5: Underlying NPAT

The following table presents the operating results from non-core operations (SMB Indirect)[2,3]:

	2018 $'000	2017 $'000 Restated[1]
Revenue from contracts with customers	**25,577**	**26,228**
Cost of sales	10,314	10,292
Gross profit	**15,263**	**15,936**
Salaries and employee benefits expenses	2,041	2,298
Other expenses	218	219
Underlying EBITDA from non-core operations[2]	**13,004**	**13,419**
Depreciation expenses	176	176
Profit before tax	**12,828**	**13,243**
Income tax expense	3,848	3,973
Underlying NPAT from non-core operations[2,3]	**8,980**	**9,270**

1. The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* ('AASB 15') and AASB 9: *Financial Instruments* ('AASB 9'). The application of AASB 15 has required a restatement of previous financial statements. The nature and effect of these changes are disclosed in the respective notes to the financial statements.
2. The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.
3. In presenting Underlying EBITDA from core operations, the Group has excluded the financial contribution of the SMB Indirect business, which it deems as non-core to the Group. At the date of this report, the SMB Indirect business does not meet the definition of a discontinued operation under AASB 5: *Noncurrent Assets Held for Sale and Discontinued Operations*. The SMB Indirect business is made up of the SMB Reseller business and the SMB Telecommunications business. The SMB Reseller business is presented as a disposal group held for sale in the financial statements as its sale is considered highly probable, while 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 SMB Reseller business is a disposal group ''held for sale', as detailed in Note D3 of this financial report.

Table 6: Underlying NPAT from non-core operations

Outlook 2019 and beyond

The Group will continue to focus on the following eight key areas in 2019:

- Continue to build and support the recently launched Arq Group brand and repositioned Netregistry brand in the Australian digital solutions market.
- Integrate our acquisitions to generate operational, financial and cultural benefits throughout the organisation.
- Develop a deep understanding of our customers' needs through the use of data analytics in order to provide managed marketing solutions that are tailored to their individual needs as they progress along their online journey.
- Continue to develop of Enterprise managed services and new capabilities to offer clients a complete suite of digital services.
- Continue to invest in innovation to bring together the latest digital technologies to develop leading digital products and services for our customers.
- Continue to cement our position as an employer of choice in the Australian digital solutions market.
- Implement and upgrade enterprise-grade support systems and shared services to support continued growth.
- Divest non-core operations to free up capital to reinvest in our core digital solutions strategy.

Risks review

The Group's ability to achieve its strategic objectives and secure its future financial prospects may be affected by the following key risks:

Competition

The online business world is rapidly evolving with a heightened environment of change characterised by disruptive technologies. The Group remains abreast of the competitive landscape by investing in new products and customer experience. The acquisitions of Netregistry, Uber Global and WME Group assist in risk mitigation with access to a larger customer pool, increased skill sets, funds available for market investment and product enhancements.

Markets

A material proportion of registration revenue is derived from the performance of its reseller channel and Enterprise professional services revenue from corporate and government customers. These revenue streams can be difficult to predict. The Group works closely with its customers to understand their challenges in order to mitigate these risks.

Regulatory

The Group operates in highly regulated global markets. Changes to the regulatory environment can affect success. The Group plays an active role in consulting with regulators on changes which could affect our business.

Risk management

The Group takes a proactive approach to risk management and an active risk management plan is in place. The Group's approach to risk management is to determine the material areas of risk it is exposed to in running the organisation and to put in place plans to manage and/or mitigate those risks.

In addition, risk areas are reviewed by the Group's risk management staff, with the assistance of external advisors on specific matters, where appropriate. Internal audit of key business processes is scheduled across the Group. The entire risk management plan is reviewed at least annually.

The Audit and Risk Management Committee is responsible for the governance of the risks management framework, including the effectiveness of risk management and compliance systems and the internal control framework.

Significant changes in the state of affairs

In line with the Group's ongoing market positioning as Australia's leading digital solutions partner for Australian businesses, the directors have determined that the SMB Indirect business unit is no longer core to the Group's strategy, and as a result, have resolved to divest the Indirect business unit as soon as practicable. As at the date of this report, 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 on page 39 of this report.

The SMB Indirect business is made up of the SMB Reseller business and the SMB Telecommunications business. The Group has classified the SMB Reseller portion of the SMB Indirect business as 'held for sale' as per note D3 of this report. The SMB Telecommunications business has not been classified as 'held for sale', as it does not meet the criteria under AASB 5: *Non-current Assets Held for Sale and Discontinued Operations,* being that the likelihood of disposal is highly probable and the business being available for immediate sale in its present condition.

On 26 April 2018, Arq Group Limited announced that Ms Gail Pemberton and Mr John Armstrong would retire from their directorships effecting at the Annual General Meeting held on 28 May 2018. Mr Andrew Reitzer succeeded Ms Gail Pemberton as Chair of the Board of Directors on 1 August 2018.

In May, June and September 2018, the Group relocated to expanded new offices in Melbourne and Sydney respectively. The Group has invested in new office space in order to continue to support the forecast growth in headcount moving forward.

On 28 May 2018, the Group received shareholder approval for the change of the Company's name from "Melbourne IT Limited" to "Arq Group Limited". As part of the Group-wide brand launch, Arq Group has incurred $2.8 million of rebranding costs, which have been recognised in the Statement of Comprehensive Income.

On 28 June 2018, the Group entered into a new three-year $142.0 million finance facility with ANZ Bank and National Australia Bank. The facility provides committed funding of $112.0 million and an additional $30.0 million in the form of an uncommitted, acquisition tranche. The new facility is unsecured, and replaces the Company's existing debt facilities of $96.0 million. The facility is subject to standard financial covenants and provides Arq Group with certainty to its debt funding for the next three years.

Other than as stated above, there have been no other significant changes in the state of affairs during the year ended 31 December 2018.

Significant events after balance date

On 26 February 2019, the Directors declared a final dividend of 4.5 cents per ordinary share, franked at 100%, amounting to $5.3 million. The expected payment date of the dividend is 30 April 2019. The Arq Group Limited Dividend Reinvestment Plan will continue to operate in respect of that dividend.

Subsequent to year-end the Group entered into a Deed of Variation on the Share Purchase Agreement with the vendors of InfoReady Pty Ltd ('InfoReady') to amend the arrangement of the third earn out payment. As at 31 December 2018, contingent consideration of $13.0 million was recognised as a liability, as described in note C6, which was originally due in full at 31 May 2019. The amended payment arrangement of the $13.0 million includes an initial repayment on 31 May 2019 comprising of cash and an equity component of up to $4.0m. The residual balance will be paid through cash instalment payments, together with accrued interest over the period 31 May 2019 to 31 December 2019.

Other than the above, there has not been any other matter or circumstance in the interval between the end of the year 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.

Likely developments and expected results

For further information about the likely developments and expected results of the Group, refer to the 'Outlook 2019' section on page 40 of this report.

Indemnification and insurance of Directors and officers

The Company has entered into a Deed of Insurance and Indemnity (Deed) with each of the non-executive Directors, certain officers and executive Directors of controlled entities. Under the Deed, the Company has agreed to indemnify these Directors and officers against any claim or for any costs, which may arise as a result of work performed in their capacity as Directors and officers, to the extent permitted by law.

During the financial year, the Company paid an insurance premium in respect of a Directors and Officers Liability Policy covering all Directors and officers of the Company and related bodies corporate. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Performance rights

Unissued shares

As at the date of this report, there were 914,203 unissued ordinary shares under performance rights (2017: 1,473,982). Performance right holders do not have any right, by virtue of the performance right rules, to participate in any share issue of the Company or any related body corporate or in the issue of any other registered scheme.

Shares issued as a result of the vesting of performance rights

A total of 584,054 performance rights were vested during the year ended 31 December 2018 (2017: 659,913).

During the financial year, there were 295,375 rights granted (2017: 539,398 rights) and no rights forfeited (2017: 111,187).

Directors' meetings

As at the date of this report, the Company had an Audit and Risk Management Committee (ARMC) and a Human Resources, Remuneration and Nomination Committee (HRRNC) of the Board of Directors. The members of the ARMC are Mr S. Martin (Chair), Mr. A. Macpherson and Ms. N. Sparks, AM. The members of the HRRNC are Mr. A. Macpherson (Chair), Mr L. Bloch, Mr. S Martin and Ms. N. Sparks, AM. The Managing Director and Chief Executive Officer attends each ARMC and each HRRNC by invitation.

The table to the right shows the numbers of meetings of Directors held during 2018. The table also shows the number of meetings attended by each Director and the number of meetings each committee member was eligible to attend. Directors who are not members of a committee may attend as permanent guests.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial / Directors' Report) Instrument 2016/191 (Instrument 2016/191). 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 at www.arq.group.

	Directors' meetings		Meetings of committees			
			ARMC		HRRNC	
No. of meetings held in 2018	12		5		4	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr Andrew Reitzer[1]	4	4	-	2[5]	-	1[5]
Mr Larry Bloch	12	12	-	5[5]	4	4
Mr Andrew Macpherson[2]	12	11	5	5	4	4
Mr Simon Martin	12	12	5[6]	5	4	4
Mr Martin Mercer	12	12	5[7]	5	4[7]	4
Ms Naseema Sparks, AM	12	12	2[8]	4	4	4
Ms Gail Pemberton, AO[3]	6	6	-	2[5]	-	1[5]
Mr John Armstrong[4]	6	5	2[9]	2	-	-

1. Mr Reitzer was appointed as a Non-Executive Director and Chair on 1 August 2018.
2. Mr Macpherson was acting Chair of the Board from the conclusion of the AGM on 28 May until the appointment of Mr Reitzer on 1 August 2018.
3. Ms Pemberton retired from the Board on 29 May 2018.
4. Mr Armstrong retired from the Board on 29 May 2018.
5. The Director is not a member of the Committee, however attended the meeting as an observer.
6. Mr Martin became Chair of the ARMC following Mr Armstrong's retirement from the Board.
7. Mr Mercer is not a member of the Committee and attended in his capacity as CEO.
8. Ms Sparks became a member of the ARMC on 13 June at the Board Meeting which was held after the ARMC on 13 June 2018. Prior to her appointment as a member of the ARMC, Ms Sparks attended meetings as an observer.
9. Mr Armstrong was Chair of the ARMC until his retirement which took effect on 29 May 2018.

Table 7: Board and Committee meetings

The information provided in the Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act (2001)*.

HRRNC Chair's Letter

Dear shareholder

On behalf of the Board of Arq Group, we are pleased to present the 2018 Remuneration Report.

Remuneration and incentive – 2018

Arq Group has undergone a remarkable transformation since 2014 at all levels of the company including, most recently, the rebrand from Melbourne IT to Arq Group.

In 2018, we continued to perform well despite challenging market conditions, with group revenue up 8% to $213 million. We also made major investments to transform the business: the rebrand to Arq Group, the move into new offices in Sydney and Melbourne, acquisition of major new clients in ES and splitting out non-core SMB operations for sale. The business is well positioned to return to growth in 2019.

On 1 January 2018, we adopted a new remuneration framework. The key design objectives of this remuneration framework are to provide transparency and simplicity in relation to both the long-term incentive (LTI) and the short-term incentive (STI) components, and to better align the interests of executives with shareholders. Complete details of the scheme are included in this report.

For non-executive Directors, we have introduced a salary sacrifice plan to encourage increased Director shareholdings in the company. In addition, we have implemented a minimum shareholding policy for Directors.

We continue to aim to achieve the following objectives with our remuneration philosophy, framework and approach:

- A competitive remuneration scheme that attracts, rewards and retains required talent.
- Alignment of leadership and management incentives with shareholder interests, to create value and wealth.
- Ensuring objectivity, transparency and simplicity in our remuneration framework.

This Remuneration Report

Consistent with our 2018 Remuneration Report, we continue to adopt 'plain English' throughout the report, and provide transparency around rewards and performance data for remuneration outcomes. Additionally, we have more clearly displayed remuneration information using tables and diagrams. We trust our shareholders will appreciate our report and we thank our shareholders for their feedback.

Andrew Macpherson
Chair, HRRNC

1. KMP information

This Remuneration Report outlines the remuneration arrangements in place during 2018 and the outcomes achieved for Arq Group's key management personnel (KMP) during that period.

1(a) Executives

Martin Mercer
Managing Director and CEO

Fraser Bearsley
Chief Financial Officer

Peter Wright
Managing Director, ES

Emma Hunt
Managing Director, SMB

Brett Fenton
Chief Technology Officer

Amy Rixon
Chief Brand, People & Culture Officer
(Resigned 24 January 2019)

Arq Group's KMP are those people who have a meaningful capacity to shape and influence the group's strategic direction and performance through their actions, either collectively (in the case of the Board) or as individuals acting under delegated authorities (in the case of the CEO and his direct reports).

The names and positions of individuals who were KMP during 2018 and non-executive directors are below.

1(b) Non-Executive Directors

Andrew Reitzer
Chair
Appointed 1st August 2018

Andrew Macpherson
Chair, HRRNC

Simon Martin
Chair, ARMC

Larry Bloch

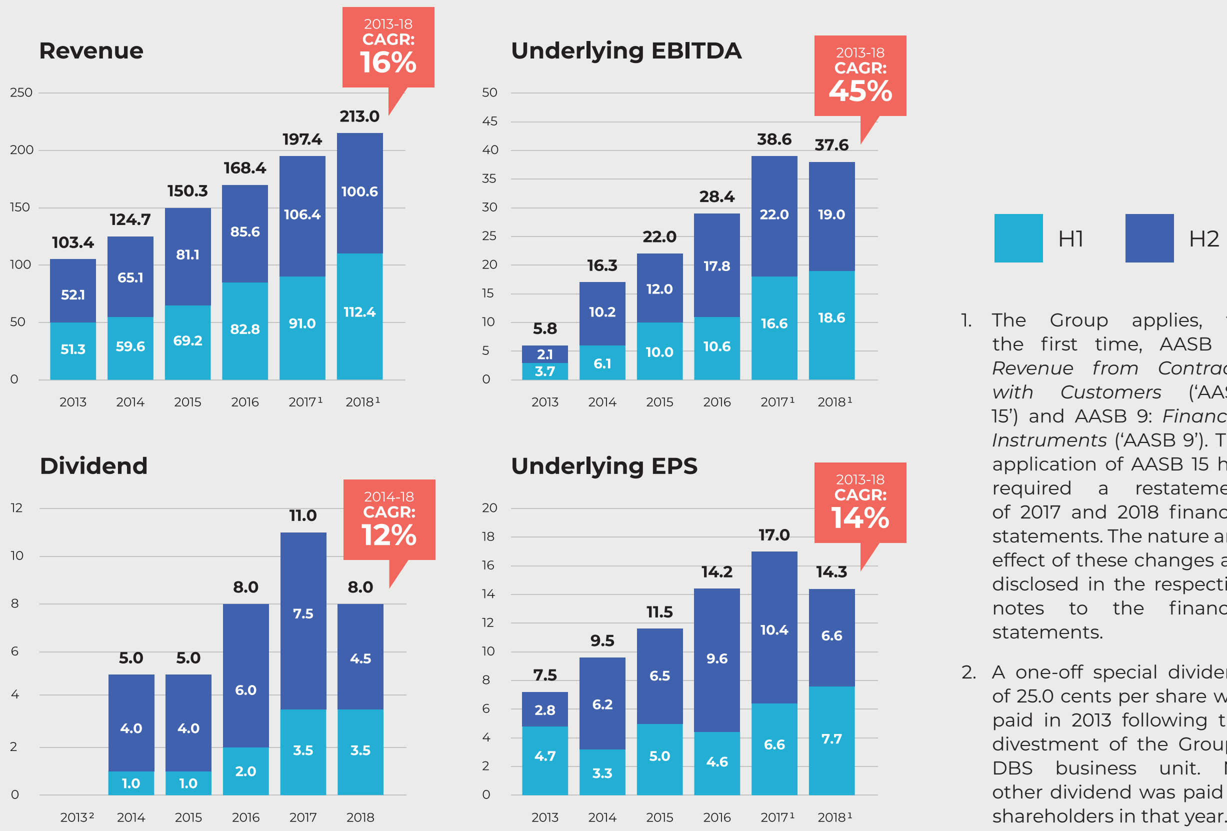
Naseema Sparks, AM

John Armstrong
Chair, ARMC
(Retired 29 May 2018)

Gail Pemberton, AO
Chair
(Retired 29 May 2018)

2. Five-year performance summary

The charts and table below highlights Arq Group's performance against key metrics for the past five years.



1. The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* ('AASB 15') and AASB 9: *Financial Instruments* ('AASB 9'). The application of AASB 15 has required a restatement of 2017 and 2018 financial statements. The nature and effect of these changes are disclosed in the respective notes to the financial statements.
2. A one-off special dividend of 25.0 cents per share was paid in 2013 following the divestment of the Group's DBS business unit. No other dividend was paid to shareholders in that year.

Figure 1: Performance against key metrics

Underlying financial information presented excludes one-off and non-recurring expenses/income, and includes the *pro forma* impacts of acquisitions/divestments made in the financial period as if that acquisition/divestment had applied for the entire financial period.

	2014	2015	2016	2017	2018
Total shareholder return¹	56%	61%	(4%)	90%	(41%)
Market capitalisation	134.8m	198.9m	188.6m	424.9m	233.0m
Staff engagement	35%	44%	33%	67%	67%

1. Total Shareholder Return has been measured based on a one year period using a 20-trading day volume weighted average price before the end of the period.

Table 8: Performance against key metrics

3. Executive KMP remuneration

3(a) Remuneration and incentive principles

The performance of the company depends upon the quality of its directors, executives and staff. Our approach to remuneration is to pay an appropriate market rate for the skills and capabilities we require now and in the future, while ensuring executive remuneration aligns with the creation of wealth for shareholders. We strive to provide meaningful and rewarding work for our people and consider that remuneration is an important component in our overall employee value proposition. The objectives of our remuneration philosophy are to attract and retain quality, motivated and skilled people; appropriately compensate team members; and motivate our people to deliver business outcomes. In line with this, the company's remuneration strategy is structured to:

- reward all staff fairly and reasonably and encourage engagement with the company
- attract and retain high calibre executives
- link executive rewards to creation of shareholder wealth
- be easy to understand – for all stakeholders
- have a significant portion of executive remuneration 'at risk', and dependent on meeting predetermined performance criteria
- reward executives for the successful implementation of the company's strategy
- reinforce the values and culture of Arq Group.

Fixed remuneration

The HRRNC reviews fixed remuneration annually. The process includes a review of company-wide, business unit and individual performance, relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices. The HRRNC has access to external advice independent of management.

Executives receive their fixed (primary) remuneration in cash. The details of the fixed remuneration component received by executives in 2018 is included in tables 10 and 11.

Variable remuneration

The HRRNC reviews variable remuneration annually. The process for the STI Plan includes the setting and reviewing of annual KPIs aligned with business plans (the details of which are outlined in tables 9 and 12). For the LTI, performance hurdles are set and reviewed by the HRRNC and the Board (outlined on page 50 and 51).

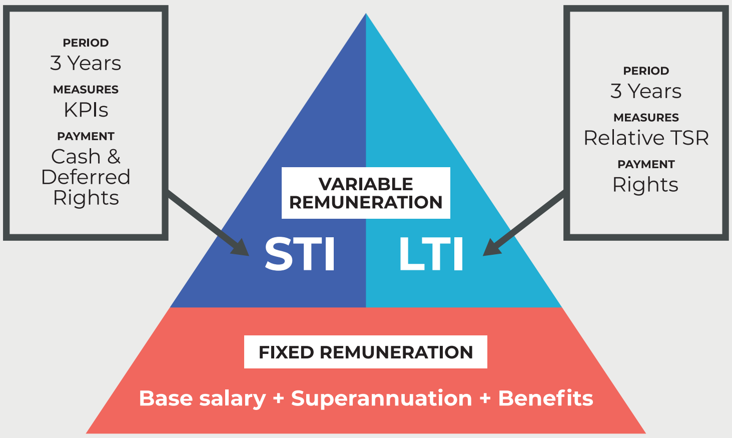


Figure 2: 2018 Remuneration Framework

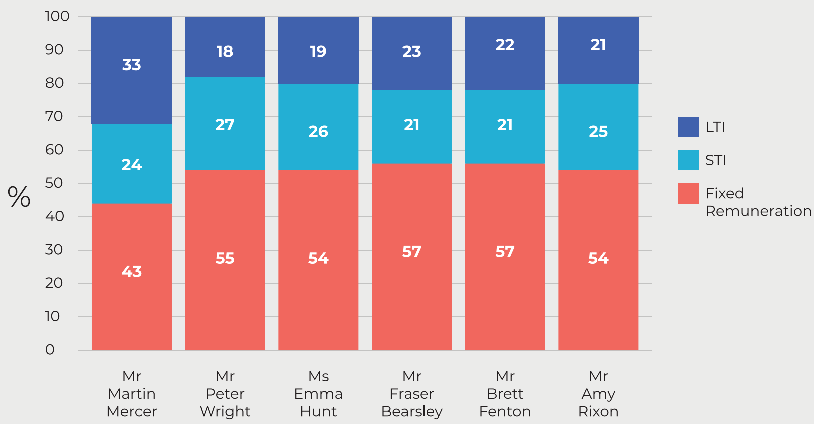


Figure 3: 2018 Remuneration Framework

3(b) How performance is linked to STI outcomes

Objective

The STI Plan aims to link the achievement of the Group's operational and financial targets with the remuneration received by the executives charged with meeting those targets. The total potential STI amount available provides an incentive to the executives and senior leaders to achieve the targets, while also being a reasonable cost to the Group.

Structure

The percentage of total remuneration that constitutes an executive's STI varies depending on the size of the role and its impact on the attainment of the Group's short-term targets.

STI payments are made if the relevant targets are achieved. If the targets are not achieved, then any STI payment is discretionary and will only be made if the executive has demonstrated exceptional performance in meeting other objectives. The total STI payment amount is determined by reference to an executive's performance against Group and individual targets ('performance targets'). These targets represent the key performance indicators (KPI) for the short-term success of the business, and provide a framework for delivering long-term value. Achievement against the performance targets is assessed annually, within three months of the end of financial year, and all payments are both reviewed and approved by the HRRNC.

The STI limits range from nil to 150% for the Group measures, and nil to 100% for the individual measures.

Under the executive STI plan introduced in 2018, a portion of the STI is deferred performance. The deferred component is awarded in the form of rights which vest equally after two and three years.

Role	Group targets						Enterpise						SMB			
	EBITDA		Revenue		NPAT		EBITDA		Revenue		DSOs[4]		EBITDA		Revenue	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
CEO (Mercer)	30%	0%	30%	n/a[5]	20%	n/a[5]										
CFO (Bearsley)	30%	0%	10%	n/a[5]	20%	n/a[5]					20%	n/a[5]				
MD, ES (Wright)	20%	0%					20%	n/a[5]	20%	n/a[5]	20%	n/a[5]				
MD, SMB (Hunt)	20%	0%	10%	n/a[5]									10%	n/a[5]	40%	n/a[5]
CBP&CO (Rixon)	30%	0%														
CTO (Fenton)	30%	0%														

1. Disc are instances where the board exercised its discretion to increase/decrease the amount payable to considerations unique to the individual's performance.
2. The on-target amount or potential amount of the individual's STI entitlement that will be realised if the target for 100% achievement on each metric is realised.
3. The actual achievement based on performance relative to each KPI.

STI performance targets

Group and divisional performance targets consist of revenue, Underlying EBITDA, Underlying Net Profit After Tax (NPAT) and Day Sales Outstanding KPIs. These are 'hard' targets used to set STI payments. In addition, the EBITDA target is a gateway target; if it is not achieved then no STI is payable irrespective of the achievement against the other KPIs.

The table below shows the KPIs for each of the KMP, for 2018 the weighting attached to that KPI, the actual achievement relative to each KPI and the overall achievement relative to their potential payment. payment.

Outcomes

There is no STI payable in respect of the 2018 financial year because the Underlying EBITDA gateway target was not achieved. This compares to 2017, where 79.5% of the available STI pool was paid. Actual STI achievements for 2018 for each KMP are included in table 9.

3(c) How performance is linked to LTI outcomes

Objective

The LTI plan aims to reward executive KMPs in a manner that aligns with the creation of shareholder wealth. As such, LTI grants are made to executives who have a direct impact on the Group's performance against the relevant long-term performance hurdles.

Structure

LTI grants to executive KMPs are delivered in the form of performance rights. These are annual grants and vesting occurs at the end of year three, subject to performance hurdles being achieved.

Performance rights issued under the LTI Plan for 2015-2017 have two performance conditions: 50% of the performance rights will vest based on the increase in

Other targets										Sub-total		Disc[1]	Total
Engagement		Relocation		Rebrand		Collaboration		Integration		OTE[2]	Actual[3]		
Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual				
20%	n/a[5]									100%	0%	0%	0%
20%	n/a[5]									100%	0%	0%	0%
20%	n/a[5]									100%	0%	0%	0%
20%	n/a[5]									100%	0%	0%	0%
20%	n/a[5]	20%	n/a[5]	30%	n/a[5]					100%	0%	0%	0%
20%	n/a[5]					20%	n/a[5]	30%	n/a[5]	100%	0%	0%	0%

4. DSO represents the 'days sales outstanding' key performance indicator.
5. This KPI was not applicable for 2018 as the gateway target (Underlying EBITDA) was not achieved. No STI is payable irrespective of the achievement against the other KPIs.

Table 9: Performance against STI targets

Underlying earnings per share (EPS) as reported in the annual Financial Report and 50% will vest based on relative total shareholder return (TSR) in comparison to a peer group from the S&P/ ASX Small Ordinaries Index (excluding energy, mining and property trust companies).

Performance rights issued under the LTI Plan for 2018 have one performance condition; 100% will vest based on relative total shareholder return (TSR) in comparison to a peer group from the Standard & Poors (S&P) / ASX Small Ordinaries Index.

The performance rights are granted with a zero-exercise price. The proportion of rights that vest under each performance condition is based on a sliding scale with a floor, pro-rata range and a ceiling. If the company's actual performance does not exceed the floor criteria, no vesting occurs; if the company's actual performance exceeds the floor criteria, vesting is on a pro-rata basis; if the company's actual performance exceeds the ceiling, 100% of the grant vests - see table 9. The performance period is measured over the 36-month period from 1 January of the respective grant year.

The vesting date is the date on which the Board determines the extent to which the performance conditions are satisfied and the performance rights vest, which occurs in March following the performance period. The performance rights will be settled in the equivalent number of ordinary shares of Arq Group.

The TSR performance condition is a relative measure and vesting depends on the comparative performance with an appropriate peer group of companies (made up of the ASX Small Ordinaries Index excluding energy, mining and property trust stocks). The relative TSR performance hurdle is independently tested once at the end of the performance period by a specialist consultant and is based on the 60-trading day average share price before the start and end of the performance period.

The EPS performance condition is an absolute measure. The HRRNC adopts a three-step process in setting the Underlying EPS performance condition:

1. Management prepares a three-year forecast, including a three-year Underlying EPS forecast.
2. The HRRNC reviews this forecast and makes any adjustments that it considers appropriate.
3. The growth in EPS that is required to achieve the resulting Underlying EPS target is then calculated (the starting point Underlying EPS figure for calculating the hurdle growth rate is the Underlying EPS figure for the immediately preceding year).

Performance rights vesting rules illustrative example – 2016-2017 LTI Plans

	Floor	Range	Ceiling
Relative TSR achievement	Below the 50th percentile	Between 50-75th percentile	Above the 75th percentile
Relative TSR vesting	no vesting	pro-rata vesting	100%vesting
EPS achievement	less than x% p.a.	between x-y% p.a.	above y% p.a.
EPS vesting	no vesting	pro-rata vesting	100% vesting

Performance rights vesting rules illustrative example – 2018 LTI Plans

	Floor	Range	Ceiling
Relative TSR achievement	Below the 50th percentile	Between 50-75th percentile	Above the 75th percentile
Relative TSR vesting	no vesting	pro-rata vesting	100% vesting

Following the end of the performance period, the Arq Group Board reviews the achievement against the performance conditions. The Board has discretion to adjust the performance conditions or the number of rights that vest in order to ensure that eligible employees are not unfairly advantaged or disadvantaged.

LTI performance targets

The tables below set out the relevant TSR and Underlying EPS targets and achievements for the three most recent grants to all participants.

2016 LTI Plan (March 2019 vesting date)

Target	Floor	Range	Ceiling	Granted	Vested	Forfeited[3]	Target	Actual
Relative TSR	< 50th%	50-75th %	>75th%	264,589	147,868	116,721	75th percentile	61st Percentile
Underlying EPS CAGR	<8%	8-12%	>12%	264,589	123,232	141,357	16.23 cents	14.81 cents[2]

2017 LTI Plan (March 2020 vesting date)

Target	Floor	Range	Ceiling	Granted	Vested	Forfeited[3]	Target	Actual
Relative TSR	< 50th%	50-75th %	>75th%	269,699	n/a	33,181	75th percentile	n/a
Underlying EPS CAGR	< 9%	9-14%	>14%	269,699	n/a	33,181	21.07 cents[1]	n/a

2018 LTI Plan (March 2021 vesting date)

Target	Floor	Range	Ceiling	Granted	Vested	Forfeited	Target	Actual
Relative TSR	< 50th%	50-75th %	>75th%	295,375	n/a	-	75th percentile	n/a

Footnotes:

1. This is the forecast Underlying EPS target that was approved by the HRRNC and from which the hurdle rate is calculated.
2. The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* ('AASB 15') and AASB 9: *Financial Instruments* ('AASB 9'). The application of AASB 15 has required a restatement of previous financial statements. Actual EPS has been adjusted to apply the restatement due to AASB 15. This has been approved by the HRRNC. The Group achieved an Underlying EPS CAGR of 8.64%.
3. This amount represents the total cumulative performance rights forfeited between the grant date to 31 December 2018 for all participants, including those classified as Executive KMP in 2018 and rights cancelled following the resignation of rights' holders. For the movement of performance rights specifically related to Executive KMP during the year ended 31 December 2018, refer to table 13.

Outcomes

2018 LTI Plan

295,375 performance rights were granted to Executive KMP on 22 May 2018, including the CEO's grant of 137,782 rights. Shareholders at the Annual General Meeting on 22 May 2018 approved the grant to the CEO.

2017 LTI Plan

473,037 performance rights were granted to Executive KMP on 29 May 2017, including the CEO's grant of 247,382 rights. Shareholders at the Annual General Meeting on 29 May 2017 approved the grant to the CEO.

2016 LTI Plan

350,848 performance rights were granted to Executive KMP on 27 May 2016, including the CEO's grant of 219,219 rights. Shareholders at the Annual General Meeting on 27 May 2016 approved the grant to the CEO. As at 31 December 2018, 228,693 rights for KMP are expected to vest and 122,155 rights are expected to be forfeited based on actual achievement of the 2016 LTI Plan performance targets.

Table 10: Executive KMP statutory remuneration 2017-2018

3(d) Executive KMP remuneration

Statutory remuneration details

Details of the nature and amount of each element of the total remuneration of each member of the Executive KMP for the years ended 31 December 2017 and 2018 are set out in the following table.

		Short-term benefits			Post employment benefits	Long-term benefits	Share-based payment			
	Year	Salary & fees	STI[1]	Other[2]	Super contribution	Long-service leave[3]	Amortisation expense[4]	Term	Total	Performance related[5]
		$	$	$	$	$	$	$	$	%
Mr Martin Mercer	2018	616,394	-	15,384	24,960	9,619	259,111	-	925,468	28.0%
	2017	615,580	206,154	11,589	27,620	7,730	364,443	-	1,233,116	46.3%
Mr Fraser Bearsley[6]	2018	254,643	-	1,639	24,552	2,980	11,747	-	295,561	4.0%
	2017	65,075	14,327	-	5,744	-	-	-	85,146	16.8%
Mr Peter Wright	2018	328,440	-	11,052	30,324	4,572	63,997	-	438,385	14.6%
	2017	311,589	60,521	6,562	35,680	14,680	86,151	-	515,183	28.5%
Ms Amy Rixon	2018	241,364	-	9,886	22,600	3,788	40,175	-	317,813	12.6%
	2017	227,740	69,642	4,379	25,044	2,993	62,063	-	391,861	33.6%
Mr Brett Fenton	2018	266,351	-	10,134	24,205	7,182	57,562	-	365,434	15.8%
	2017	240,232	67,377	4,629	22,991	8,176	79,518	-	422,923	34.7%
Ms Emma Hunt	2018	315,272	-	11,223	24,960	3,694	50,284	-	405,433	12.4%
	2017	281,544	79,600	5,881	28,181	-	37,839	-	433,045	27.1%
Mr Peter Findlay[7]	2018	-	-	-	-	-	-	-	-	0.0%
	2017	18,127	-	343	1,967	(22,676)	19,986	-	17,747	112.6%
Mr Stuart Bland[8]	2018	-	-	-	-	-	-	-	-	0.0%
	2017	191,403	-	3,396	15,405	-	-	-	210,204	0.0%
Total 2018		**2,022,464**	**-**	**59,318**	**151,601**	**31,835**	**482,876**	**-**	**2,748,095**	
Total 2017		**1,951,290**	**497,621**	**36,779**	**162,632**	**10,903**	**650,000**	**-**	**3,309,224**	

1. Represent STIs accrued in relation to 2018 and 2017 financial year.
2. Includes the cost to the business of any non-cash business benefits provided such as motor vehicle and mobile phone allowances.
3. Comprises long-service-leave accrued during the year.
4. Relates to the amortisation booked during the year in relation to the fair value of the 2016, 2017 and 2018 performance rights.
5. Calculated as STI plus amortisation of performance rights, as a proportion of total remuneration. These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the Company. They are in addition to the fixed remuneration.
6. Mr Fraser Bearsley was appointed as Chief Financial Officer on 1 October 2017.
7. Mr Peter Findlay resigned on 20 January 2017. He is not classfied as KMP for 2018 and has been included in the above table for comparative purposes.
8. Mr Stuart Bland resigned on 30 September 2017. He is not classfied as KMP for 2018 and has been included in the above table for comparative purposes.

Actual remuneration received

The table below represents the 'actual' remuneration outcomes for executive KMP in the financial year ended 31 December 2018. This information is considered to be relevant as it provides shareholders with a view of the remuneration actually paid to executives for performance in 2018, STI paid in relation to 2017 and the value of LTI that have vested during the period. This differs from the remuneration details prepared in accordance with statutory obligations and accounting standards on page 53 of this report, as those details include the values of performance rights that have been awarded, but that may or may not vest. Table 11 is a non-IFRS disclosure that has been audited.

Executives	Fixed remuneration[1] $	STI[2] $	LTI vested[3] $	Total $
Mr Martin Mercer	656,737	206,154	961,299	1,824,190
Mr Fraser Bearsley	280,835	14,327[4]	-	295,162
Mr Peter Wright	369,816	60,521	224,991	655,328
Ms Amy Rixon	273,850	69,642	150,659	494,151
Mr Brett Fenton	300,690	67,377	233,622	601,689
Ms Emma Hunt	351,455	79,600	-	431,055
Total 2018	**2,233,383**	**497,621**	**1,570,571**	**4,301,575**

1. Fixed remuneration represents base salary, superannuation and non-monetary benefits such as motor vehicle, travel and mobile phone allowances.
2. STI paid during the financial year. For example the amount disclosed for 2018 year reflects the 2017 STI paid in April 2018 following the release of the 2017 Group results.
3. Relates to the intrinsic value that vested during the financial year. Intrinsic value is the difference between the fair value of the shares to which the KMP has the right to subscribe or which the KMP has the right to receive, and the price the KMP is required to pay for those shares. Performance rights are a zero price option and are issued for nil consideration. Hence, the intrinsic value for the LTI in the table above equates to the fair value at vesting date.
4. Mr Fraser Bearsley's STI payment only includes the amount related to his position as Chief Financial Officer. He was appointed Chief Financial Officer on 1 October 2017.

Table 11: KMP actual remuneration

Short-term incentives

The following table present the STI targets and achievements for the financial years ended 31 December 2017 and 2018.

KMP	Years	STI	
		Target $	Achieved %
M Mercer (CEO)	2018	373,414	0.00%
	2017	258,500	79.75%
F Bearsley (CFO)	2018	103,427	0.00%
	2017	20,250	70.75%
P Wright (MD ES)	2018	176,870	0.00%
	2017	100,950	60.00%
A Rixon (CBP&CO)	2018	119,874	0.00%
	2017	73,500	94.75%
B Fenton (CTO)	2018	104,140	0.00%
	2017	79,500	84.75%
E Hunt (MD SMB)	2018	162,899	0.00%
	2017	93,623	85.02%
P Findlay (CFO)[1]	2018	-	0.00%
	2017	-	0.00%
S Bland (CFO)[2]	2018	-	0.00%
	2017	79,219	0.00%

1. Mr Peter Findlay resigned on 20 January 2017. He is not classified as KMP for 2018 and has been included in the above table for comparative purposes.
2. Mr Stuart Bland resigned on 30 September 2017. He is not classified as KMP for 2018 and has been included in the above table for comparative purposes.

Table 12: STI targets and achievements

Performance rights awarded, vested and forfeited during the year

The performance rights, issued for nil consideration, are issued subject to the terms of the LTI plan. Each performance right carries an entitlement to one fully paid ordinary share in Arq Group Limited.

The table overleaf discloses the number of performance rights granted, vested, exercised or forfeited as remuneration.

	Financial Year	Rights awarded	Award Date	Fair value of right at award date	Volume weighted average price[1]	Vesting / Expiry date	Total Vested	Total Forfeited[2]	Fair Value of rights granted during the year	Fair Value of rights vested during the year
				$	$				$	$
Mr Martin Mercer	2018	137,782	28 May 2018	1.12	3.55	31 March 2021	-	-	154,509	-
	2017	247,382	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-
	2016	219,219	27 May 2016	1.29	2.08	31 March 2019	-	-	-	-
	2015	285,252	27 May 2015	1.12	1.39	31 March 2018	285,252	-	-	319,482
Mr Peter Wright	2018	32,990	28 May 2018	1.12	3.55	31 March 2021	-	-	36,995	-
	2017	61,662	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-
	2016	54,231	27 May 2016	1.29	2.08	31 March 2019	-	-	-	-
	2015	66,763	30 Mar 2015	0.99	1.39	31 March 2018	66,763	-	-	66,095
Mr Brett Fenton	2018	30,924	28 May 2018	1.12	3.55	31 March 2021	-	-	34,678	-
	2017	55,497	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-
	2016	46,327	27 May 2016	1.29	2.08	31 March 2019	-	-	-	-
	2015	69,324	30 Mar 2015	0.99	1.39	31 March 2018	69,324	-	-	68,631
Ms Amy Rixon	2018	28,958	28 May 2018	1.12	3.55	31 March 2021	-	-	32,474	-
	2017	51,309	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-
	2016	31,071	27 May 2016	1.29	2.08	31 March 2019	-	-	-	-
	2015	44,706	30 Mar 2015	0.99	1.39	31 March 2018	44,706	-	-	44,259
Ms Emma Hunt	2018	33,295	28 May 2018	1.12	3.55	31 March 2021	-	-	37,337	-
	2017	57,187	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-
Mr Fraser Bearsley	2018	31,426	28 May 2018	1.12	3.55	31 March 2021	-	-	35,241	-
Mr Peter Findlay[3]	2016	79,327	27 May 2016	1.29	2.08	31 March 2019	14,070	-	-	-
Mr Stuart Bland[4]	2017	66,361	29 May 2017	1.99	1.91	31 March 2020	-	-	-	-
Total		**1,730,993**					**480,115**	**-**	**331,234**	**498,467**

Table 13: Performance rights awarded, vested and lapsed during the year.

1. The volume weighted average price (VWAP) for 20 trading days preceding the start of the performance period (i.e. 1 January) is used to determine the number of rights that are issued to a participant in the LTI plan. The number of rights is simply the nominal dollar value of the entitlement of a participant per their remuneration package divided by the VWAP.
2. Rights are forfeited based on actual achievement of LTI plan performance targets or failure to satisfy service conditions of the plan. This is approved by the HRRNC.
3. Mr Peter Findlay resigned on 20 January 2017. He is not classfied as KMP for 2018 and has been included in the above table for comparative purposes.
4. Mr Stuart Bland resigned on 30 September 2017. He is not classfied as KMP for 2018 and has been included in the above table for comparative purposes.

Rights holdings of KMP as at 31 December 2018

The following table discloses a summary of performance rights granted under the LTI plans.

	Opening balance 1 January 2018	Rights granted as remuneration	Rights vested and exercised	Rights forfeited	Closing balance 31 December 2018	Vested and exercisable at 31 December 2018	Vested and not exercisable at 31 December 2018
Mr Martin Mercer	751,853	137,782	(285,252)	-	604,383	-	-
Mr Peter Wright	182,656	32,990	(66,763)	-	148,883	-	-
Mr Brett Fenton	171,148	30,924	(69,324)	-	132,748	-	-
Ms Amy Rixon	127,086	28,958	(44,706)	-	111,338	-	-
Ms Emma Hunt	57,187	33,295	-	-	90,482	-	-
Mr Fraser Bearsley	-	31,426	-	-	31,426	-	-
Total	**1,289,930**	**295,375**	**(466,045)**	**-**	**1,119,260**	**-**	**-**

Table 14: Performance rights granted

Shares issued on vesting of rights

During the year ended 31 December 2018, 466,045 shares were issued to the KMP (2017: nil) upon the vesting of 466,045 performance rights related to the 2015 LTI Plan. The following table presents the number of shares issued on the vesting of rights related to the 2015 LTI Plan.

31 December 2018	Number of shares issued	Paid per share cents
Mr Martin Mercer	285,252	-
Mr Peter Wright	66,763	-
Mr Brett Fenton	69,324	-
Ms Amy Rixon	44,706	-
Ms Emma Hunt	-	-
Mr Fraser Bearsley	-	-
Total	**466,045**	**-**

Table 15: Shares issued on the vesting of rights, 2016 LTI plan

Shareholdings of KMP as at 31 December 2018

The number of ordinary shares in Arq Group Limited held during the financial year by each KMP, including details of shares granted as remuneration during the current financial year and ordinary shares provided as the result of the vesting of rights during the current financial year, are included in the table below.

Executives	Opening balance 1 January 2018	Number of shares issued from vesting of rights	Net change other[1]	Closing balance 31 December 2018
Mr Martin Mercer	338,983	285,252	(257,971)	366,264
Mr Fraser Bearsley	9,209	-	7,898	17,107
Mr Peter Wright	57,143	66,763	-	123,906
Mr Brett Fenton	63,327	69,324	(32,651)	100,000
Ms Amy Rixon	50,964	44,706	(50,964)	44,706
Ms Emma Hunt	-	-	3,031	3,031
Total	**519,626**	**466,045**	**(330,657)**	**655,014**

1. On market transactions.

Table 16: KMP shareholdings

Loans, other transactions and balances with KMP and their related parties

For the years ended 31 December 2018 and 31 December 2017, there have been no loans or other transactions including purchases, sales or investments to key management personnel and their related parties. In relation to the exercise of performance rights upon vesting, shares were purchased on market.

3(e) What is the remuneration outlook for 2019?

Recruiting and retaining talent is a key challenge for all technology companies in order to drive growth in a highly-competitive environment. We need a contemporary employee value proposition, a key part of which is a compelling model for remuneration and reward. In 2019, we are enhancing our remuneration framework by increasing the proportion of at-risk remuneration in executive compensation. We are also increasing the group of eligible scheme participants across the business who can receive at-risk remuneration.

The key elements of executive compensation in 2019 are noted as follows.

LTI

KMP will continue to be the only participants in the scheme. Last year we made changes to this scheme to make it simpler and more transparent for both investors and executives. We did this by reducing the number of vesting criteria from two (i.e. relative TSR and Underlying EPS growth) to one (namely, relative TSR). The comparator group for TSR continues to be the ASX Small Ordinaries Index excluding energy, mining and property trust stocks.

STI

Half the STI is received in cash, and half consists of "deferred" equity. The deferred component is awarded in the form of rights which vest equally after years two and three (dependent on the achievement of a service condition - i.e. the recipient remains employed at the second and third anniversaries).

All STI payments are based on the achievement of the annual KPIs.

We believe that this remuneration structure optimally aligns the interests of our shareholders and management. We also see it as being an important factor in helping us to attract and retain key talent in these competitive times.

3(f) Executive KMP's service agreements

The Managing Director and Chief Executive Officer, Mr Martin Mercer, is employed under an ongoing contract from 7 April 2014, and continues until such time that his employment is terminated. Under the terms of the contract:

- he receives fixed remuneration plus superannuation per year, reviewed annually
- he is eligible for a discretionary annual STI opportunity up to a maximum of 75% of fixed remuneration
- he is eligible to participate in the LTI plans on terms determined by the Board
- he may resign from this position and thus terminate the contract by giving six months' notice
- the company may terminate this employment contract by providing 12 months' notice (except in circumstances where the employment has been terminated for cause).

All other executives are on standard contracts and are remunerated as stipulated in this report. For executives other than the CEO, termination of employment requires three-months' notice.

Upon termination, the provisions for KMP are as follows:

- Total fixed remuneration will be paid as usual, until the agreed last working day.
- STI and LTI arrangements are treated in accordance with the respective plan rules.
- Should termination for cause occur, only fixed remuneration and accrued leave is paid until the final working day and any variable rewards or benefits are forfeited.
- Company restraint periods of 12 months post termination restrict KMP from engaging in competitive business activity and solicitation of clients or staff.

4. Non-Executive Directors' remuneration

		Short-term benefits	Post-employment	
Directors	Years	Salary and fees	Super contribution	Total
		$	$	$
Mr Andrew Reitzer[1]	2018	73,672	6,999	80,671
Ms Naseema Sparks	2018	86,875	8,253	95,128
	2017	86,875	8,253	95,128
Mr Larry Bloch	2018	76,875	7,303	84,178
	2017	76,875	7,303	84,178
Mr Simon Martin	2018	82,708	7,857	90,565
	2017	34,636	3,290	37,926
Mr Andrew Macpherson	2018	76,875	7,303	84,178
	2017	35,234	3,347	38,581
Ms Gail Pemberton[2]	2018	73,672	6,999	80,671
	2017	169,318	16,085	185,403
Mr John Armstrong[2]	2018	36,198	3,439	39,637
	2017	86,875	8,253	95,128
Total 2018		**506,875**	**48,153**	**555,028**
Total 2017		**489,813**	**46,531**	**536,344**

1. Appointed as Chair 1 August 2018.
2. Retired 29 May 2018

Table 17: Non-executive Director remuneration

4(a) Remuneration principles

Objective

The Board seeks to set aggregate remuneration at a level that provides the company with the ability to attract and retain Directors of the highest calibre, while incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined by a general meeting. The last such determination was at the AGM on 20 May 2008, when shareholders approved an aggregate remuneration of $1,000,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and how it is apportioned among Directors is reviewed periodically. The Board considers advice from external consultants, the fees paid to non-executive Directors of comparable companies, as well as company performance when undertaking the annual review process.

Each Director receives a fee for being a Director of the company and is expected to be a member of at least one committee (except for non-independent Directors who are invited guests to all committees). In recognition of the additional time commitment and responsibility required, an additional fee is paid for chairing a Board committee. The remuneration of non-executive Directors is reviewed annually. As it is considered good governance for Directors to have a stake in a company on whose board they sit, non-executive Directors are now required to hold shares in the company. This new shareholding policy was introduced in December 2017 and is discussed further below in section 4(b).

Details of the nature and amount of each element of the remuneration of each non-executive Director of Arq Group Limited for the past two financial years are shown in the table on page 60.

4(b) Minimum shareholding requirements

In December 2018, the Board approved a policy requiring all non-executive Directors to hold a minimum shareholding in the company to the value of their annual fixed remuneration. This requirement needs to be met by December 2021 for all existing Directors, and within three years of their appointment date for new Directors.

As at 31 December 2018, non-executive Directors hold the value of shares in the company as shown in the table on page 62.

4(c) Salary-sacrifice scheme

To encourage and assist non-executive Directors to acquire and retain shares in the company, Directors are allowed to sacrifice up to 50% of their annual fees to purchase company shares. These shares are purchased on-market by a third-party agency.

Shareholdings of Non-Executive Directors as at 31 December 2018

Non-Executive Directors	Opening balance 1 January 2018	Net change other[1]	Closing balance 31 December 2018
Mr Andrew Reitzer[2]	-	-	-
Ms Naseema Sparks	18,689	439	19,128
Mr Larry Bloch	8,558,363	-	8,558,363
Mr Simon Martin	25,627	16,272	41,899
Mr Andrew Macpherson	30,000	8,000	38,000
Ms Gail Pemberton[3]	76,316	33,100	109,416
Mr John Armstrong[4]	20,000	-	20,000
	8,728,995	**57,811**	**8,786,806**

1. On-market transactions
2. Mr Andrew Reitzer appointed as Chair on 1 August 2018.
3. Ms Gail Pemberton retired on 29 May 2018 and her holdings represent her closing balance at this date.
4. Mr John Armstrong retired on 29 May 2018 and his holdings represent his closing balance at this date.

Table 18: Non-executive Director shareholding

5. Governance

5(a) Human Resources, Remuneration and Nomination Committee (HRRNC)

The HRRNC of the Board of Directors of Arq Group determines and reviews compensation policy and arrangements for Directors, executives and staff. The HRRNC periodically assesses the appropriateness of the nature and amount of remuneration of Directors and executives by reference to relevant employment market conditions and the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality, high-performing Directors and executive team.

Figure 4: Governance

5(b) Securities trading policy

The company has approved a Share Trading Policy aimed at ensuring that no Director or employee of the company makes use of his or her position or information acquired by being a Director or employee to gain (directly or indirectly) an advantage for any person or to cause detriment to the company.

The policy provides guidance on what share trading activities by Directors or employees are deemed acceptable and those which are not. Such guidance includes identifying conduct that may constitute insider trading, how an employee or Director can minimise the risk of insider trading, and the closed periods during which Directors, officers and KMP (and parties related to them) are not permitted to trade in Arq Group shares.

The policy also details the steps for Directors and employees to take when buying or selling shares in Arq Group which includes requiring any Director or KMP buying or selling Arq Group's shares, or exercising any options, to first obtain approval from the Chair of the Board (for Directors) or from the Chief Executive Officer (for KMP).

End of remuneration report

Directors’ Report

Employees

The consolidated entity employed 689 full-time equivalent (‘FTE’) employees as at 31 December 2018 (2017: 801 FTE).

Auditor independence and non-audit services

The Directors have received an independence declaration from the auditor of Arq Group Limited, as shown on page 147.

Non-audit services

The following non-audit services were provided by the Group’s auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with general standards of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$
Taxation compliance and due diligence services	121,310
Assurance and advisory related services	24,767
Total	**146,077**

Table 19: Fees for non-audit services

Signed in accordance with a resolution of the Directors.

Mr. Andrew Reitzer (Chair)

Sydney, 29 March 2019

Directors' Declaration

In accordance with a resolution of the Directors of Arq Group Limited, I state that:

1. In the opinion of the Directors:

   (a) the consolidated financial statements and notes of Arq Group Limited for the financial year ended 31 December 2018 are in accordance with the *Corporations Act (2001)*, including

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

      (ii) complying with Accounting Standards and the *Corporations Regulations (2001)*;

   (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Notes to the Financial Statements.

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act (2001)* for the financial year ended 31 December 2018.

3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group, as identified in note E9, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the deed as described in note E8.

On behalf of the Board

Mr. Andrew Reitzer (Chair)

Sydney, 29 March 2019

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018	2017	As at 1 January 2017
		$’000	$’000	$’000
			Restated	Restated
Cash and cash equivalents	E1	8,279	20,250	16,426
Trade and other receivables	B1	26,403	25,245	18,093
Prepayments of domain name registry charges		7,327	13,098	13,256
Other assets	B2	6,634	11,191	4,488
		48,643	**69,784**	**52,263**
Disposal group held for sale	D3	32,698	-	-
Total Current Assets		**81,341**	**69,784**	**52,263**
Plant and equipment	B3	13,899	6,017	6,739
Intangible assets	B4	225,239	259,096	224,741
Deferred tax assets	A3	6,775	7,909	7,240
Prepayments of domain name registry charges		2,508	4,649	4,814
Non-current financial assets	B5	1,870	2,085	1,795
Other assets		696	266	38
Total Non-Current Assets		**250,987**	**280,022**	**245,367**
TOTAL ASSETS		**332,328**	**349,806**	**297,630**
Trade and other payables	B6	17,138	20,065	18,804
Interest-bearing loans and borrowings	C4	-	9,029	92
Provisions	B7	3,406	4,293	3,461
Current tax liabilities		1,909	2,845	1,684
Derivative financial instruments	C7	80	128	-
Income received in advance		28,632	38,323	38,836
Other financial liabilities	C6	12,971	5,034	31,089
		64,136	**79,717**	**93,966**
Liabilities directly associated with disposal group held for sale	D3	11,292	-	-
Total Current Liabilities		**75,428**	**79,717**	**93,966**
Interest-bearing loans and borrowings	C4	74,992	65,992	36,536
Deferred tax liabilities	A3	5,469	7,591	5,685
Provisions	B7	3,530	901	803
Income received in advance		9,563	13,167	13,588
Other financial liabilities	C6	-	6,593	8,315
Other liabilities		850	1,046	-
Total Non-Current Liabilities		**94,404**	**95,290**	**64,927**
TOTAL LIABILITIES		**169,832**	**175,007**	**158,893**
NET ASSETS		**162,496**	**174,799**	**138,737**
Contributed equity	C2	85,724	83,507	51,026
Treasury shares	C2	-	(1,884)	-
Foreign currency translation reserve	C3	(552)	(547)	(593)
Share-based payments reserve	C3	1,136	2,331	1,398
Other reserves	C3	9	(211)	8,526
Retained earnings		76,053	91,503	78,229
Equity attributable to Equity holders of the parent		**162,370**	**174,699**	**138,586**
Non-controlling interest		126	100	151
TOTAL EQUITY		**162,496**	**174,799**	**138,737**

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000 Restated
Continuing operations			
Revenue from contracts with customers	A1(a)	213,012	197,370
Registry, hosting and sundry other product costs	A2(a)	(93,394)	(87,630)
Gross profit		**119,618**	**109,740**
Other income	A7	68	5,867
Salaries and employee benefit expenses	A2(a)	(61,932)	(62,620)
Depreciation expenses	A2(b)	(4,916)	(3,301)
Amortisation of identifiable intangible assets	A2(c)	(10,791)	(6,327)
Loss on reassessment of contingent consideration liability	C6	(9,702)	(985)
Transaction costs relating to acquisitions		(892)	(809)
Finance costs	A2(d)	(4,310)	(3,847)
Other expenses	A2(e)	(26,051)	(17,676)
Profit before tax		**1,092**	**20,042**
Income tax expense	A3	(3,418)	(5,737)
Profit for the year		**(2,326)**	**14,305**
Other comprehensive income			
Items that may be reclassified to the profit or loss in subsequent periods (net of tax):			
Currency translation differences		(5)	46
Net gains/(losses) on fair value of available-for-sale (AFS) financial assets		-	(82)
Items that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Net gains/(losses) on equity instruments designated at fair value through other comprehensive income		152	-
Other comprehensive income/ (loss) for the year, net of tax		147	(36)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(2,179)	14,269
Profit for the year attributable to:			
Equity holders of the parent		(2,457)	13,983
Non-controlling interests		131	322
		(2,326)	14,305
Total comprehensive income attributable to:			
Equity holders of the parent		(2,310)	13,947
Non-controlling interests		131	322
		(2,179)	14,269

Earnings per share		2018 Cents	2017 Cents Restated
Basic earnings per share	A5	(2.08)	12.58
Diluted earnings per share	A5	(2.08)	12.41

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Foreign currency reserve	Share based payments reserve	Other reserves	Contributed equity	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 January 2018 (Restated)	**(547)**	**2,331**	**(211)**	**83,507**	**(1,884)**	**91,503**	**174,699**	**100**	**174,799**
Profit for the year	-	-	-	-	-	(2,457)	(2,457)	131	(2,326)
Other comprehensive income	(5)	-	152	-	-	-	147	-	147
Total comprehensive income for the year	**(5)**	**-**	**152**	**-**	**-**	**(2,457)**	**(2,310)**	**131**	**(2,179)**
Transactions with owners in their capacity as owners:									
Share-based payment	-	490	-	-	-	-	490	-	490
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	-	-	-	2,633	-	-	2,633	-	2,633
Capital raising (net transaction costs)	-	-	-	(217)	-	-	(217)	-	(217)
Equity dividends	-	-	-	-	-	(12,993)	(12,993)	(105)	(13,098)
Transfer from/(to) contributed equity	-	-	-	(1,884)	1,884	-	-	-	-
Transfer from/(to) financial liabilities	-	-	68	-	-	-	68	-	68
As at 31 December 2018	**(552)**	**1,136**	**9**	**85,724**	**-**	**76,053**	**162,370**	**126**	**162,496**
As at 1 January 2017 (Restated)	**(593)**	**1,398**	**8,526**	**51,026**	**-**	**78,229**	**138,586**	**151**	**138,737**
Profit for the year	-	-	-	-	-	13,983	13,983	322	14,305
Other comprehensive income	46	-	(82)	-	-	-	(36)	-	(36)
Total comprehensive income for the year	**46**	**-**	**(82)**	**-**	**-**	**13,983**	**13,947**	**322**	**14,269**
Transactions with owners in their capacity as owners:									
Share based-payment	-	1,718	-	-	-	-	1,718	-	1,718
Issue of shares for long-term incentive plan	-	(785)	-	-	-	785	-	-	-
Dividend reinvestment plan	-	-	-	3,082	-	-	3,082	-	3,082
Capital raising (net transaction costs)	-	-	-	29,415	-	-	29,415	-	29,415
Equity dividends	-	-	-	-	-	(10,181)	(10,181)	(220)	(10,401)
Transfer (from)/to other reserve	-	-	(8,523)	-	-	8,676	153	(153)	-
Share repurchase	-	-	-	(16)	(1,884)	-	(1,900)	-	(1,900)
Transfer from/(to) financial liabilities	-	-	(132)	-	-	11	(121)	-	(121)
As at 31 December 2017 (Restated)	**(547)**	**2,331**	**(211)**	**83,507**	**(1,884)**	**91,503**	**174,699**	**100**	**174,799**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipt of service revenue and recoveries		228,893	206,066
Payments to suppliers and employees		(200,828)	(183,195)
Interest received		68	53
Interest paid		(2,687)	(2,164)
Bank charges and credit card merchant fees		(1,530)	(1,494)
Income tax refunds		1,121	259
Income tax paid		(6,770)	(6,081)
Net cash flows from operating activities	**E1**	**18,267**	**13,444**
Cash flows from investing activities			
Purchase of plant and equipment and intangible assets		(13,894)	(4,042)
Payment of contingent consideration for InfoReady		(5,668)	(620)
Acquisition of Outware, net of cash acquired		-	(27,692)
Acquisition of WME Group		-	(38,300)
Repayment of WME Group loans	D1(a)	-	4,000
Payment for share repurchase		-	(1,900)
Transaction costs relating to acquisitions		(85)	(794)
Net cash flows (used in) investing activities		**(19,647)**	**(69,348)**
Cash flows from financing activities			
Proceeds from capital raising	C2	-	30,680
Transaction costs on capital raising	C2	-	(1,807)
Proceeds from borrowings	C4	-	38,492
Payment of dividend on ordinary shares		(10,361)	(7,099)
Payment of dividend to non-controlling interests		(105)	(485)
Payment of finance lease liabilities		(120)	(99)
Net cash flows from/(used in) financing activities		**(10,586)**	**59,682**
Net increase/(decrease) in cash and cash equivalents		(11,966)	3,778
Net foreign exchange differences		(5)	46
Cash and cash equivalents at beginning of year		20,250	16,426
CASH AND CASH EQUIVALENTS AT END OF YEAR	**E1**	**8,279**	**20,250**

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

Notes to the Financial Statements

Section A: Financial performance

Section B: Operating assets and liabilities

Section C: Capital and financial risk management

Section D: Group structure

Section E: Other information

About this report

This is the financial report of Arq Group Limited ('the company' or ‘Arq Group') (formerly Melbourne IT Ltd) and of its controlled entities (collectively 'the Group') for the year ended 31 December 2018. The financial report was authorised for issue in accordance with a resolution of the Directors on 27 March 2019.

It is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act (2001)*, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Arq Group Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange. The company is a for-profit entity. The nature of the operations and principal activities of the Group are described in the Directors’ Report.

Basis of preparation

The financial report has been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value, and investments designated at fair value through other comprehensive income.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2017 is presented in these consolidated financial statements, due to retrospective application of accounting policies as a result of the adoption of new accounting standards.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($’000), unless otherwise stated, under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 (Instrument 2016/191). The company is an entity to which Instrument 2016/191 applies.

The financial report has been prepared on a going-concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due. The Group’s current liabilities exceed current assets by $15,493,000 as at 31 December 2018 (2017 restated: $9,933,000). This mainly arises due to revenue income in advance of $21,305,000 being recognised, net of prepayments of domain name registry fees.

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concept of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Significant accounting policies (cont.)

The below describes significant accounting policies applicable to the Group's financial statements. Other specific significant accounting policies are described in respective notes to the financial statements.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Arq Group Limited and its subsidiaries (the Group) as at 31 December each year. The Group controls a subsidiary if and only if the Group has:

- power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- exposure or rights to variable returns from its involvement with the subsidiary
- the ability to use its power over the subsidiary to affect its returns.

The financial statements of subsidiaries are prepared for the same reporting period as for the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to Arq Group Limited, and cease to be consolidated from the date on which control is transferred out of Arq Group Limited.

Investments in subsidiaries held by Arq Group Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units. Where goodwill forms part of a CGU, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of, and the portion of the cash-generating unit retained.

Significant accounting policies (cont.)

Acquisitions of subsidiaries that include put options to acquire non-controlling interests in the future are accounted for in accordance with AASB 10: *Consolidated Financial Statements* (AASB 10).

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Arq Group Limited has control. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

On the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(b) Foreign currency transactions

Both the functional and presentation currency of Arq Group Limited and its Australian subsidiaries is Australian dollars (AUD).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The functional currency of each overseas subsidiary is as follows:

Investment in New Zealand subsidiaries	- NZD (New Zealand Dollar)
Investment in US subsidiary	- USD (United States Dollar)

The assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Arq Group Limited at the rate of exchange ruling at the reporting date, and the statement of comprehensive income is translated at the weighted average exchange rates for the period.

The exchange differences arising on retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the determination of profit and loss for the year.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designed as hedges of such investments, are taken to the foreign currency translation reserve in equity. When a foreign operation is sold, or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is recognised in the statement of comprehensive income, as part of the gain on sale or loss on sale where applicable.

(c) Financial assets

(i) Recognition and measurement

Financial assets are classified at initial recognition as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

Significant accounting policies (cont.)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding on specified dates. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables (note B1).

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132: *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments (note B5) under this category.

Significant accounting policies (cont.)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value, with net changes in fair value recognised in the statement of profit or loss.

The Group has not designated any financial asset as at fair value through profit or loss.

(ii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either
- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

(iii) Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Significant accounting policies (cont.)

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(d) Financial liabilities

(i) Recognition and measurement

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value, and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition, and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings (note C4).

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 9. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied.

The Group has not designated any financial liability as at fair value through profit or loss.

Significant accounting policies (cont.)

(ii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(e) Prepayment of domain name registry charges

Domain name registry charges are deferred in the statement of financial position, and are recognised in the statement of comprehensive income using the same principles as revenue from the sale of domain names, as explained in accounting policy in note A1.

Changes in accounting policies

The accounting policies adopted in the preparation of the full-year financial report are consistent with those followed in the preparation of the Group’s annual report for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 15: *Revenue from Contracts with Customers* (AASB 15) and AASB 9*: Financial Instruments* (AASB 9) that require restatement of previous financial statements. The Group adopted AASB 15 from 1 January 2018, using the full retrospective method of adoption, thereby restating the 2017 comparatives. The nature and effect of these changes are disclosed in the respective notes to the financial statements.

Significant accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Significant accounting estimates and judgements (cont.)

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions, and may materially affect financial results or the financial position reported in future periods.

Information on significant estimates and judgements considered when applying the accounting policies can be found in the following notes:

Accounting estimates and judgements	**Note**
Revenue	A1
Taxation	A3
Trade and other receivables	B1
Impairment of goodwill and intangibles and useful lives	B4
Contingent consideration liability	C6
Share-based payment transactions	E4

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:

	For the year ended 31 December 2018		
	$'000	**$'000**	**$'000**
Segments	**SMB Solutions**	**Enterprise**	**Total**
Types of goods or services			
Registration revenue	35,004	-	35,004
Solutions, hosting & services	65,090	112,918	178,008
Total revenue from contracts with customers	**100,094**	**112,918**	**213,012**
Timing of revenue recognition			
Services/goods transferred at a point in time	867	781	1,648
Services transferred over time	99,227	112,137	211,364
Total revenue from contracts with customers	**100,094**	**112,918**	**213,012**

	For the year ended 31 December 2017		
	$'000	**$'000**	**$'000**
Segments	**SMB Solutions**	**Enterprise**	**Total**
Types of goods or services			
Registration revenue	38,100	-	38,100
Solutions, hosting & services	63,945	95,325	159,270
Total revenue from contracts with customers	**102,045**	**95,325**	**197,370**
Timing of revenue recognition			
Services/goods transferred at a point in time	477	529	1,006
Services transferred over time	101,568	94,796	196,364
Total revenue from contracts with customers	**102,045**	**95,325**	**197,370**

A1. Revenue from contracts with customers (cont.)

(b) Accounting policy and changes from the prior year

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111: *Construction Contracts*, AASB 118: *Revenue* (AASB 118), AASB Interpretation 13: *Customer Loyalty Programmes, AASB Interpretation 15: Agreements for the Construction of Real Estate, AASB Interpretation 18: Transfers of Assets from Customers, and AASB Interpretation 131: Revenue – Barter Transactions Involving Advertising Services, Interpretation 1042: Subscriber Acquisition Costs in the Telecommunication Industry)* and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117: *Leases* (or AASB 16: *Leases*, once applied).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract, and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 from 1 January 2018, using the full retrospective method of adoption, thereby restating the 2017 comparatives. The tables on the following pages show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail in the following pages. The effect of adopting AASB 15 is presented in the table in the following pages.

Impact on the statement of profit or loss (increase/(decrease)) for the year ended 31 December 2017:

	Notes	$’000s
Revenue from contracts with customers	A1(i), A1(iv)	(337)
Cost of sales	A1(i), A1(iv)	363
Loss for the year		**26**
Loss for the year attributable to:		
Members of the parent		26
Non-controlling interests		-

There is no impact on the statement of cash flows. The impact on basic and diluted earnings per share is, as follows:

- Basic earnings per share	0.02 cents
- Diluted earnings per share	0.02 cents

A1. Revenue from contracts with customers (cont.)

Impact on the statement of financial position (increase/(decrease)) as at:

Current assets	Notes	31-Dec-17 $'000s	1-Jan-17 $'000s
Prepayments of domain name registry charges	A1(i), A1(iv)	6,210	6,122
Total Current Assets		**6,210**	**6,122**
Non-current assets			
Prepayments of domain name registry charges	A1(i)	1,697	1,422
Deferred tax assets	A1(x)	2,803	2,803
Total non-current assets		**4,500**	**4,225**
TOTAL ASSETS		**10,710**	**10,347**
LIABILITIES			
Current liabilities			
Income received in advance	A1(i), A1(iv)	12,790	13,670
Total current liabilities		**12,790**	**13,670**
Non-current liabilities			
Income received in advance	A1(i)	4,738	3,521
Total Non-current liabilities		**4,738**	**3,521**
TOTAL LIABILITIES		**17,528**	**17,191**
NET ASSETS		**(6,818)**	**(6,844)**
EQUITY			
Retained earnings	A1(i), A1(iv), A1(x)	(6,818)	(6,844)
Equity attributable to members of the parent		**(6,818)**	**(6,844)**
TOTAL EQUITY		**(6,818)**	**(6,844)**

Under AASB 15, prepayments of domain name registry charges are considered to be deferred as a contract asset, and income received in advance is considered a contract liability. The amounts included in the contract liabilities reflect a significant portion of the aggregate amount of performance obligations not yet satisfied at the end of the reporting period. For any remaining contracts we apply the practical expedient available under AASB 15.121 whereby the performance obligations are not disclosed as they have an original expected duration of one year of less. See further details on contracts assets in note B2.

Set out below is the amount of revenue from contracts with customers recognised from:

	2018 $'000	2017 $'000
Amounts included in contract assets at the beginning of the year	38,110	13,256

A1. Revenue from contracts with customers (cont.)

Set out below is the amount of cost of sales recognized from:

	2018 $’000	2017 $’000
Amounts included in contract assets at the beginning of the year	13,098	13,256

The Group has identified the following main categories by segment:

- SMB: domain names, hosting (email and web), online marketing and website builds
- Enterprise: data & analytics professional services, data & analytics software, cloud professional and managed services and mobile application development.

Information about the Group’s performance obligations are summarized in sections (i) to (vi) below.

(i) Rendering of services – domain name registration

Domains revenue primarily consists of domain registrations and renewals, as well as aftermarket sales. Domain registrations are assessed as a distinct service that provides a customer with the exclusive use of the domain name over the contracted period, including the provision of Domain Name System services.

Consideration is recorded as income received in advance when it is received, which is typically at the time of sale and revenue, with the exception of aftermarket sales, which are recognised evenly over the contract period as performance obligation is satisfied. Aftermarket sales are recognised as revenue when ownership of the domain has been transferred. As the customer simultaneously receives and consumes the benefits of the domain services provided, this revenue is recognised over time.

Prior to adoption of AASB 15, the Group determined that revenue was recognised by reference to percentage of completion method. The percentage of completion was determined by reference to the extent of services performed to date on the agreement as a percentage of total services to be performed under the agreement. The Group recognised a proportion of revenue upfront upon performance (between 10.8-78.0%), and the remaining revenue per month on a straight-line basis, based on the length of time of the domain name registration, which is between 1-10 years.

The statement of financial position as at 31 December 2017 was restated, resulting in an increase in current and non-current portions of income received in advance amounting to $12,175,000 and $4,738,000 respectively; current and non-current portions of prepayments of domain name registry names amounting to $5,771,000 and $1,697,000 respectively; and a decrease in retained earnings amounting to $9,532,000. The statement of profit or loss for the year ended 31 December 2017 was also restated, resulting in an increase in revenue from contracts with customers amounting to $162,000, and an increase in cost of sales amounting to $76,000.

Prepayments of domain name registry charges are direct costs to fulfil a contract. See Key judgement and estimates section for further information.

A1. Revenue from contracts with customers (cont.)

(ii) Rendering of services – hosting (email and web)

Hosting revenue primarily derives from website and email hosting services provided over a contracted period of time. Where consideration is received in advance of performance, it is initially recorded as income received in advance. Revenue is recognised as the performance obligations are satisfied, which is considered to be evenly over the contracted term.

No changes to revenue recognition were identified under AASB 15.

(iii) Rendering of services – online marketing

Online marketing revenue consists of search engine optimisation (SEO), pay-per-click (PPC) advertising, and social media advertising. Where consideration is received in advance of performance, it is initially recorded as income received in advance. Revenue is recognised as the performance obligations are satisfied, which is considered to be evenly over time in line with the contracted term as the customer simultaneously receives and consumes the benefits of online marketing services.

No changes to revenue recognition were identified under AASB 15.

(iv) Rendering of services – website build

Website build revenues consist of fees charged for the creation of websites for customers. Under AASB 15, where the Group has an enforceable right to payment for performance completed to date, and no alternative use for the asset, it recognises revenue over the period of the build based on time incurred, because there is a direct relationship between the Group’s effort and the transfer of service to the customer. In the absence of such a right, the Group recognises revenue at a point in time being transfer of the website to the customer.

Revenue from the build of the website from the Nothing But Web business will be recognised at a point in time, once the physical transfer of the website to the customer’s control has occurred. Due to the absence of an enforceable right to payment, there are no significant judgements made in evaluating when control of the website transfers to the customer. Revenue from the build of websites from all other SMB brands will be recognised over an average build period of three months. The Group reassessed the average build period at 31 December 2018, noting no material change.

Contract fulfilment costs incurred in advance of revenue recognition are capitalised when they are directly attributable to the contract, generate the resources to satisfy the performance obligations, and will be recovered. These costs are expensed over the period when revenue is recognised.

The statement of financial position as at 31 December 2017 was restated, resulting in an increase in current income received in advance amounting to $615,000, an increase in current prepayments of domain name registry names amounting to $439,000, and a decrease in retained earnings amounting to $116,000. The statement of profit or loss for the year ended 31 December 2017 was also restated, resulting in a decrease in revenue from contracts with customers amounting to $499,000, and a decrease in cost of sales amounting to $439,000.

A1. Revenue from contracts with customers (cont.)

(v) Rendering of services – enterprise professional services

Revenue from professional services for Data & Analytics, Cloud and Mobile Application Development are recognised over time by reference to the stage of completion of the contracts, because there is a direct relationship between the Group's effort and the transfer of service to the customer. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the outcome cannot be reasonably measured, revenue is only recognised to the extent of the recoverable costs incurred to date of the performance obligation.

No changes to revenue recognition were identified under AASB 15.

(vi) Rendering of services – managed services

Revenue from managed services contracts is recognised as performance obligations are satisfied over time, which is considered to be on a straight-line basis over the term of contract, in line with the timing as to when the customer simultaneously receives and consumes the benefits of the services.

No changes to revenue recognition were identified under AASB 15.

(vii) Transaction prices

The Group's customer contracts may include multiple performance obligations. In these cases, the Group allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of each distinct service. Stand-alone selling prices are determined based on prices charged to customers for individual products and services, taking into consideration the size and length of contracts, service rate cards, and the Group's overall go-to-market strategy.

(viii) Principal versus agent considerations

The Group sells products and services both directly to customers, and in some instances, through resellers. The Group assesses each arrangement to determine whether the Group acts as principal or agent, based on whether the Group controls the product or service before transferring it to the end customer. Where the Group acts as principal, revenue is recorded on a gross basis versus on a net basis where the Group acts as agent.

The Group sells data analytics software, provided by an external vendor, under two delivery models, these being a perpetual license or a Software-as-a-Service (SaaS) subscription arrangement. The external vendor is responsible for the fulfilment to the end user, and at no point in time does the Group obtain control of the data analytics software. The external vendor is also responsible for ongoing support. Revenue sold under both models being the net amount received has been recognised upfront when the Group has acquired a customer contract for the external vendor.

There is no impact on the statement of financial position as at 31 December 2017, and no impact on the statement of comprehensive income for the year ended 31 December 2017.

A1. Revenue from contracts with customers (cont.)

(ix) Customer acquisition costs

Incremental costs of obtaining a contract with a customer are capitalised when expected to be recovered under the contract. Commissions paid to the Group's resellers are capitalised and amortised over time in line with the performance obligations. There are no judgements applied in determining customer acquisition costs.

AASB 15 allows entities to immediately expense costs which would have been amortised within one year or less, and for such situations, the Group recognises the incremental costs of obtaining contracts as an expense when incurred.

There is no material impact on the statement of financial position as at 31 December 2017, and no material impact on the statement of comprehensive income for the year ended 31 December 2017.

(x) Taxation impacts

The adoption of AASB 15 has resulted in a deferral of revenue and costs of goods sold from prior periods into future periods. A deferred tax asset is created equal to the net income amount previously assessed for taxation purposes.

The statement of financial position as at 31 December 2017 was restated, resulting in an increase in current deferred tax asset amounting to $2,803,000, and an increase to retained earnings amounting to $2,803,000.

(xi) Presentation and disclosure requirements

The Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note A1(a) for the disclosure of disaggregated revenue.

Key judgement and estimates

Prepayments of domain name registry charges are direct costs to fulfil a contract. The Group defers these costs as a contract asset and amortises the asset over the contract period, consistent with the satisfaction of performance obligations and the recognition of revenue. The Group re-assesses costs to fulfil contracts on a periodic basis to reflect significant changes in the expected timing of satisfying performance obligations to which the asset relates, and when there is a significant change in the carrying amount of the asset.

A2. Expenses

	2018 $'000	2017 $'000
(a) Salaries and employee benefits expense		
Included in cost of sales:		
Salaries and employee benefits expenses	39,080	30,271
Included in salaries and employee benefits expenses:		
Salaries and wages	49,847	43,986
Superannuation expense	7,554	6,335
Expensing of share-based payments	490	1,718
(b) Depreciation expense		
Leasehold improvements	1,572	220
Plant and equipment	2,677	3,035
Leasehold make-good	359	-
Furniture	308	46
Total depreciation of non-current assets	**4,916**	**3,301**
(c) Amortisation of identifiable intangible assets		
Marketing-related intangibles	5,346	1,782
Capitalised software	2,900	2,424
Customer contracts	2,545	2,121
Total amortisation of identifiable intangible assets	**10,791**	**6,327**

On 31 October 2017, Arq Group Limited approved the retirement of the WebCentral brand in line with a group-wide brand review. The Group anticipated the retirement of the WebCentral brand being completed within 12 months, and as a result, the useful life of the related brand intangible asset was revised to 12 months ended 31 October 2018 as disclosed in note B4. As a result, $5.346m of accelerated amortisation expense has been recognised in the statement of comprehensive income.

A2. Expenses (cont.)

		2018 $'000	2017 $'000
(d)	**Finance costs**		
	Interest expense on debt and borrowings	2,689	2,164
	Bank charges and credit card merchant fees	1,528	1,494
	Unwinding of discount on other financial liabilities	93	189
Total finance costs		**4,310**	**3,847**
(e)	**Other expenses**		
Included in other expenses:			
	Premises	7,752	4,104
	Consulting fees	4,745	2,420
	Marketing	4,167	3,257
	Software licences	3,661	2,644
	Bad debts and doubtful debts	1,589	1,104
	Training and recruitment	1,571	1,444
	Communications	1,020	1,070
	Foreign exchange (gain)/loss	(1)	136

A3. Income tax

The major components of income tax expense are:

(a) Statement of comprehensive income

	2018 $'000	2017 $'000
Current income tax		
Current income tax charge	4,689	4,583
Adjustments in respect of current income tax of previous years	9	368
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,280)	786
Income tax expense reported in the statement of comprehensive income	**3,418**	**5,737**

A3. Income tax (cont.)

(b) Statement of changes in equity

	2018 $'000	2017 $'000
Deferred income tax related to items charged or credited directly to equity		
Net gain on revaluation of cash flow hedges	(24)	-
Deferred tax asset recognised on equity raise costs	145	542
Income tax expense reported in equity	**121**	**542**

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

	2018 $'000	2017 $'000 Restated
Accounting profit before income tax	1,092	20,042
At the Group's statutory income tax rate of 30% (2017: 30%)	328	6,013
Adjustments in respect of current income tax of previous years	9	368
Non-deductible expenses	273	324
Other non-operating income	-	(631)
Reassessment of contingent consideration	2,911	295
Unwinding of discount on other financial liabilities	28	-
Estimated R&D tax incentive claims	(67)	(701)
Other	(64)	69
Income tax expense at the effective income tax rate	**3,418**	**5,737**
Income tax expense reported in the statement of comprehensive income	**3,418**	**5,737**

A3. Income tax (cont.)

(d) Deferred tax assets and liabilities

	2018 $'000	2017 $'000 Restated
Deferred tax assets at 31 December relate to the following:		
Unrealised foreign exchange losses	2,121	876
Employee benefits	1,781	2,099
Lease provisions	697	51
Income received in advance	585	2,803
Blackhole expenditure	548	691
Doubtful debts provision	395	313
Accruals	300	959
Other non-current liabilities	255	-
Derivative financial instruments	24	-
Intangible assets	11	-
Carry-forward tax losses	-	79
Other	58	38
	6,775	**7,909**

The deferred tax asset at 31 December 2017 relating to income received in advance was restated on adoption of AASB 15.

Deferred tax liabilities at 31 December relate to the following:

	2018 $'000	2017 $'000
Intangible assets	2,807	6,662
Unrealised foreign exchange gains	1,958	929
Make-good asset	494	-
Other	210	-
	5,469	**7,591**

As at 31 December 2018, the Group had no unused carry forward tax losses (2017: $0.319 million). These carry forward tax losses arose on the acquisition of Nothing But Web Pty Ltd.

Current taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

A3. Income tax (cont.)

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

Deferred taxes

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Tax consolidation

The Group and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2006. Members of the tax consolidated group have entered into a tax-funding agreement. Each entity is responsible for remitting its share of the current tax payable (receivable) assumed by the head entity.

A3. Income tax (cont.)

In accordance with UIG 1052 and Group accounting policy, the Group has applied the ‘separate taxpayer within group approach’, in which the head entity, Arq Group Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts.

In addition to its own current and deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax credits assumed from controlled entities in the tax consolidated group. The allocation of taxes to the head entity is recognised as an increase/decrease in the controlled entity’s inter-company accounts with the tax consolidated Group head entity.

Members of the Group have entered into a tax-sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, on the grounds that the possibility is remote.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Key judgement and estimates

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

A4. Dividends

Equity dividends on ordinary shares

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

	2018 $'000	2017 $'000
Interim franked dividend for 2018: 3.5 cents per share (2017: 3.5 cent per share)	4,147	4,090
Final franked dividend for 2017: 7.5 cents per share (2016: 6.0 cents per share)	8,846	6,091
Total dividends paid during the year	12,993	10,181

(b) Dividends proposed and not recognized as a liability

Final franked dividend for the year ended 31 December 2018: 4.5 cents per share (2017: 7.5 cents per share)	5,349	8,803

(c) Franking credit balance

The amount of franking credits available for the subsequent financial year are: - franking account balance as at the end of the financial year at 30% (2017: 30%)	2,320	2,192

A5. Earnings/(loss) per share

	2018 Cents	2017 Cents Restated
Basic earnings/(loss) per share	(2.08)	12.58
Diluted earnings/(loss) per share	(2.08)	12.41

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

Profit/(loss) for the year attributable to members of the parent	(2,457)	13,983
	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	118,876,222	111,149,089
Effect of dilution:		
Share options/rights	-	1,473,982
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	118,876,222	112,623,071

Basic earnings/(loss) per share is calculated as profit/(loss) for the year attributable to members of the parent, divided by the weighted average number of ordinary shares.

Diluted earnings/(loss) per share is calculated as profit/(loss) for the year attributable to members of the parent, divided by the weighted average number of ordinary shares and the dilutive potential ordinary shares.

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 performance rights have not been included in the determination of basic earnings per share.

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 these financial statements.

A6. Segment reporting

Identification of 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.

Executive management meet on a monthly basis to assess the performance of each segment by analysing the segment's EBITDA.

Transfer prices between operating segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segment revenue, expense and segment result include transfers between business segments. These transfers are eliminated on consolidation.

Operating segments have been identified based on the information provided to the chief operating decision maker, being the CEO. Consistent with the requirements of AASB 8: *Operating Segments*, as the chief operating decision maker does not receive information regarding segment assets and liabilities, no disclosure of segment assets and liabilities has been provided.

The operating segments are identified by management based on the nature of the customer segment, and the identity of the service line manager. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

Where operating segments meet the aggregation criteria, these are aggregated into reported segments. Operating segments are aggregated based on similar products and services provided to the same type of customers using the same distribution method. The Group's reportable segments are as described below.

SMB

SMB provides domain name registrations and renewals, website and email hosting, website development, search engine optimisation 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.

A6. Segment reporting (cont.)

The following tables present the revenue and profit information regarding business unit segments for the years ended 31 December 2018 and 31 December 2017.

Year ended 31 December 2018	**SMB $'000**	**Enterprise $'000**	**Total $'000**
Segment revenue from contracts with customers			
Revenue from operating activities:			
Registration revenue	35,004	-	**35,004**
Solutions, hosting & services	65,090	112,918	**178,008**
Total segment revenue	**100,094**	**112,918**	**213,012**
Result			
Segment results	20,257	21,063	**41,320**
Unallocated expenses:			
- Corporate costs (including transaction costs relating to acquisition)			(9,270)
- Loss on reassessment of contingent consideration liability			(9,702)
- Arq brand costs			(2,835)
Earnings before interest, tax, depreciation and amortisation			**19,513**
Net Interest			
Interest income			68
Interest expense on debt and borrowings			(2,689)
Unwinding of discount on other financial liabilities			(93)
Total net interest			**(2,714)**
Depreciation & amortisation			(15,707)
Profit before tax			**1,092**
Income tax expense			(3,418)
Loss after tax for the year			**(2,326)**

A6. Segment reporting (cont.)

Year ended 31 December 2017	SMB $'000 Restated	Enterprise $'000 Restated	Total $'000 Restated
Segment revenue from contracts with customers			
Revenue from operating activities:			
Registration revenue	38,100	-	**38,100**
Solutions, hosting & services	63,945	95,325	**159,270**
Total segment revenue	**102,045**	**95,325**	**197,370**
Result			
Segment results	21,398	17,275	**38,673**
Unallocated expenses:			
- Corporate costs (including transaction costs relating to acquisition)			(4,622)
- Gain on accelerated settlement of Outware option liability			(5,814)
- Remuneration expense from accelerated settlement of Outware option liability			3,733
Earnings before interest, tax, depreciation and amortisation			**31,970**
Net Interest			
Interest income			53
Interest expense on debt and borrowings			(2,164)
Unwinding of discount on other financial liabilities			(189)
Total net interest			**(2,300)**
Depreciation & amortisation			(9,628)
Profit before tax			**20,042**
Income tax expense			(5,737)
Profit after tax for the year			**14,305**

A7. Other income

	2018 $'000	2017 $'000
Gain on accelerated settlement of Outware option liability	-	5,814
Interest income	68	53
Total other income	**68**	**5,867**

Section B: Operating assets and liabilities

B1. Trade and other receivables

(a) Disaggregation of trade and other receivables

	2018 $'000	2017 $'000
Trade receivables	27,179	25,221
Allowance for ECLs	(1,370)	(1,030)
Other receivables	594	1,054
Total trade and other receivables	**26,403**	**25,245**

Set out below is the movement in the allowance for ECLs of trade receivables:

	2018 $'000	2017 $'000
Opening balance	1,030	836
Additional provision for ECLs	1,359	1,000
Amount written off	(1,019)	(898)
Acquisitions	-	92
Closing balance	**1,370**	**1,030**

At 31 December, the ageing analysis of trade receivables is as follows:

		2018		2017	
	ECL Rate	Gross $'000	ECL $'000	Gross $'000	Allowance $'000
Consolidated					
Current	1.08%	9,936	(107)	12,998	-
0-90 days past due	4.51%	8,529	(385)	8,730	-
91 days + past due	10.08%	8,714	(878)	3,493	(1,030)
Closing balance		27,179	(1,370)	25,221	(1,030)

Information about credit exposures are disclosed in note C1.

(b) Accounting policies

A description of accounting policies applicable to the Group for Trade and other receivables can be found in the Financial assets section of the 'Significant accounting policies'.

B1. Trade and other receivables (cont.)

(c) Changes to accounting policies from prior year

AASB 9 replaces AASB 139: *Financial Instruments: Recognition and Measurement* (AASB 139) for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The impacts of this have been disclosed in the respective notes to the financial statements.

The Group has applied AASB 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017.

The adoption of AASB 9 has included a review of the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking ECL approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. For trade and other receivables, the Group has applied the standard's simplified approach, and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Based on the review undertaken, there has been no material impact on the statement of financial position and statement of profit and loss for the year ended 31 December 2018 and the comparative period.

Key judgement and estimates

During the period, a customer disputed the calculation of amounts being charged in relation to a contract for services. At balance date, an amount recorded in trade receivables of $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

	2018 $'000	2017 $'000 Restated
Accrued revenue	4,363	4,969
Prepayments	2,168	2,374
Lease incentive receivable	103	361
Funds held in escrow	-	3,487
Total other assets (current)	**6,634**	**11,191**

Funds held in escrow in the prior year related to monetary assets held in trust with the Group's lawyers, in which disbursement would occur upon satisfaction of contingent consideration liability obligations as at 31 December 2017. This has since been paid out in the twelve months ending 31 December 2018.

Accrued revenue is defined as a contract asset under AASB 15.

B3. Plant and equipment

	Leasehold improvements $'000	Plant and equipment $'000	Furniture and fittings $'000	Make-good assets $'000	Capital work in progress $'000	Total $'000
At cost						
At 1 January 2017	1,686	17,311	357	-	9	19,363
Acquisition of WME Group (note D1)	283	85	22	-	-	390
Additions	-	1,934	-	-	347	2,281
Transfers	-	-	-	-	(9)	(9)
Disposals	-	(84)	-	-	-	(84)
At 31 December 2017	1,969	19,246	379	-	347	21,941
Additions	6,532	2,349	2,026	2,006	79	12,992
Transfers	266	(28)	-	-	(266)	(28)
Disposals	(695)	(430)	(35)	-	-	(1,160)
At 31 December 2018	8,072	21,137	2,370	2,006	160	33,745
Depreciation and impairment						
At 1 January 2017	822	11,613	189	-	-	12,624
Depreciation charge for the year	336	2,919	45	-	-	3,300
At 31 December 2017	1,158	14,532	234	-	-	15,924
Depreciation charge for the year	1,572	2,677	308	359	-	4,916
Transfers	-	(59)	58	-	-	(1)
Disposals	(528)	(429)	(36)	-	-	(993)
At 31 December 2018	2,202	16,721	564	359	-	19,846
Net book value						
At 31 December 2017	811	4,714	145	-	347	6,017
At 31 December 2018	5,870	4,416	1,806	1,647	160	13,899

Plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight-line or diminishing value basis on all plant and equipment. Major depreciation periods are:

	2018	**2017**
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years
Furniture and fittings	2 to 5 years	2 to 5 years

An item of plant and equipment is derecognised upon disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income upon derecognition. The residual values, useful lives, and methods of depreciation of plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

B4. Intangible assets

	2018 $'000	2017 $'000
Goodwill	211,671	237,500
Market-related intangibles	9,053	9,053
Accumulated amortisation	(7,164)	(1,817)
	1,889	7,236
Customer contracts	10,520	10,520
Accumulated amortisation	(7,309)	(4,764)
	3,211	5,756
Capitalised software	18,503	15,755
Accumulated amortisation	(10,035)	(7,151)
	8,468	8,604
Total intangible assets	**225,239**	**259,096**

Reconciliation of carrying amounts at the beginning and end of the period

	Capitalised Software $'000	Customer Contracts $'000	Market -related Intangibles $'000	Goodwill $'000	Total $'000
Net balance at 1 January 2017	8,512	4,672	9,017	202,540	224,741
Acquisition of WME Group (note D1)	595	3,206	-	34,960	38,761
Additions	1,934	-	-	-	1,934
Disposals	(13)	-	-	-	(13)
Amortisation	(2,424)	(2,122)	(1,781)	-	(6,327)
Net balance at 31 December 2017	**8,604**	**5,756**	**7,236**	**237,500**	**259,096**
Transfer to assets held for sale (note D3)	-	-	-	(25,829)	(25,829)
Additions	2,764	-	-	-	2,764
Disposal	-	-	-	-	-
Amortisation	(2,900)	(2,545)	(5,347)	-	(10,792)
Net balance at 31 December 2018	**8,468**	**3,211**	**1,889**	**211,671**	**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 impaired.

B4. Intangible assets (cont.)

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units (CGUs) expected to benefit from the combination’s synergies. Goodwill has been allocated for impairment purposes to CGUs that are significant individually or in aggregate, taking into consideration the nature of services, resource allocation, how operations are monitored, and where independent cash flows are identifiable.

This balance includes goodwill arising from the acquisition in the prior year of Web Marketing Experts Pty Ltd (Web Marketing Experts), Nothing But Web Pty Ltd (Nothing But Web) and Results First Ltd (Results First), together the WME Group.

As at 31 December 2018, $25,829,000 of goodwill associated to the SMB Reseller division has been reclassified to disposal group held for sale. Further detail is described within note D3.

(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.

On 31 October 2017, Arq Group Limited approved the retirement of the WebCentral brand in line with a group-wide brand review. The Group anticipated the retirement of the WebCentral brand being completed within 12 months; and as a result, the useful life of the related brand intangible asset was revised to 12 months ended 31 October 2018. As a result, $5,346,000 of accelerated amortisation expense has been recognised in the statement of income.

(c) Customer contracts

Customer contracts are amortised over the period of 3-5 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 $1,992,000, cloud platform software with a carrying value of $1,817,000, product and service customer platform enhancements of $1,867,000, Oracle Financials, the common financial reporting system used by all entities in the Group with a carrying value of $208,000, and software acquired from the acquisition of WME Group with a carrying value of $281,000. Included in capitalised software are capitalised labour and other directly attributable costs of $2,343,000 in progress which have not started amortisation. The $2,343,000 of capitalised labour in progress which has not started amortisation relates to product and service customer platform enhancements.

B4. Intangible assets (cont.)

Intangible assets acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost, and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Where amortisation is charged on assets with finite lives, this expense is taken to profit and loss through the 'amortisation of identifiable intangible assets' line item.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the profit and loss when the asset is derecognised.

Internally generated intangible assets

Costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software when the project meets the definition of an asset; and is identifiable. The costs capitalised are being amortised over a useful life of four to six years.

A summary of the policies applied to the Group's intangible assets is as follows:

Customer contracts	
Useful lives	Finite
Amortisation	Amortised over the estimated churn of the customer base
Impairment testing	When indicators exist
Market-related Intangibles	
Useful lives	Indefinite
Amortisation	No amortisation
Impairment testing	Annually and more frequently when indicators exist
Capitalised software projects	
Useful lives	4-6 years
Impairment testing	Amortisation method reviewed annually and when indicators exist

The carrying value of any intangible assets denominated in foreign currencies is revalued at the year-end spot rate of each reporting period, leading to changes in the carrying value of the intangible assets in reporting currency. Any revaluation amounts are recognised directly in the foreign currency translation reserve.

B4. Intangible assets (cont.)

Impairment of assets

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.

Goodwill and other intangible assets impairment testing

Carrying amount of intangible assets allocated to each of the CGUs:

	SMB		Enterprise		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Goodwill	109,944	135,773	101,727	101,727	211,671	237,500
Market-related intangibles	1,889	6,273	-	963	1,889	7,236
Customer contracts	1,915	3,663	1,296	2,093	3,211	5,756
Capitalised software	4,430	5,565	4,038	3,039	8,468	8,604

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.

B4. Intangible assets (cont.)

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

2018:

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

1. 1All 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.

2017:

	SMB	Enterprise
Growth rate year 1[4]	14.50%	23.30%
Growth rate year 2-5[4]	2.50%	2.5%[6]
Growth rate after year 5[5]	2.50%	2.50%
Discount rate[7]	11.50%	11.20%

4. All value in use calculations are based on management's estimates of achievable EBITDAs for the respective CGUs, with growth rates as noted in the table applied to Years 2-5. These estimates are most sensitive to assumptions around revenue growth, in particular the timescale for implementation of new products and initiatives in the SMB Solutions business. Year 1 results are based on Board-approved budgets.
5. Cash flows beyond the 5-year period are extrapolated using a 2.5% growth rate (2016: 2.5%) to determine terminal value, which is the company's estimate of the long-term average growth rate for the industry in which the company operates.
6. Enterprise CGU's Year 2 growth rate is expected to be greater than 2.5% as a result of the Enterprise CGU's continuing geographic expansion for state-based practices for Mobile, Data & Analytics and Cloud. However, for the purposes of determining the VIU of the Enterprise CGU, the long-term growth rate of the Group has been adopted.
7. 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

Keeping other assumptions constant, while the estimated recoverable amount of the SMB CGU was greater than its carrying value, a reasonably possible change in 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 -4.50% would result in an impairment loss of $1,302,000; a decrease in the terminal growth rate to 1.00% would result in an impairment loss of $2,575,000; and an increase in the pre-tax discount rate to 17.14% would result in an impairment loss of $1,723,000.

B4. Intangible assets (cont.)

Enterprise

There is no reasonable change in a key assumption used to determine the recoverable amount that would result in impairment.

Key judgement and estimates

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. 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

	2018 $'000	2017 $'000
Investment in Tiger Pistol - ordinary shares	1,870	1,695
Bank guarantee receivable	-	390
	1,870	**2,085**

The Group holds 603,205 shares in 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.

Reconciliation of fair value measurement of non-current financial assets

	2018 $'000	2017 $'000
As at 1 January	**2,085**	**1,795**
Foreign exchange gain/(loss) on revaluation of the Investment in Tiger Pistol	175	(100)
Bank guarantee receivable	(390)	390
As at 31 December	**1,870**	**2,085**

(a) Accounting policies

A description of accounting policies applicable to the Group for non-current financial assets can be found in the Financial assets section of the 'Significant accounting policies'.

(b) Changes to accounting policy from prior year

The investment in Tiger Pistol was classified as available for sale financial assets in the prior year. The Group does not view the investment in Tiger Pistol as an equity instrument held for trading. Therefore, the Group has elected to apply the irrevocable option on transition of fair value through other comprehensive income

B5. Non-current financial assets (cont.)

("FVOCI") to the Tiger Pistol equity instruments in accordance with AASB 9. All movements in fair value and any gain or losses on sale of the shares can only be recognised through other comprehensive income. Foreign exchange gains or losses are presented in the other comprehensive income. Dividends from Tiger Pistol should be recorded through the statement of profit and loss.

Based on the review undertaken, there has been no impact on the statement of financial position and statement of profit and loss for the year ended 31 December 2018 and the comparative period.

B6. Trade and other payables

	2018 $'000	2017 $'000 Restated
Trade creditors	2,682	3,059
Sundry creditors	5,408	5,745
Deposits received in advance	829	1,234
Accrued expenses	8,219	10,027
Total trade and other payables	**17,138**	**20,065**

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

	2018 $'000	2017 $'000
Current		
Employee benefits	3,406	4,072
Other	-	221
	3,406	4,293
Non-current		
Employee benefits	1,207	901
Other	2,323	-
	3,530	901
Total provisions	**6,936**	**5,194**

B7. Provisions (cont.)

	2018 $’000	2017 $’000
The aggregate employee benefit liability comprises:		
Provisions (current)	3,406	4,072
Provisions (non-current)	1,207	901
	4,613	4,973

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date, are measured at their nominal amounts based on remuneration rates, which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on corporate bonds is used, which has terms to maturity approximating the terms of the related liability.

Employee benefit expenses arise in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave and other entitlements, and
- Other types of employee entitlements are recognised against profits on a net basis in their respective categories.

Other provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Other non-current provisions include a surplus lease provision of $124,000 and leasehold make-good provisions of $2,199,000 for the Group. Properties occupied by the Group are subject to make-good costs when vacated at the termination of the lease. A make-good asset and provision is recognised at the present value of the provision as at 31 December 2018. Movements in the liability, as the time to make-good payment advances one period, are recognised as a finance expense. 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. Financial risk management objectives and policies

The Group's principal financial instruments comprise of receivables, payables, interest-bearing loans, cash, short-term deposits, derivatives, non-current financial assets and other financial liabilities. The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets, whilst protecting financial security.

The purpose is to manage the financial risks arising from the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange risk and interest rate risk, assessments of market forecasts for foreign exchange and interest rates. Liquidity risk is monitored through the development of rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with management under the supervision of the Audit and Risk Management Committee and under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances and cash flow forecast projections.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, all other equity reserves attributable to the equity holders of the parent and debt capital, principally raised from the Group’s banking partners, but inclusive of other debt-like instruments, such as earn-outs due. When managing capital, the Board's objective is to ensure the entity has sufficient liquidity for ongoing operations, capital to invest in growth opportunities, and cash flow to maintain returns to shareholders and debt providers.
The Group manages its capital structure and financing facilities and makes adjustments in light of changes in economic and market conditions, requirements of the business operations and requirements of its financial covenants. To maintain or adjust the capital structure, the Group may raise or repay debt, adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, or sell assets to fund these activities.

During 2018, the Group paid dividends of $12,993,000 (2017: $10,181,000). On 26 February 2019, the directors declared a final dividend of 4.5 cents per ordinary share, franked at 100%, amounting to $5,349,000. The expected payment date of the dividend is 30 April 2019.

Risk exposures and responses

Interest rate risk

The Group's exposure to market interest rates is related primarily to the Group's short-term deposits held and drawdowns on available financing facilities. Refer to note C4 for details of available financing facilities.

C1. Financial risk management objectives and policies (cont.)

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk.

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	8,279	20,250
Financial liabilities		
Bank loan[1]	74,992	74,992
Finance leases	-	29

1. Of the financial assets and liabilities that are exposed to variable interest rates, $30,300,000 of bank loans drawn are covered by interest rate swap agreements, which were terminated as at 31 December 2018. On 13 December 2018, the Group has entered $22,500,000 interest rate swap agreements with effective date on 4 January 2019. Refer to note C7 for further detail.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.
At 31 December 2018 and 2017, if interest rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	Net profit Higher / (Lower)		Equity Higher / (Lower)	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Consolidated				
Assets + 0.25% (25 basis points), liabilities + 0.25% (25 basis points) (2017: Assets + 0.25% (25 basis points), liabilities + 0.25% (25 basis points)).	(64)	(43)	(64)	(43)
Assets - 0.25% (25 basis points), liabilities - 0.25% (25 basis points) (2017: Assets - 0.25% (25 basis points), liabilities - 0.25% (25 basis points)).	64	43	64	43

The sensitivities have been calculated based on average holdings of interest-bearing assets and liabilities restated at year-end exchange rates, offset by the impact of interest rate swaps. Interest-bearing assets are predominantly sensitive to movements in Australian interest rates.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise of cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential

C1. Financial risk management objectives and policies (cont.)

default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group provides credit only with recognised, creditworthy third parties and as such collateral is not required, nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which may include an assessment of their financial position, past experience and industry reputation, depending on the amount of credit to be granted.

Outstanding customer receivables are regularly monitored. Receivables are written off when the Group determines that there is no reasonable expectation of recovering the trade receivable in full. Indicators that there is no reasonable expectation of recovery include, amongst others, the referral of a debtor to an external debt collection agency. The Group considers that there is a correlation between credit risk and the contractual payments past due, which is reflected in the ECL provision matrix. Historical evidence indicates trade receivables remain collectable more than 90 days past due.

Foreign currency risk

The Group conducts some of its business in US dollars ('USD') and is therefore exposed to movements in the AUD/USD dollar exchange rate. The Group actively manages the gross margin risk by its foreign currency risk management strategy. Please refer to Note C7 for further details.

Both the functional and presentation currency of Arq Group Limited is in Australian dollars (AUD). The consolidated Group contains functional currencies in USD and NZD. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

The exchange differences arising on the retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the determination of profit and loss for the year. At 31 December 2018, the Group had the following exposures to USD denominated assets and liabilities, where the functional currency is not USD. The Group's exposure to foreign currency changes for all other currencies is not material. Assets and liabilities that are designated in cash flow hedges are not included:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	68	155
Trade and other receivables	107	88
	175	**243**
Financial liabilities		
Trade and other payables	(1,640)	(1,670)
Net exposure	**(1,465)**	**(1,427)**

C1. Financial risk management objectives and policies (cont.)

The following sensitivity is based on foreign currency risk exposures in existence at the reporting date. At 31 December 2018, had the AUD moved as illustrated in the table below with all other variables held constant, post-tax profit and equity would have been affected as follows:

	Net profit Higher / (Lower)		Equity Higher / (Lower)	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Consolidated				
- AUD/USD +10% (2017: +10%)	133	117	133	117
- AUD/USD -10% (2017: -10%)	(162)	(143)	(162)	(143)

The Group also has exposures to foreign exchange when retranslating foreign currency subsidiaries into AUD. The sensitivity range has been determined using an expected range of 0.633 to 0.773 USD/AUD for the retranslation of USD denominated balances for the forthcoming year.

Liquidity risk

Liquidity risk is managed via the regular review of forecasted cash inflows and outflows, with any surplus funds being placed in short term deposits to maximise interest revenue.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as plant, equipment and investments in working capital (e.g. trade receivables). These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities, as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its business units that reflects expectations of settlement of financial assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	< 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
31 December 2018					
Financial assets					
Cash and cash equivalents	8,279	-	-	-	**8,279**
Trade and other receivables	26,403	-	-	-	**26,403**
Other financial assets	-	-	1,870	-	**1,870**
	34,682	-	1,870	-	**36,552**
Financial liabilities					
Trade and other payables	(17,138)	-	-	-	**(17,138)**
Borrowings	-	-	(74,992)	-	**(74,992)**
Current tax liabilities	(1,909)	-	-	-	**(1,909)**
Other financial liabilities	(12,971)	-	-	-	**(12,971)**
	(32,018)	-	(74,992)	-	**(107,010)**
Net inflow/(outflow)	**2,664**	**-**	**(73,122)**	**-**	**(70,458)**

C1. Financial risk management objectives and policies (cont.)

	< 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
31 December 2017					
Financial assets					
Cash and cash equivalents	20,250	-	-	-	**20,250**
Trade and other receivables	25,245	-	-	-	**25,245**
Other financial assets	-	-	2,085	-	**2,085**
	45,495	-	2,085	-	**47,580**
Financial liabilities					
Trade and other payables	(20,065)	-	-	-	**(20,065)**
Borrowings	(29)	(9,000)	(65,992)	-	**(75,021)**
Current tax liabilities	(2,845)	-	-	-	**(2,845)**
Other financial liabilities	(5,034)	-	(6,593)	-	**(11,627)**
	(27,973)	(9,000)	(72,585)	-	**(109,558)**
Net inflow/(outflow)	**17,522**	**(9,000)**	**(70,500)**	**-**	**(61,978)**

C2. Contributed equity

Ordinary shares

	2018 $'000	2017 $'000
Issued and paid-up capital		
Ordinary shares each fully paid	85,724	83,507

C2. Contributed equity (cont.)

Movements in ordinary shares on issue

	2018		2017	
	Number of shares	**$'000**	**Number of shares**	**$'000**
Beginning of the financial year	117,368,988	83,507	100,861,330	51,026
Issued during the year:				
- Capital raising	-	-	14,609,443	30,680
- Performance rights vested	584,054	685	659,913	-
- Dividend reinvestment plan	923,180	2,633	1,238,302	3,082
- Outware accelerated purchase settlement	-	1,000	-	-
- Transfer from treasury shares	-	(1,884)	-	-
- Transaction costs for capital raising and share repurchase, net of tax	-	(217)	-	(1,281)
End of the financial year	**118,876,222**	**85,724**	**117,368,988**	**83,507**

Treasury shares

	2018		2017	
	Number of shares	**$'000**	**Number of shares**	**$'000**
Beginning of the financial period	521,520	1,884	-	-
Share repurchase during the year	-	-	521,520	1,884
Shares issued for Outware accelerated purchase settlement	(521,520)	(1,884)	-	-
End of the financial period	**-**	**-**	**521,520**	**1,884**

As part of the Deed of Variation and Option Exercise with the owners of the non-controlling interest of Outware to purchase the remaining 24.9% of share capital, 521,520 ordinary shares were repurchased in anticipation of satisfaction of Deed obligations. This had been transferred to the vendors on 3 January 2018.

C3. Reserves

	2018 $'000	2017 $'000
Share-based payments reserve	1,136	2,331
Foreign currency translation reserve	(552)	(547)
Other reserves	9	(211)
	593	**1,573**

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including KMP, as part of their remuneration. Refer to note E4 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Other reserves

Other reserves represent the hedging reserve and equity investments at fair value through equity reserve. The hedging reserve contains the effective portion of the hedge relationships incurred as at the reporting date. The available-for-sale reserve is used to record changes to the fair value of non-current financial asset as disclosed in note B5 to the financial statements.

C4. Interest bearing loans and borrowings

	2018 $'000	2017 $'000
Current		
Interest-bearing loan	-	9,000
Finance lease liabilities	-	29
	-	9,029
Non-current		
Interest-bearing loan	74,992	65,992
	74,992	65,992

C4. Interest bearing loans and borrowings (cont.)

Interest-bearing loans and borrowings

A description of accounting policies applicable to the Group for interest-bearing loans and borrowings can be found in the financial liabilities section under 'Significant accounting policies'.

Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings. Borrowings are classified as current liabilities, unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs are recognised as an expense when incurred in the Statement of Comprehensive Income. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Interest rate is based on the relevant period BBSY rate.

On 28 June 2018, the Group entered into a new three-year $142,000,000 finance facility with ANZ Bank and National Australia Bank. The facility provides committed funding of $112,000,000 and an additional $30,000,000 in the form of an uncommitted, acquisition tranche. The new facility is unsecured and replaced the Company's existing debt facilities of $96,000,000. The facility is subject to standard financial covenants.

During the year ended 31 December 2018, the Group made no loan repayments.

Leases

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are 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 are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

The Group has entered into finance leases for some items of equipment which have a present value of $Nil as the term has completed in May 2018 (2017: $29,000). Refer to note C5 for further details.

C4. Interest bearing loans and borrowings (cont.)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Total facilities		Facilities used at reporting date	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Business lending - cash advance facility	90,000	83,600	74,992	74,992
Business lending - bank guarantees	7,480	4,865	5,610	3,055
Standby letters of credit	2,135	2,135	1,124	992
Asset finance - leasing	10,000	5,000	-	-
Commercial cards	2,000	-	51	-
Uncommitted acquisition facility	30,000	-	-	-
Performance guarantees	385	-	-	-
	142,000	95,600	81,777	79,039

C5. Commitments

Operating lease commitments

The Group has entered into operating leases on office premises and items of equipment. In 2018, the Group entered into a lease for new office space in Brisbane, to support forecast headcount expansion driven by continued growth in the Enterprise business and investments in shared services.

	2018 $'000	2017 $'000
Operating lease commitments - Group as lessee		
Operating leases		
Minimum lease payments		
- not later than 1 year	6,884	4,663
- later than 1 year and not later than 5 years	23,196	17,040
- later than 5 years	1,712	1,908
Aggregate lease commitments contracted for at reporting date	**31,792**	**23,611**

	2018 $'000	2017 $'000
Operating lease commitments - Group as lessor		
Operating leases		
Minimum lease payments		
- not later than 1 year	1,672	202
- later than 1 year and not later than 5 years	2,929	-
- later than 5 years	-	-
Aggregate lease commitments contracted for at reporting date	**4,601**	**202**

The group has an option to extend the Level 10, 505 Little Collins lease for an additional term of five years. These options have not been included in the operating commitments disclosed above. There are no other material leasing arrangements.

C5. Commitments (cont.)

Finance lease commitments

In prior year, the Group had a finance lease for various items of plant and machinery. The effective interest rate of the finance lease was 8.14% p.a. The Group's obligations under finance leases were secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2018		2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	$ '000	$ '000	$ '000	$ '000
Within 1 year	-	-	37	36
After 1 year but not more than 5 years	-	-	-	-
More than 5 years	-	-	-	-
Total minimum lease payments	-	-	37	36
Less amounts representing finance charges	-	-	(7)	-
Present value of minimum lease payments	**-**	**-**	**30**	**36**

Financial instruments

The details of hedging instruments held and guarantees issued are as follows:

(a) Hedges of specific commitments

Refer to note C7 for details and accounting policies of hedging instruments the Group entered to manage its interest rate and foreign currency risk exposure.

(b) Financial guarantees and other credit facilities

The face value of financial guarantees issued by the Group are presented below.

- Bank guarantees of AUD $5,610,000 have been issued in favour of various parties in accordance with the Group’s property commitments.
- The company has standby letters of credit totalling USD $770,000 (equivalent to AUD $1,124,000) in accordance with various registry licence agreements.

C6. Other financial liabilities

	2018 $'000	2017 $'000
Current		
Outware remuneration liability	-	2,683
Contingent consideration liability	12,971	2,351
	12,971	**5,034**
Non-current		
Contingent consideration liability	-	6,593
	-	**6,593**

Reconciliation of fair value measurement of other financial liabilities

	2018 $'000	2017 $'000
As at 1 January	**11,627**	**8,315**
Payment of contingent consideration liability for InfoReady	(5,668)	(620)
Settlement of Outware remuneration liability	(2,683)	-
Loss on reassessment of contingent consideration recognised in profit and loss	9,702	1,249
Recognition of Outware remuneration liability	-	2,683
Other	(7)	-
As at 31 December	**12,971**	**11,627**

Other financial liabilities comprise the contingent consideration 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 ending 31 March 2019. If the EBITDA threshold amount is not achieved during any of the earn out periods, then no contingent consideration will be payable. 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 fair value of the contingent consideration has been reassessed at 31 December 2018 based on actual EBITDA to 31 December 2018 and forecast EBITDA over the remaining earn out period. This has resulted in an increase in the contingent consideration with the movement recognised in the Statement of Comprehensive Income. The contingent consideration was also reduced by the payment relating to the

C6. Other financial liabilities (cont.)

second earn out of $5,668,000. Significant increase/(decrease) in the EBITDA performance of InfoReady during the earn out periods would result in higher/(lower) fair value of the contingent consideration liability. This contingent consideration liability is categorised as a Level 3 item of the fair value hierarchy.

In the prior year, the other financial liabilities related to the contingent consideration liabilities in relation to acquisition of WME Group and InfoReady Pty Ltd and the provision for remuneration recognised in relation to the accelerated purchase of the remaining 24.9% of share capital of Outware. The contingent consideration liability of WME Group at 31 December 2017 and the Outware remuneration liability have since been paid to respective vendors in the year ended 31 December 2018.

Key judgement and estimates

The contingent consideration liability was calculated based on the excess of the EBITDA performance during the earn out periods over the EBITDA threshold amount specified in the Sales and Purchase Agreement, relating to the acquisition of InfoReady, for each of the earn out period multiplied by three.

C7. Derivative financial liabilities and assets

(a) Disaggregation of derivative financial assets / (liabilities)

	2018 $'000	2017 $'000
Foreign exchange contracts (i)	(80)	-
Interest rate swap (ii)	-	(128)
	(80)	**(128)**

(i) Foreign exchange contracts

At 31 December 2018, the Group held six (2017: Nil) 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 31 December 2018, the Group held nil (2017: three) interest rate swap contracts designed to hedge the variable interest rate exposure relating to the interest-bearing bank loan.

As at 31 December 2018, an unrealised gain of $68,000 (2017: $131,000 loss) was included in other comprehensive income in respect of these contracts.

C7. Derivative assets/(liabilities) (cont.)

(b) Accounting policy

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- fair-value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- cash-flow hedges, when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

For the purposes of hedge accounting, the Group has classified the hedges applicable to the year ending 31 December 2018 as cash-flow hedges. Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described in the following.

C7. Derivative assets/(liabilities) (cont.)

Cash-flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash-flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash-flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised as other expense.

Before 1 January 2018, the Group designated all of the forward contracts as hedging instrument. Any gains or losses arising from changes in the fair value of derivatives were taken directly to profit or loss, except for the effective portion of cash-flow hedges, which were recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

Beginning 1 January 2018, the Group designates the entire forward contract as a hedging instrument. The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which cash flow hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and interest rates match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and interest rates are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- differences in the timing of the cash flows of the hedged items and the hedging instruments
- different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- the counterparties’ credit risk differently impacting the fair value movements of the hedging instruments and hedged items.

C7. Derivative assets/(liabilities) (cont.)

- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

(c) Changes to accounting policy from prior year

The Group applied hedge accounting prospectively under AASB 9. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of AASB 9 had no significant impact on the Group's financial statements.

There has been no impact on the statement of financial position and statement of profit and loss for the year ended 31 December 2018 and the comparative period.

C8. Fair-value measurement

The Group measures financial instruments such as derivatives at fair value at each reporting date. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair-value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within their fair-value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

C8. Fair value measurement (cont.)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.
Fair value measurement hierarchy for assets as at 31 December 2018:

			Fair value measurement using		
	Date of valuation	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Assets/ (liabilities) measured at fair value:					
Derivative financial instruments					
Foreign exchange contracts[1]	31 December 2018	(80)	-	(80)	-
Interest rate swap[(2)]	31 December 2018	(80)	-	(80)	-
Financial assets					
Investment in Tiger Pistol shares[2]	31 December 2018	1,870	-	-	1,870
Other financial liabilities					
Contingent consideration liablity[3]	31 December 2018	(12,971)	-	-	(12,971)
Interest-bearing loan[4]	31 December 2018	(74,992)	-	(74,992)	-

1. Reflects the fair value of Reflects the fair value of foreign exchange contracts, designated as cash-flow hedges.
2. Reflects the fair value by reference to the most recent arms-length transaction basis of Tiger Pistol shares and subsequent Pistol's financial performance of the investee compared with budget.
3. The fair value of the contingent consideration liability was estimated based on the excess of the EBITDA performance during the earn out periods over the EBITDA threshold amount specified in the Share Purchase Agreement (SPA) for each of the earn out period multiplied by three. The earn out periods start from 1 April to 31 March the following year until 31 March 2019. Significant unobservable inputs used in the determination of the contingent consideration include forecast EBITDA performance for the first earn out period (1 April 2017 to 31 March 2018) and revenue and EBITDA growth rates for the second and third earn out periods from the first earn out period. The fair value is determined using the discounted cash flow method. Refer to other details as disclosed in notes C6 and D1 to the financial statements.
4. The carrying value of the interest-bearing loan approximates its fair value.

C8. Fair value measurement (cont.)

Fair value measurement hierarchy for assets as at 31 December 2017:

			Fair value measurement using		
	Date of valuation	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Assets/ (liabilities) measured at fair value:					
Derivative financial instruments					
Interest rate swap	31 December 2017	(128)	-	(128)	-
Financial assets					
Investment in Tiger Pistol	31 December 2017	1,695	-	-	1,695
Other financial liabilities					
Outware remuneration liability	31 December 2017	(2,683)			(2,683)
Contingent consideration liability	31 December 2017	(8,944)	-	-	(8,944)
Interest-bearing loan	31 December 2017	(74,992)	-	(74,992)	-

There have been no transfers between Level 1, 2 and 3 during the period.

Section D: Group structure

D1. Business combinations

There have been no acquisitions during the year ended 31 December 2018.

Acquisitions in 2017

(a) Web Marketing Experts Pty Ltd, Nothing But Web Pty Ltd, Results First Ltd

On 31 May 2017, Arq Group Limited (formerly 'Melbourne IT Ltd') acquired 100% of WME Group. WME Group is a leading provider of end-to-end digital marketing solutions including search engine optimisation, search engine advertising and web design, for purchase consideration of $38,687,000 (including working capital and net debt adjustment). The acquisition was funded through a combination of equity and debt (approximately $29,415,000 and $9,272,000 respectively). The acquisition of WME Group further strengthened the Group’s capabilities to provide complete digital marketing solutions to small and medium businesses across Australia and New Zealand.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of WME Group as at the date of acquisition were:

Fair value recognised on acquisition	
	$’000s
Assets	
Cash and cash equivalents	1,104
Trade and other receivables	4,746
Property, plant and equipment	390
Intangible assets	3,801
Other assets	419
	10,460
Liabilities	
Trade and other payables	1,578
Provisions	428
Income in advance	1,256
Current tax liability	2,509
Deferred tax liability	962
	6,733
Total identifiable net assets at fair value	3,727
Goodwill and other intangibles arising on acquisition	34,960
Purchase consideration	38,687

D1. Business combinations (cont.)

As at 31 December 2018, the Group has completed the fair value assessment on the net assets acquired including current and deferred tax liabilities. There have been no significant changes to the fair value assessment presented in the financial statements for the year ended 31 December 2017.

From the date of acquisition to 31 December 2017, WME Group has contributed $13,473,000 to the revenue and $3,330,000 to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the prior year, Group revenue would have been $207,511,000 and profit after tax attributable to members of the parent would have been $16,008,000.

Purchase consideration

	$'000s
Cash paid	25,000
Working capital adjustment	(3,734)
Net debt adjustment	5,256
Contingent consideration liability	12,165
	38,687

On 21 August 2017, the net of the working capital adjustment of ($3,734,000) and the net debt adjustment of $5,256,000 has been refunded.

On 13 September 2017, contingent consideration of $12,165,000 was paid which has been included in the cash flows from investing activities.

On 5 June 2018, contingent consideration of $157,000 was paid as the final settlement of contingent consideration for amounts held in escrow.

Transaction costs associated with the acquisition of WME Group of $794,000 were expensed through the Statement of Comprehensive Income and equity raising costs totalling $1,807,000 were taken directly to equity for the year ended 31 December 2017. This was included in the cash flows from financing activities.

Analysis of cash flows on acquisition

	$'000s
Purchase consideration paid	25,000
Net cash acquired	(1,104)
Net cash flow on acquisition (included in cash flows from investing activities)	23,896

D2. Controlled entities

Investments in controlled entities are initially recognised at cost, being the fair value of the consideration given. Following initial recognition, investments are measured at cost less any accumulated impairment losses.

The consolidated financial statements include the financial statements of Arq Group Limited and the subsidiaries in the following table:

Name		Country of incorporation	Equity interest %		Cost of investment $'000	
			2018	2017	2018	2017
WebCentral Group Pty Ltd	(a)	Australia	100	100	78,190	78,190
WebCentral Pty Ltd	(a)	Australia	100	100		
Netregistry Group Limited	(a),(c)	Australia	100	100	50,436	50,436
Netregistry Pty Ltd	(a)	Australia	100	100		
TPP Wholesale Pty Ltd	(a)	Australia	100	100		
Planet Domain Pty Ltd	(a)	Australia	100	100		
TPP Domains Pty Ltd	(a)	Australia	100	100		
Ziphosting Pty Ltd	(a),(d)	Australia	0	100		
NetAlliance Pty Ltd	(a)	Australia	50	50		
Ziphosting Pty Ltd	(a),(d)	Australia	100	0		
Uber Global Pty Ltd	(a)	Australia	100	100	14,909	14,909
Uber Australia E1 Pty Ltd	(a)	Australia	100	100		
Uber Business Pty Ltd	(a)	Australia	100	100		
Uber Enterprise Pty Ltd	(a)	Australia	100	100		
ubergeek.com.au Pty Ltd	(a)	Australia	100	100		
Uber Reseller Network Pty Ltd	(a)	Australia	100	100		
Uber Wholesale Pty Ltd	(a)	Australia	100	100		
Outware Systems Pty Ltd	(a)	Australia	100	100	50,414	50,414
InfoReady Pty Ltd	(a)	Australia	100	100	15,332	15,332
Web Marketing Experts Pty Ltd	(a)	Australia	100	100	32,278	32,278
Nothing But Web Pty Ltd	(a)	Australia	100	100	3,834	3,834
Arq Group Enterprise Pty Ltd	(a)	Australia	100	-	10	-
Arq Group Operations Pty Ltd	(a)	Australia	100	-	10	-
Arq Group Services Pty Ltd	(a)	Australia	100	-	10	-
Results First Limited	(b)	New Zealand	100	100	2,575	2,575
Domainz Ltd	(b)	New Zealand	100	100	1,671	1,671
Internet Names Worldwide (US), Inc	(b)	USA	100	100	1	1
Melbourne IT GP Holdings Pty Ltd	(a)	Australia	100	100	-	-
Names By Request Pty Ltd	(a)	Australia	100	100	-	-
Advantate Pty Ltd	(a)	Australia	100	100	-	-
					249,670	249,640

(a) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.

(b) Investments in foreign entities are revalued to the year-end foreign exchange spot rates.

(c) Netregistry Group Limited has a 50% ownership in NetAlliance Pty Ltd.

(d) Ziphosting Pty Ltd was sold to NetAlliance Pty Ltd on 30 June 2018.

D3. Disposal group held for sale and liabilities directly associated with disposal group held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value, less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.
Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

On the 5 December 2018, the Board of Directors approved the sale of the SMB Reseller business. The SMB 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 SMB Reseller business is expected to be completed within a year from the reporting date. At 31 December 2018, the SMB Reseller business was classified as a disposal group held for sale. It has not been classified as a discontinued operation.

The major classes of assets and liabilities of the SMB Reseller business classified as held for sale as at 31 December are, as follows:

	2018 $'000
Prepayments of domain name registry charges	6,771
Deferred tax asset	98
Goodwill (note B4)	25,829
Disposal group held for sale	32,698
Provisions	(54)
Income received in advance	(10,871)
Deposits in advance	(367)
Liabilities directly associated with disposal group held for sale	(11,292)
Net assets directly associated with disposal group	**21,406**

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. As at 31 December 2018, there was no write-down recognised as the carrying amount of the disposal group did not fall below its fair value less costs to sell.

Section E: Other information

E1. Cash Flow Statement information

	2018 $'000	2017 $'000
Reconciliation of the operating profit after tax to the net cash flow from operations:		
Profit/ (loss) for the year	(2,326)	14,279
Depreciation of non-current assets	4,916	3,301
Amortisation of non-current assets	10,791	6,327
Expense of share-based payments	490	1,718
Transaction costs	-	809
Unwinding of discount on other financial liabilities	93	189
Other income	-	(5,814)
Outware remuneration expense	-	3,733
Inforeday contingent consideration	9,702	985
Deferred rent and incentive	196	1,046
Changes in assets and liabilities		
(Increase)/ decrease in trade debtors	(1,158)	(6,269)
Decrease in prepayments	1,142	536
Decrease/ (increase) in current tax receivables/ liabilities	(936)	(1,348)
(Increase)/ decrease in provisions	(334)	500
Increase in deferred tax asset	1,035	(762)
Decrease in deferred tax liability	(2,122)	-
Increase/ (decrease) in accounts payable	(2,561)	919
Decrease in income received in advance	(2,423)	(2,261)
(Increase)/ decrease in other assets	1,762	(4,445)
Net cash flow from operating activities	**18,267**	**13,443**

E1. Cash Flow Statement information (cont.)

Reconciliation of cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash-at-bank and on-hand, and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following:

	2018 $’000	2017 $’000
Cash and cash equivalents on hand	8,279	20,250
Closing cash and cash equivalents balances	**8,279**	**20,250**

E2. Related party disclosures

Ultimate parent

The ultimate Australian Parent entity in the wholly owned Group is Arq Group Limited. During the year various intercompany transactions were undertaken between companies in the wholly owned Group. These transactions were undertaken on a net-margin basis. The effects of these transactions are fully eliminated on consolidation. All intercompany balances, payable and receivable, are on an arm's length basis with standard terms and conditions.

Other related party transactions

There were no other transactions with related parties during the year ended 31 December 2018, or 2017, other than detailed within the annual report.

E3. Key management personnel (KMP) disclosures

For the purposes of this report, the KMP in 2018 are the Martin Mercer - Chief Executive Officer/Managing Director, Fraser Bearsley - Chief Financial Officer, Peter Wright - Managing Director, Enterprise Services, Emma Hunt – Executive General Manager, SMB, Brett Fenton - Chief Technology Officer, and Amy Rixon - Chief Brand, People & Culture Officer. Directors of the Company are also included in the definition of KMP.

E3. Key management personnel (KMP) disclosures (cont.)

Remuneration of KMP

	2018 $'000	2017 $'000
Compensation of key management personnel		
Short-term benefits	2,589	3,074
Post-employment benefits	200	218
Long-term benefits	32	11
Share-based payments	483	650
	3,304	**3,953**

Other transactions and balances with key management personnel

Sales to KMP are made at arm's length at normal market prices, on normal commercial terms and are negligible.

E4. Performance rights

Executive LTI Plan

The Arq Group Long-Term Incentive Plan (LTI Plan) has been established where the Managing Director and selected employees of the company are issued with performance rights (zero-priced), over the ordinary shares in Arq Group Limited. The performance rights, issued for nil consideration, are subject to the terms of the LTI plan. The performance rights cannot be transferred and will not be quoted on the ASX. The Managing Director and some selected employees of the group, or any of its related body corporate, are eligible to participate in the LTI Plan.

Each performance right is to subscribe for one fully paid ordinary share. When issued, the ordinary share will rank equally with other ordinary shares. The performance rights are not transferrable except to the legal personal representative of a deceased or legally incapacitated option holder.

Performance rights issued under the LTI Plan for 2015-2017 have two performance conditions: 50% of the performance rights will vest based on the increase in underlying earnings per share (EPS) as reported in the annual financial report and 50% will vest based on relative total shareholder return (TSR) in comparison to a peer group from the S&P/ ASX Small Ordinaries Index. The performance rights relating to the 31 December 2015 financial year vested in the financial year ended 31 December 2017 and ordinary shares were issued on 28 March 2018.

Performance rights issued under the LTI Plan for 2018 has one performance condition being 100% will vest based on TSR in comparison to a peer group from the S&P/ ASX Small Ordinaries Index.

E4. Performance rights (cont.)

Performance rights vest on a sliding scale so that the amount of performance rights vesting to the individual depends on the performance level achieved. The performance period is measured over the 36-month period from 1 January of the respective grant year. The vesting date is the date on which the Board determines the extent to which the performance conditions are satisfied and the performance rights vest, which occurs in March following the performance period. The performance rights will be settled in the equivalent number of ordinary shares of Arq Group Limited.

The fair value was determined by an external valuer using a Monte Carlo Simulation Model. In valuing equity-settled transactions, no account was taken of any performance conditions other than conditions linked to the price of the shares of Arq Group Limited (market conditions).

The cost of equity-settled transactions will be recognised together with a corresponding increase in equity over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees became fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflected: (i) the extent to which the vesting period had expired and (ii) the number of awards that, in the opinion of the directors of Arq Group Limited, would ultimately vest. This opinion was formed based on the best available information at the reporting date.

No expense was recognised for awards that do not ultimately vest, except for awards where vesting was conditional upon a market condition. Where the terms of an equity-settled award were modified, as a minimum an expense, was recognised as if the terms had not been modified. In addition, an expense was recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding performance rights was reflected as additional share dilution in the computation of earnings per share.

The Board has adopted certain policies concerning the terms of the performance rights to be granted under the LTI Plan. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an effect only on performance rights that are issued at or after the time of the change.

Performance rights relating to the year ended 31 December 2018 financial year (hereafter referred to as 2018 Grant) were issued on 28 May 2018 in respect to the performance rights granted to the Chief Executive Officer (CEO) and other eligible employees. The 2018 Grant and the performance rights granted to the CEO were approved by shareholders in the Annual General Meeting on 28 May 2018.

Performance rights relating to the 31 December 2017 financial year (hereafter referred to as 2017 LTI Plan) were issued on 29 May 2017 in respect to the performance rights granted to the Chief Executive Officer (CEO) and other eligible employees. The 2017 LTI Plan and the performance rights granted to the CEO were approved by shareholders in the Annual General Meeting on 29 May 2017.

The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

E4. Performance rights (cont.)

Executive STI plan

Under the Executive Short-Term Incentive Plan (STI Plan) introduced in 2018, a portion of the STI is deferred to performance rights. The number of performance rights granted is calculated by dividing the value of deferred STI by an allocation price. The allocation price in respect of the performance rights is calculated as the volume weighted average price of the Group’s shares over the 20 trading days immediately preceding the commencement of the performance period. The performance rights vest in two equal tranches and are subject to a two- and three-year service period.

For the year ended 31 December 2018, there was no expense recognised for the deferred STI as the gateway annual KPI was not achieved.

(a) Rights held at the beginning of the reporting period

There were 1,473,982 rights held as at 1 January 2018 in relation to 2017, 2016 and 2015 LTI Plan.
As at 1 January 2018, no performance rights were exercisable as the vesting date for performance rights under the 2015 LTI Plan vested on 28 March 2018.

(b) Rights granted during the reporting period

The following table summarises the movement in performance rights issued during the year:

	2018 Number	2017 Number
Outstanding at the beginning of the year	1,473,982	1,705,684
Granted during the year	295,375	539,398
Vested during the year	(584,054)	(659,913)
Lapsed/forfeited during the year	-	(111,187)
Outstanding at year end	**1,185,303**	**1,473,982**

(c) Rights vested during the reporting period

During the year ended 31 December 2018, 584,054 rights were vested (2017: 659,913 rights).

(d) Rights forfeited during the reporting period

No rights lapsed or were forfeited (2017: 111,187) with a weighted average exercise price of Nil (2017: Nil) by employees during the year.

E4. Performance rights (cont.)

(e) Rights held at the end of the reporting period

The following table summarises information about performance rights held by Directors and employees as at 31 December 2018:

LTI Plan	Number of rights	Grant date	Vesting date	Expiry date	Weighted average exercise price
2016 LTI Plan[1]	416,891	27/05/16	31/03/19	31/03/19	$ -
2017 LTI Plan[2]	473,037	29/05/17	31/03/20	31/03/20	$ -
2018 LTI Plan[3]	295,375	30/05/18	31/03/21	31/03/21	$ -
	1,185,303				

1. The 2016 LTI Plan includes rights granted of 529,178, less rights forfeited of 112,287
2. The 2017 LTI Plan includes rights granted of 539,398, less rights forfeited of 66,361
3. The 2018 LTI Plan includes rights granted of 295,375

(f) Pricing model: LTI grants

The fair values of the equity-settled share-based payments granted under the 2016, 2017 and 2018 LTI grants are estimated as at the date of grant using an adjusted forma combination of the Black-Scholes Option Pricing Model (BSM) that includes, a Monte Carlo Simulation Model to value the TSR Rights. For market-based conditions, the Monte Carlo Model simulation methodology has been modified to incorporate an estimate of the probability of achieving the TSR hurdle and the number of associated rights. For non-market-based vesting conditions, the BSM has been utilised to value the EPS growth rights approach.

The following table lists the inputs to the models used for the LTI Grants:

	2018 LTI grant	2017 LTI grant	2016 LTI grant	2015 LTI grant
Share price	$3.35	$2.58	$1.77	$0.99[1]
Dividend yield	3.5%	4.5%	2.7%	3.5%
Expected volatility	30.0%	30.0%	31.0%	31.0 - 32.0%
Risk-free interest rate	2.00%	1.66%	1.6%	1.73 - 2.02%

1. In relation to the 2015 LTI Grant, The CEO received a grant of 285,252 rights on 29 June 2015, following approval by shareholders at the Annual General Meeting on 27 May 2015. The share price for this grant was $1.12.

The dividend yield is based on historical and future yield estimates. The expected volatility was determined using the group's average three-year share price.

The risk-free rate is derived from the yield on Australian Government Bonds of an appropriate term.

The weighted average fair value of the performance rights granted during the year was $1.12 (2017: $1.99)

E4. Performance rights (cont.)

Key judgement and estimates

The fair value is determined by an external valuer using a binomial model and/or Monte Carlo simulation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Arq Group Limited.

E5. Auditors' remuneration

	2018 $	2017 $
Amounts received or due and receivable by the auditors of Arq Group Limited for:		
Audit or review of the financial statements of the entity and any other entity in the consolidated entity	429,000	343,000
Other services in relation to the entity and any other entity in the		
- Taxation compliance and due diligence services	121,310	188,665
- Executive remuneration advice services	-	67,980
- Assurance and advisory related services	24,767	73,000
	575,077	**672,645**

	2018 $	2017 $
Amounts received or due and receivable by non Ernst & Young audit firms for:		
Tax compliance services	49,311	29,225
Other non-audit services	171,701	283,630
	221,012	**312,855**

E6. Contingent assets and liabilities

The Group is not aware of the existence of any contingent assets at balance date.

The Group is subject to claims from time to time in the ordinary course of business. There are currently no claims of individual significance against the Group.

E7. Events subsequent to reporting date

On 26 February 2019, the Directors declared a final dividend of 4.5 cents per ordinary share, franked at 100%, amounting to $5,349,000 million. The expected payment date of the dividend is 30 April 2019. The Arq Group Limited Dividend Reinvestment Plan will continue to operate in respect of that dividend.

Subsequent to year-end the Group entered into a Deed of Variation on the Share Purchase Agreement with the vendors of InfoReady Pty Ltd (‘InfoReady’) to amend the arrangement of the third earn out payment. As at 31 December 2018, contingent consideration of $12,971,000 was recognised as a liability, as described in note C6, which was originally due in full at 31 May 2019. The amended payment arrangement of the $12,971,000 includes an initial repayment on 31 May 2019 comprising of cash and an equity component of up to $4,000,000. The residual balance will be paid through cash instalment payments, together with accrued interest over the period 31 May 2019 to 31 December 2019.

Other than the above, there has not been any other matter or circumstance in the interval between the end of the year 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.

E8. Information relating to Arq Group Limited (the Parent Entity)

	2018 $’000	2017 $’000 Restated
Current assets	6,108	10,557
Total assets	263,082	260,712
Current liabilities	84,061	64,921
Total liabilities	171,308	147,095
Contributed equity	85,724	83,507
Treasury shares	-	(1,884)
Share-based payments reserve	2,003	2,331
Other reserves	9	(211)
Retained earnings	4,038	29,874
	91,774	**113,617**
Profit/(Loss) of parent entity	(9,918)	(6,616)
Total comprehensive income/(loss) of the parent entity	(9,766)	(6,698)

The parent has issued the following guarantee in relation to the debts of its subsidiaries:

Pursuant to Class Order 98/1418, Arq Group Limited, WebCentral Group Pty Ltd, WebCentral Pty Ltd, Netregistry Group Limited and its controlled entities, Uber Global Pty Ltd and its controlled entities, InfoReady Pty Ltd, Outware Systems Pty Ltd, Web Marketing Experts Pty Ltd, Nothing But Web Pty Ltd and Results First Limited have entered into a Deed of Cross Guarantee. The effect of the deed is that Arq Group Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity, or if they

E8. Information relating to Arq Group Limited (the Parent Entity) (cont.)

do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Arq Group Limited is wound up, or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

E9. Closed group class order disclosures

Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to Arq Group Limited, WebCentral Group Pty Ltd and WebCentral Pty Ltd, Netregistry Group Limited and its controlled entities, Uber Global Pty Ltd and its controlled entities, InfoReady Pty Ltd and Outware Pty Ltd from the *Corporations Act (2001)* requirements for the preparation, audit and lodgement of their financial reports.

The consolidated statement of comprehensive income of the entities that are members of the closed group are as follows:

	Closed Group	
	2018 **$'000**	**2017** **$'000**
Consolidated statement of comprehensive income		
Profit/(loss) before income tax	(3,297)	9,816
Income tax expense	(1,944)	(406)
Net profit for the period	**(5,241)**	**9,410**
Retained earnings at the beginning of the period	96,942	92,320
Transfers into closed group	-	5,393
AASB 15 adjustments	(5,455)	-
Dividends provided for or paid	(12,994)	(10,181)
Retained earnings at the end of the period	**73,252**	**96,942**

E9. Closed group class order disclosures (cont.)

The consolidated statement of financial position of the entities that are members of the Closed Group are as follows:

	Closed Group	
	2018	**2017**
	$’000	**$’000**
		Restated
Consolidated statement of financial position		
ASSETS		
Current assets		
Cash and cash equivalents	7,731	9,877
Trade and other receivables	24,947	24,291
Prepayment of domain name registry charges	6,778	12,146
Current tax receivables	-	107
Other assets	6,485	10,955
Assets held for sale	32,698	-
Total current assets	**78,639**	**57,376**
Non-current assets		
Investment in subsidiaries	40,502	40,502
Plant and equipment	13,693	5,655
Intangible assets	188,269	221,074
Deferred tax assets	6,334	7,543
Prepayment of domain name registry charges	2,220	4,237
Non-current financial assets	1,870	1,695
Other assets	596	250
Total non-current assets	**253,484**	**280,956**
TOTAL ASSETS	**332,123**	**338,332**

E9. Closed group class order disclosures (cont.)

	Closed Group	
	2018	**2017**
	$’000	**$’000**
		Restated
LIABILITIES		
Current liabilities		
Trade and other payables	16,521	19,336
Interest-bearing loans and borrowings	-	9,029
Provisions	3,233	3,987
Current tax liabilities	765	-
Derivative financial instruments	80	128
Other financial liabilities	12,971	5,034
Income received in advance	26,511	35,456
Liabilities directly associated with assets held for sale	11,292	-
Total current liabilities	**71,373**	**72,970**
Non-current liabilities		
Interest-bearing loans and borrowings	74,992	65,992
Intercompany	10,529	831
Deferred tax liability	5,014	6,629
Provisions	3,424	801
Income received in advance	8,744	12,115
Other financial liabilities	-	6,593
Other liabilities	613	728
Total non-current liabilities	**103,316**	**93,689**
TOTAL LIABILITIES	**174,689**	**166,659**
NET ASSETS	**157,434**	**171,673**
EQUITY		
Contributed equity	83,283	81,066
Treasury shares	-	(1,884)
Share-based payments reserve	1,136	2,331
Other reserves	(363)	(518)
Non-controlling interest	126	100
Retained earnings	78,493	81,081
Current year earnings/(losses)	(5,241)	9,497
TOTAL EQUITY	**157,434**	**171,673**

E10. New accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(i) New and amended accounting standards adopted

The Group has adopted the following new and amended Australian Accounting Standards as of 1 January 2018.

- AASB 15: *Revenue from Contracts with Customers*
- AASB 9: *Financial Instruments*
- 2016-5 Amendments to Australian Accounting Standards: *Classification and Measurement of Share-based Payment Transactions*

The nature and effect of these changes are disclosed in the respective notes to the financial statements, including the restatement of previous financial statements.

The adoption of the above standards/improvements had no material impact on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(ii) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but which are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2018 are outlined in the tables below.

Reference & Title	AASB 16 *Leases*
Summary	AASB 16 was issued in January 2016 and it replaces AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement Contains a Lease*, AASB Interpretation-115 *Operating Leases-Incentives* and AASB Interpretation 127 *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 all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of low-value assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine

	those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under AASB 16 is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.
Application date of Standard*	1 January 2019
Impact on Group Financial Report	The impact of the application of the new Standard is currently being assessed. *Overview of assessment activities* The Group has formed a working group to assess the impact resulting from the application of the new standard from 1 January 2019, including prior year comparative disclosures. The working group has provided periodic updates to management and the audit and risk management committee. The working group has identified premises and equipment lease contracts that will be impacted by AASB 16. We are in the process of finalising key estimates methodology and detailed lease accounting schedules to quantify the financial statement impact. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment that are considered of low value. The working group has also considered broader business impacts and continue to engage in discussions with the wider business. *Application date and transition approach* As AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, the standard is effective for our half year ending 30 June 2019 and full year ending 31 December 2019. There are two transition options for AASB 16, the requirements of each option are set out below: 1. Full retrospective approach • Restatement of prior period comparatives as if AASB 16 has always been applicable. • Adjustment of opening retained earnings at the earliest period presented (1 January 2018). • Presentation of a third balance sheet may be required. 2. Modified retrospective approach • No adjustment required for leases that concluded prior to the adoption of AASB 16 (1 January 2019). • Restatement of prior period comparatives is not required. • Cumulative differences are adjusted to opening retained earnings at 1 January 2019. • The requirement to present a third balance sheet is unlikely. The Group intends to adopt the modified retrospective approach to the disclosure of the adoption of AASB 16.

Application date for Group	1 January 2019

Reference & Title	AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
Summary	Under AASB 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to AASB 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.
Application date of Standard*	1 January 2019
Impact on Group financial report	These amendments are not expected to have a material impact on the consolidated financial statements of the Group.
Application date for Group	1 January 2019

Reference & Title	AASB Interpretation 23 *Uncertainty over Income Tax Treatment*
Summary	The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 and does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately. • The assumptions an entity makes about the examination of tax treatments by taxation authorities. • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. • How an entity considers changes in facts and circumstances. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.
Application date of Standard*	1 January 2019
Impact on Group financial report	This interpretation is not expected to have a material impact on the consolidated financial statements of the Group.
Application date for Group	1 January 2019

Reference & Title	AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*
Summary	These improvements include: • AASB 3 *Business Combinations* The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a

	business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. • AASB 11 *Joint Arrangements* A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in AASB 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. • AASB 112 *Income Taxes* The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. • AASB 123 *Borrowing Costs* The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.
Application Date of Standard*	1 January 2019
Impact on Group financial report	• AASB 3 *Business Combinations* These amendments will apply on future business combinations of the Group. • AASB 11 *Joint Arrangements* These amendments are currently not applicable to the Group. • AASB 112 *Income Taxes* Since the Group's current practice is in line with these amendments, the Group does not expect any material impact on its consolidated financial statements. • AASB 123 *Borrowing Costs* Since the Group's current practice is in line with these amendments, the Group does not expect any material impact on its consolidated financial statements.

Application Date for Group	1 January 2019

Reference & Title	Conceptual Framework for Financial Reporting, and relevant amending standards
Summary	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance Amendments to References to the Conceptual Framework in AASB Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of AASB in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.
Application date of Standard*	1 January 2020
Impact on Group financial report	The Group is currently assessing the impact of this amendment.
Application date for Group	1 January 2020

Reference & Title	Definition of a Business (Amendments to AASB 3)
Summary	The Standard amends the definition of a business in AASB 3: *Business Combinations*. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.
Application date of Standard*	1 January 2020
Impact on Group financial report	The Group is currently assessing the impact of this amendment.
Application date for Group	1 January 2020

Reference & Title	Definition of Material (Amendments to AASB 101 and AASB 108)
Summary	This Standard amends IAS 1 Presentation of Financial Statements and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the

	definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.
Application date of Standard*	1 January 2020
Impact on Group financial report	The Group is currently assessing the impact of this amendment.
Application date for Group	1 January 2020

* Application date is for the reporting periods beginning on or after the date shown in the above tables.

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Independent Auditor's Report to the Members of Arq Group Limited (formerly Melbourne IT Ltd)

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Arq Group Limited (formerly Melbourne IT Ltd) (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 31 December 2018 and of its consolidated financial performance for the year ended on that date; and

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

EY
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Recoverable value of goodwill and other intangibles assets

Why significant	How our audit addressed the key audit matter
At 31 December 2018 the Group's goodwill and other intangible assets balance is $225 million which represents 68% of total assets. The Group reviews the carrying amount of these non-current assets annually, or more frequently, if impairment indicators are present. Before estimating the recoverable amount of the assets, the Group first identifies cash generating units ('CGUs') and then allocates the goodwill and intangible assets to the identified CGUs. The Directors assessment of the recoverable value of the goodwill and other intangible assets was considered a key audit matter as the assessment process is complex and judgmental and is based on assumptions relating to future market or economic conditions. In performing the recoverability assessment, the Group has applied various assumptions with respect to revenue and cash flow growth rates based on expectations and estimates of future results of the cash generating units. The Group has disclosed in note B4 to the financial statements the assessment method, including the main underlying assumptions, the results of the assessment as well as the impact of applying sensitivities.	We assessed the appropriateness of the identification of CGUs and the allocation of assets to the CGUs. Involving our valuation specialists, we assessed the key assumptions underlying the discounted cash flow valuation. In doing so, we: ▸ Tested the mathematical accuracy of the discounted cash flow model; ▸ Assessed key assumptions such as board approved forecast cash flows, working capital levels and allocation of corporate costs; ▸ Assessed the Group's current year actual results in comparison to prior year forecasts to assess historical forecast accuracy; ▸ Assessed the Group's assumptions for terminal growth rates in the discounted cash flow model in comparison to economic and industry forecasts; ▸ Assessed estimates of capital expenditure; ▸ Assessed the discount rates through comparing the weighted average cost of capital for the Group with comparable businesses; and ▸ Considered earnings multiples of comparable businesses as a valuation cross check to the Group's determination of recoverable amount. We performed sensitivity analysis in respect of the assumptions noted above to ascertain the extent of changes in those assumptions which either individually or collectively would materially impact the fair value of the CGUs and we assessed the likelihood of these changes in assumptions arising. We assessed the adequacy of the Group's disclosures in Note B4 concerning the key assumptions and sensitivities.

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Revenue recognition

Why significant	How our audit addressed the key audit matter
The Group offers many services to its customers that require different revenue recognition accounting policies based on the satisfaction of performance obligations as outlined in Note A1 to the financial statements. Revenue recognition was assessed as a key audit matter due to the judgments involved in determining appropriate revenue recognition for these various services. The application of the new standard on revenue recognition, "AASB 15 – Revenue from Contracts with Customers" (AASB 15), was effective for the Group from 1 January 2018. The adoption of the new standard is inherently complex due to the need to apply the requirements of the new standard to the range of services offered by the Group and required an adjustment to the prior year result. The impact of the adoption of this new standard is disclosed in Note A1 to the financial statements. A significant trade receivable of $5.4m recorded at balance date is currently subject to dispute by the relevant customer as disclosed within Note B1(c). The Group is confident that the receivable will be fully recovered based on external legal advice.	Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies in accordance with the recently implemented AASB 15 Revenue from Contracts with Customers as well as the judgments applied in determining the period over which revenue is recognised for different services. We evaluated management's assessment of the financial impact of AASB 15 and the accounting policies, estimates and judgements made in respect of the services offered by the Group for both the current year and the transition adjustments. We assessed the design and operating effectiveness of the Group's controls, including automated controls, over the recording of transactions as well as the recognition of revenue and related cost of sales calculations. We have inspected a sample of contracts in each revenue stream to assess whether the revenue recognition policy under AASB 15 is appropriate. Involving our tax specialists, we assessed the impact to the tax of the Group on the initial adoption of AASB 15. In relation to the receivable balance subject to dispute, we considered amounts recognised for consistency with the Group's interpretation of the contractual provisions. We also considered management's rationale for recording revenue as well as the legal advice supporting their position. We evaluated the adequacy of disclosures included in Note A1 and Note B1(c) to the financial statements.

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Disposal of the reseller business

Why significant	How our audit addressed the key audit matter
As disclosed in Note D3, the group are in the process of selling the reseller business and have classified this business as held for sale in the financial statements. The application of accounting standards to determine the treatment of the reseller business as held for sale, is inherently judgmental, particularly in determining whether the disposal is highly probable. When classifying disposal groups as held for sale Management makes judgements and estimates, including assessment of impairment of the net assets. Due to the significant judgement involved in classifying and valuing the assets and liabilities of the disposal group as held for sale, we considered this a key audit matter.	Our procedures included: ▸ Evaluating the directors' intent and assessing their judgements made in classifying the reseller business as held for sale against the relevant criteria within the relevant accounting standard. This included assessing whether the disposal was highly probable to occur within twelve months and the business was available for immediate sale in its present condition. Our evaluation included discussions with Directors and management as well as review of supporting documentation such as Board minutes, project plans and draft transaction documents. ▸ Agreeing the carrying amounts of the identified assets and liabilities of the disposal group to underlying accounting records and assessing the methodology used to apportion goodwill to the disposal group. ▸ We considered the fair value less costs to sell assessment undertaken by Management, including assessment of key assumptions and draft transaction documents. ▸ Evaluated the disclosures in Note D3 within the financial statements compared to requirements of applicable accounting standards.

Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 44 to 63 of the Directors' Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Arq Group Limited (formerly Melbourne IT Ltd) for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
29 March 2019

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Auditor's Independence Declaration to the Directors of Arq Group Limited (formerly Melbourne IT Ltd)

As lead auditor for the audit of the financial report of Arq Group Limited (formerly Melbourne IT Ltd) for the financial year ended 31 December 2018, 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 audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Arq Group Limited (formerly Melbourne IT Ltd) and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

David Petersen
Partner
29 March 2019

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd Listing Rules and not shown elsewhere in this report is as follows. The following information was current as at 22 March 2019.

Distribution schedule of the equity security holders

Full details of the directors' experience, expertise and directorships can be found on the ARQ Group website at www.arq.group/investor-centre-home and this Annual Report.

The distribution schedule of the number of holders in each class of equity securities are as follows:

Range	Ordinary Share Holders	Performance Rights Holders
100,001 and over	53	1
10,001 to 100,000	882	5
5,001 to 10,000	1,024	-
1,001 to 5,000	3,007	-
1 to 1,000	2,291	-
Total number of equity security holders	7,257	6

As at the close of trading on 22 March 2019, the company's share price was $2.09. Based on this closing price, there were 468 shareholders holding less than a marketable parcel of 240 ordinary shares.

The 20 largest security holders

The names of the 20 largest holders of quoted equity securities, and the number of equity securities and percentage of capital each holds, are listed below.

Rank	Name of Registered Security Holder	Number of Ordinary Shares held	Percentage of Issued Ordinary Shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,880,325	28.50
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	17,085,149	14.37
3	CORPSAND PTY LTD <THE IMPULSE A/C>	8,058,363	6.78
4	CITICORP NOMINEES PTY LIMITED	4,703,570	3.96
5	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	3,631,344	3.05
6	NATIONAL NOMINEES LIMITED	1,302,613	1.10
7	KTAP PTY LTD	1,028,807	0.87
8	SARGON CT PTY LTD <HENROTH PTY LIMITED>	995,092	0.84
9	BNP PARIBAS NOMS PTY LTD <DRP>	754,125	0.63
10	MOUNT IDA HOLDINGS PTY LTD <STEWART SUPER FUND A/C>	604,045	0.51
11	NATIONAL NOMINEES LIMITED <DB A/C>	577,290	0.49
12	CORPSAND PTY LTD <THE IMPULSE A/C>	500,000	0.42

Rank	Name of Registered Security Holder	Number of Ordinary Shares held	Percentage of Issued Ordinary Shares
13	PACIFIC CUSTODIANS PTY LIMITED <MELBOURNE IT PLANS CTRL A/C>	491.936	0.41
14	NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	487,418	0.41
15	YORK INVESTMENTS LIMITED	407,236	0.34
16	QUERION PTY LTD	339.797	0.29
17	PRINCIPAL FUNDS MANAGEMENT CO PTY LTD <PRINCIPAL GROWTH A/C>	315,000	0.26
18	MR DAVID GOLDBERG + MS BELLA GOLDBERG + MR MICHAEL GOLDBERG <GOLDBERG FAMILY S/F A/C>	310,000	0.26
19	ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	299,461	0.25
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	288,737	0.24
Sub-Total		76,060,308	63.98
Balance of register		42,815,914	36.02
Total		**118,876,222**	**100.00**

Unquoted equity securities

As at 26 March 2019, there were 768,412 unlisted performance rights over unissued ordinary shares in the company, granted to six holders.

Voting rights

The voting rights attaching to each class of equity securities are as follows:
(a) **Ordinary shares** - All ordinary shares carry one vote per share without restriction.
(b) **Performance rights** - Performance rights do not carry any voting rights.

Substantial holders

The names of substantial holders in the company and the number of securities to which each substantial holder and their associates have a relevant interest are listed below. The following information is extracted from the substantial holder notices received by the company as at 22 March 2019.

Name	Number of Ordinary Shares held	Percentage of Issued Ordinary Shares
Cadence Asset Management Entities	21,220,323	17.85%
Investors Mutual Limited	10,717,756	9.02%
BlackRock Group	9,825,557	8.27%
Mr Larry Bloch	9,208,363	7.75%

On-market buyback

As at the date of this report, there is no on-market share buyback.