

Norwood First Half Financial Report for FY18

Highlights

- First US enterprise sales achieved under sales agreement with US investment bank – covers all of Norwood's enterprise services and provides reference point for financial services sector.
- Enterprise market partner collaborations underway with several leading firms:
 - Integration of Corona CRM into Oracle Sales Cloud, enabling logging of all calls and text messages between employees and clients to related records within Oracle Sales Cloud
 - Corona Compliance integrated into both Veritas and Global Relay archival platforms
 - Integration of Corona CRM with Salesforce and listing on the salesforce.com App Exchange
- Improved financial outcome with revenue up 25% (1HFY18 \$149k vs 1HFY17 \$119k) and net loss improved by 46% (1HFY18 -\$1.6M vs 1HFY17 -\$2.9M).
- World Wi-Fi App and Cloud platform completed development during the period and launched post period end.
- Revolutionary World Secure App and Cloud platform conceived, developed during the period and launched post period end – opening enterprise cyber-security market.
- Increased product development activities:
 - Platform coverage completed for World Message app, now supporting both Android and iOS devices
 - Virtual ID coverage expanded into Australia, with a total of 19 countries now covered
 - All Norwood products now feature Mobile Device Management support, allowing enterprises to remotely provision Norwood services, including Virtual IDs, to employee smartphones
 - World Phone version 3.0 launched, with high performance OPUS codec support, full media encryption, UI/UX improvements, machine learning ready and accessibility support. This followed earlier support for full voice recording in business mode

'Sharing Economy' telecommunications pioneer Norwood Systems Ltd (Norwood or the Company) (ASX: NOR) is pleased to provide the Company's interim financial report for the Half Year ended 31 December 2017.

Norwood Managing Director, Paul Ostergaard, said: "Norwood has now created a highly compelling service offering for major enterprises, with high quality for solutions for real business problems across CRM capture and logging, BYOD and compliance. This is a substantial leap forward from our initial focus on simple low-cost long-distance and roaming voice calling."

"This is leading to sustained interest from major enterprises in our services, and in-depth engagement with major channel partners such as Oracle, Veritas and Global Relay. I am confident that in time the strength of our product offering and sales partnerships will translate into further steady revenue growth."

"In a similar evolution on the consumer and loyalty front, we are also seeing good interest in bundling our World Wi-Fi or World Secure offerings into potential offerings, as both products feature a high degree of differentiation to potential competitors."

Financial results for the period included a significantly narrowed net loss of \$1,600,785 versus the prior corresponding period figure of \$2,938,878 (a 46% improvement). The improved financial outcome flows from both a strong focus on cost control, and a 25% increase in revenues versus the prior corresponding period (1HFY18 \$149k vs 1HFY17 \$119k). The loss reflects the ongoing investment in developing the Company's suite of product offerings.

<ENDS>

Appendix 4D

ABN: 15 062 959 540

Given in accordance with ASX Listing Rule 4.2A



Appendix 4D

SUMMARY OF RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2017

The following is a summary of the financial results for the six month period ended 31 December 2017 (previous corresponding period 31 December 2016). Unless otherwise stated all figures are provided in AUD.

Comparison to previous period	Increase/ (Decrease)	Six months ended 31 Dec 2017 \$	Six months ended 31 Dec 2016 \$
Revenue from continuing operations	25%	149,317	119,472
Loss from ordinary activities after tax attributable to members	(46%)	1,600,785	2,938,878
Net loss for the half year attributable to members	(46%)	1,600,785	2,938,878

Brief explanation of above figures

The net loss attributable to members of the Group for the half year ended 31 December 2017 amounted to \$1,600,785 representing an improvement of 46% compared to prior period. This is attributed to the improvement in the revenue seeing an increase of 25% and continuous cost-cutting exercises. Please refer to the Review of Operations on page 4 of the attached Half Yearly Report for the period ended 31 December 2017 for further detail.

Dividends

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

Earnings result

The net loss of Norwood Systems Ltd for the half-year ended 31 December 2017 after providing for income tax was \$1,600,785 (31 December 2016: \$2,938,878).

Earnings Per Share (EPS)

	31 Dec 2017	31 Dec 2016
Basic loss per share (cents per share)	(0.14)	(0.30)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,113,758,461	968,965,390

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

Net Tangible Asset (NTA) Backing Per Share

	31 Dec 2017	31 Dec 2016
Net tangible asset backing per share (cents per share)	0.06	0.17

Emphasis of Matter

Please refer to page 25 of the Half Yearly Report for the period ended 31 December 2017 for more information regarding emphasis of matter on material uncertainty relating to going concern.



Mr Paul Ostergaard
Managing Director
26 February 2018

Half Yearly Report

For the half year ended 31 December 2017

ABN: 15 062 959 540

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Norwood Systems Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.



norwood
connect globally, locally™

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Corporate Information

Directors:

Mr Paul Ostergaard
Managing Director

Mr Amit Pau
Non-Executive Chairman

Mr Mike Edwards
Non-Executive Director

Mr Giles Everist
Non-Executive Director

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Mr Steven Wood

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Perth, WA 6000

ASX Code:

NOR

Directors' Report

For the six months ended 31 December 2017

The Directors of Norwood Systems Limited present the following report for the Half Year ended 31 December 2017.

Principal Activities

The principal activities during the period include:

- Rapid expansion of Norwood's Enterprise sales channel partners, with integrations or collaboration now covering leading products produced by Oracle, Salesforce, Global Relay and Veritas, across the range of Norwood enterprise offerings. Norwood estimates that it now has roughly 50% of the CRM market installed base covered, and roughly 50% of the compliance archival market installed base covered.
- First US client and revenues signed, in the key financial services segment
- Continued development of World Phone®, World Wi-Fi™, World Message™, World Secure™ and the Corona® Platform.

Review of Operations

Sales and Commercialisation Activities

Enterprise Segment

US-based Investment Bank contract for Corona Compliance and Corona CRM

During the period, Norwood signed a contract with a highly regarded mid-market US-based investment bank. The contract is significant as it encompasses the supply of all of Norwood's currently available enterprise services, including Corona Compliance and Corona CRM, in addition to undertaking a paid pilot for Norwood's World Secure cyber-security platform.

The agreement establishes a new vertical for the Corona service platform offerings in the US banking sector. This landmark deal will also assist Norwood in progressing additional US-based Corona Compliance deals currently in its sales pipeline, either directly or through emerging resellers.

Oracle Relationship

Norwood's agreement with Oracle enables Norwood to help Oracle achieve exceptional data coverage of voice call and text message sales interactions conducted over their employee's smartphones – all logged automatically within the client's Oracle Sales Cloud account. This is the most significant and wide-ranging collaboration and partnering effort that the Company has had to date in the Enterprise segment.

Norwood's Corona CRM will automatically log smartphone calls, texts and metadata into the Oracle Sales Cloud, creating a robust and comprehensive data repository of sales and service personnel interactions with their customers and stakeholders. Corona CRM's intelligent data synchronisation capabilities will automatically match World Phone and World Message interactions and phone numbers with numbers stored for employees and clients in a customer's Oracle Sales Cloud implementation.

The result of the implementation is a powerful combined data capture platform that feeds into Oracle's powerful analytics-based cloud applications, which will ultimately allow sales teams and their managers to have a greater insight into their customers and partner with them more effectively. As a follow-on to the agreement, the Corona CRM platform was made available in the Oracle Cloud Marketplace, a one-stop shop for Oracle customers seeking trusted business applications and service providers offering unique business solutions, including ones that extend Oracle Cloud Applications.

The Corona CRM platform will enable automatic logging of smartphone calls and text messages between employees and clients to related records within Oracle Sales Cloud.

The Company is confident that this collaboration with Oracle will yield material commercial benefits over time.

Virtual Business Mobile Services and the BYOD market

Both the Corona CRM and Corona Compliance solutions are based on Norwood's Virtual Business Mobile Services (VBMS) architecture. The VBMS architecture in its own right has a significant market application for companies that are interested in implementing a Bring Your Own Device (BYOD) strategy in their organisation.

The VBMS proposition is based on SIM-free mobile voice and messaging services delivered to a handset to create a second SIM-independent mobile identity on a mobile handset. The service offers inbound and outbound PSTN voice and SMS, high-quality visual voicemail, free App-to-App voice and messaging, plus a second mobile phone number attached to these services. The service is delivered to a user's handset using the World Phone and World Message Apps, that operate as a business-centric second pair of mobile Apps on the handset.

Norwood has found that the primary reasons for issuing mobile devices to staff today revolve around organisational management and control of the employee's mobile phone number. The traditional BYOD route of subsidizing the employee's mobile phone is unsatisfactory to the extent that the organisation then loses control of employees' mobile numbers when they leave the organisation. This churn creates potential loss of continuity, or worse, business leakage. VBMS uniquely allows a company to transition to a BYOD model, while maintaining control and ownership of the mobile phone numbers being used for the VBMS platform.

Norwood believes there is a substantial global market for VBMS. Norwood has a significant number of prospects in its enterprise sales pipeline for this service, with most attention internally being focused on getting an initial major customer for the VBMS service signed.

Scalable Compliance Channel Partnerships

The Company now has acquired four significant sales and technology channel partnerships targeting the information governance market for smartphone archival services, being Oracle, Veritas, Global Relay and Addcom (post period end).

The global information governance market is growing strongly, particularly in the US and the EU, driven by increasing regulation and aggressive enforcement actions by the regulators. In particular, the European Union regulator, ESMA, is currently implementing a key directive called Markets in Financial Instruments Directive II (MiFID II). MiFID II has one key objective, among others, to drive greater market transparency, and part of this requires all firms that trade in the EU to record and store all conversations that lead to a financial services market transaction. MiFID II has now come into force and the Company's perception following market discussions is that many financial services firms are far from ready to comply with the far-reaching record-keeping aspects of the legislation.

The US and the UK have similar legislation active already. All of this is driving a strongly growing market opportunity for Norwood's Corona Compliance platform.

Norwood's Corona Compliance platform has been successfully integrated into the Veritas and Global Relay archival platforms, so that Veritas and Global Relay clients can now use Corona Compliance and the World Apps to capture and archive SMS text messages and smartphone voice calls into their platforms. Work is underway to integrate Corona Compliance into Oracle Database Vault and Addcom's voice recording platforms.

Consumer – Travel and Loyalty

Visa Relationship

Following the launch of a customised World Phone bundle for RAC Travel members, Norwood saw significant interest from other potential partners in the travel and loyalty space for similar bundle offers. The interest culminated in a co-marketing partnership with Visa whereby a customised offer has been made available to Visa Cardholders in Australia and New Zealand who are registered to receive Visa Offers or Visa Premium offers and communication. Aside from the enterprise applications, the App also enables consumers to save on expensive roaming calls whilst overseas. Customers can call home or around the world using World Phone, using prepaid minutes provided as part of this package. The Visa Cardholder bundle also includes a complementary In-App "second-line" Australian mobile number.

Scalable Loyalty channel partnerships and transition World Wi-Fi and World Secure Apps

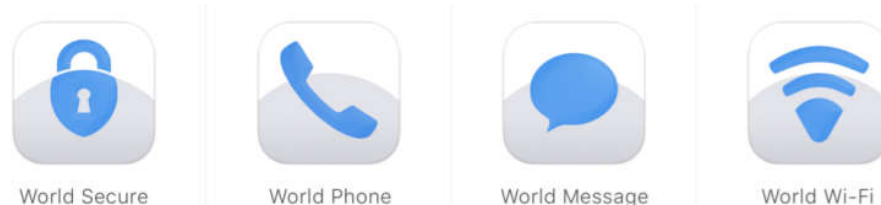
Norwood has assembled over the past year a strong roster of Loyalty Channel Partners in Affinion, Visa, RAC Travel, plus several additional pending Loyalty relationships that are in progress to be finalised.

These relationships represent a powerful potential pathway for Norwood to scale revenues in the Loyalty sector over the coming periods. Despite strong initial Loyalty Partner interest in World Phone, it has become apparent that consumer uptake of the World Phone-based roaming travel packs through Loyalty Partners, such as RAC Travel and Visa, has disappointingly been lower than expected.

Reviewing these results the Company has chosen to accelerate its planned transition from promoting World Phone as a roaming loyalty benefit to instead focusing Norwood's Loyalty Partners on the Company's newest consumer applicable Apps, World Wi-Fi and World Secure, both of which are more highly differentiated than World Phone to any potential competitors, and which the Company believes will be far more effective vehicles to deliver differentiated value to consumers.

The initial response by Norwood's existing and prospective Loyalty Partners to the World Wi-Fi and World Secure loyalty benefit propositions has been very encouraging and the Company looks forward to reporting on substantial commercial progress with its Loyalty channel partners.

Product Development Activities

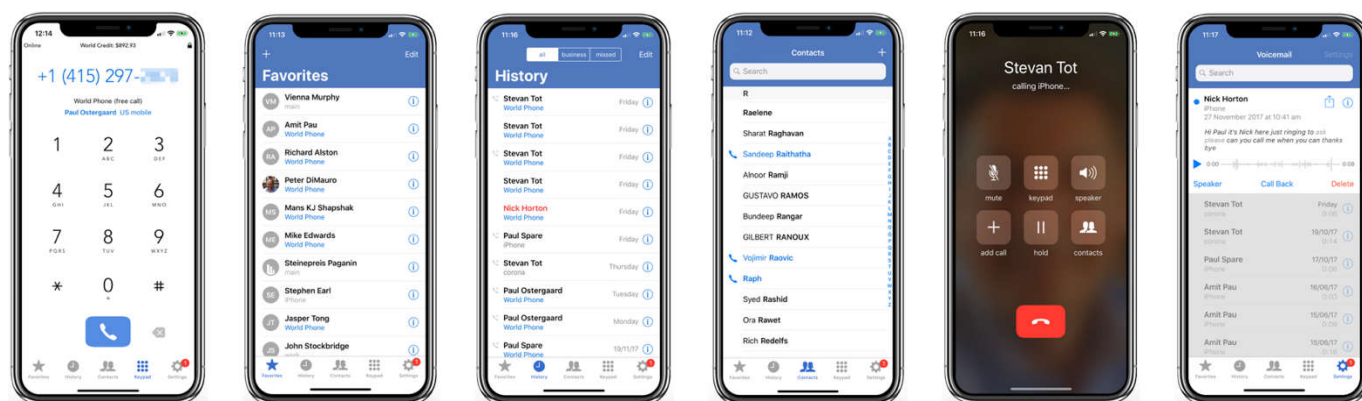


Norwood's Full App Portfolio

Following work completed during the period, Norwood now has four high-quality Apps live on the Apple Store and three equivalent Apps on the Google Play Store. The development team is currently focused on completing World Wi-Fi for Android to ensure that Norwood has full coverage of its App portfolio on both major App Stores.

World Phone

During the period Norwood launched World Phone Version 3.0 on the Apple App Store. This release marked a significant advance on the previous award-winning World Phone 2.0 platform.



World-class, award-winning Telephony App

Significant improvements have been made around security, reliability, manageability and useability of the App, really focused on key requested enterprise features. The key new features specifically include: high-performance OPUS codec support, full media encryption support, high-performance updated User Interface (UI) and User Experience (UX), machine learning ready and improved accessibility support.

World Phone 3.0 operates on all recent iPhone hardware platforms from the iPhone 5s to the recently launched iPhone X, thereby maximising the potential installed base of iPhone users who can use this App.

World Phone 3.0 followed adding full voice recording support in business mode earlier in the period, with recordings stored in scalable cloud platforms for easy retrieval through Corona's web-console and allowing for links or actual content to be saved to CRM and compliance platforms.

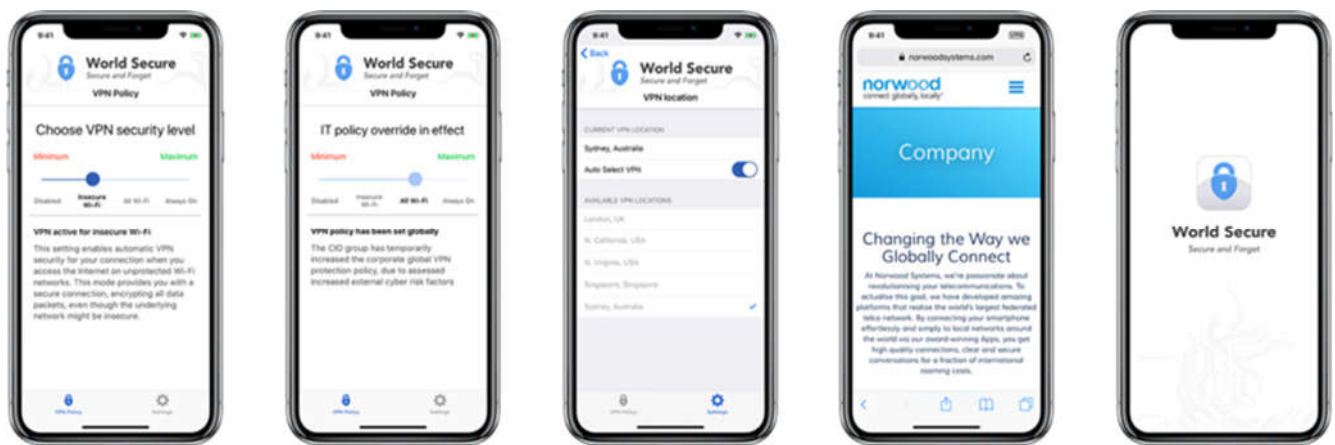
World Message

Smartphone platform coverage for World Message was completed with a rollout onto Android smartphone devices. Importantly for Norwood's corporate clients, this means that organisations can now confidently launch a Norwood-powered Virtual Business Mobile Services solution for 'Bring Your Own Device' (BYOD) employee use across any flagship smartphone released since 2013, ensuring near complete workforce coverage.

Work progressed during the period on integrating selected machine learning capabilities into both World Phone and World Message. Key early targets for this initiative include automatic image captioning for improved e-Discovery of SMS-transmitted images, speaker language classification for improved speech transcription, initially for the Virtual Voicemail transcription feature (added in the previous half) and eventually for a full-duplex real-time speech transcription capability on voice calls.

World Secure

Cyber security is at the forefront of many enterprises' concerns. One of the great unaddressed 'security holes' for virtually all organisations is the situation when staff access internet resources through third-party un-trusted Wi-Fi networks, creating the potential for identity theft or malware attacks. During the period, and as a spin-off from its efforts to develop World Wi-Fi, Norwood developed an innovative offering to address this problem, World Secure, which was launched post period end.



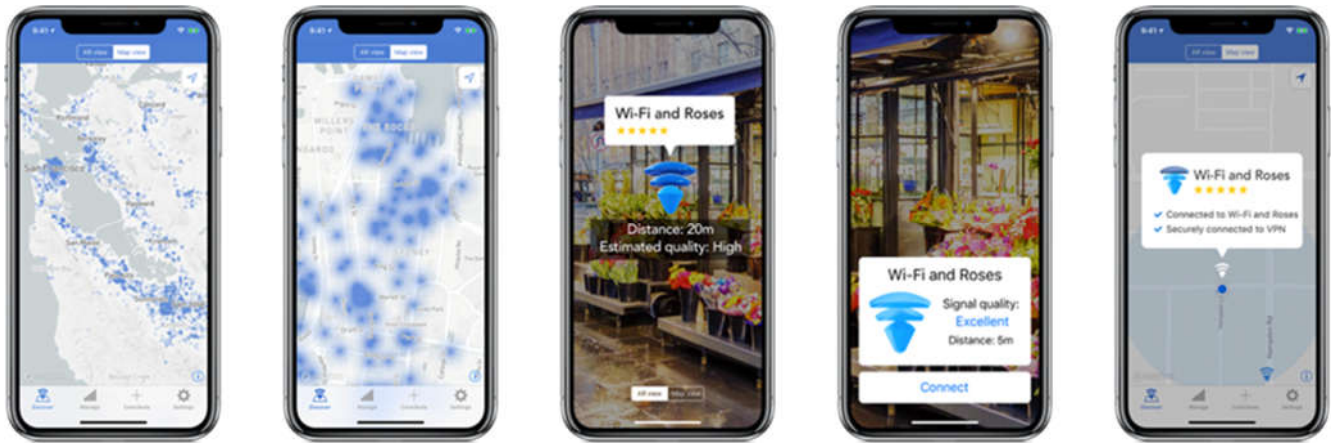
Secure-and-Forget™

World Secure opens up the enterprise cyber-security market for Norwood and is the first VPN App that automatically protects employees against the risks of using insecure Wi-Fi networks for Internet access on their smartphones. The App enables employees to automatically Secure-and-Forget™ their smartphones' wireless data network traffic, in particular when accessing potentially insecure external Wi-Fi networks.

World Secure fits into Norwood's Corona overall service architecture, enabling a superior and far safer mobile Internet experience for both organisations and their employees. World Secure also delivers much improved security for consumers when accessing public Wi-Fi and is available on the Apple App Store featuring 1, 3 and 12-month subscription offers, and can be positioned as a benefit to Norwood's Loyalty channel partners.

World Wi-Fi

Norwood also launched its first release of the revolutionary World Wi-Fi App just after the end of the period. World Wi-Fi provides users access to millions of Wi-Fi access points in a simple, easy to use experience, using integrated and sophisticated discoverability, connectivity and security features.



Discover – Connect – Secure™

World Wi-Fi features an innovative Augmented Reality interface to help users quickly and intuitively find nearby Wi-Fi hotspots, with a map to give users a clear understanding of their local coverage at a glance.

It is the first App that puts high-quality mapping of public Wi-Fi network coverage right into the hands of consumers and uses Augmented Reality to help users visualise where their Wi-Fi connections are. World Wi-Fi is targeted both at direct to consumer on a 1, 3 or 12-month subscription basis, and as a potential bundled benefit for Loyalty partners, positioned to address the \$50 billion global Loyalty benefits market.

This release of the World Wi-Fi App for iOS devices marks a key milestone for Norwood, completing the full targeted portfolio of Apps for Apple devices.

Events Subsequent to Reporting Period

Subsequent to period end Norwood launched both World Wi-Fi and World Secure apps, following development activities undertaken during the period.

US-based Investment Bank Contract for Corona Compliance and Corona CRM

Post period end on 2 January 2018, Norwood signed a contract with a highly regarded mid-market US-based investment bank, for the supply of all of Norwood's currently available enterprise services, including Corona Compliance and Corona CRM, in addition to undertaking a paid pilot for Norwood's World Secure cyber-security platform. The agreement establishes a new vertical for the Corona service platform offerings in the US banking sector. This landmark deal will also assist Norwood in progressing additional US-based Corona Compliance deals currently in its sales pipeline, either directly or through emerging resellers.

Addcom Reseller Partnership MOU

On 30 January 2018, Norwood announced the signing of an MOU towards agreeing a reseller partnership with Addcom. Addcom has been an Australian leader in the call recording and speech analytics market for over 10 years, supporting some of Australia's leading organisations including Fire, Ambulance, Police, contact centres and financial markets firms. The MoU outlines the basis for a partnership agreement to be negotiated in good faith for a minimum of two years, with extension by mutual consent. The MoU will see Norwood's World Apps (World Phone, World Secure, World Message and World Wi-Fi) marketed to a subset of Addcom's existing 2,500 resellers and direct customers, while Norwood will introduce Addcom, and its Wave e-Discovery voice recording software, to named accounts where there is an opportunity for co-selling, particularly in the finance and banking vertical.

Norwood believes this collaboration with Addcom has the potential to generate significant recurring revenue, in particular on the voice recording compliance front.

Research and Development Funding Facility

At 31 December 2017, the Company had in place an undrawn, approved facility available which allows the Company to receive advance funding on its expected FY2018 research and development (R&D) rebate. Subsequent to period end, Norwood has now chosen to utilise this facility to receive advance funding on the expected FY2018 R&D rebate for the first six months of FY2018. In all, Norwood has received \$356,394.60 pursuant to the funding agreement.

Results

The Company has made a positive gross underlying margin on product and services sales for the half year ended 31 December 2017. This gives the Company significant confidence in the scalability of Norwood's operating model and that increasing sales over time would lead to overall positive margins, as positive margin on sales start to overtake fixed costs on R&D and other items. The Company expects steady revenue growth from this Enterprise offering in the following reporting period.

The net loss attributable to members of the Group for the half year ended 31 December 2017 amounted to \$1,600,785 representing the ongoing investment in developing the Company's suite of product offerings. This is in contrast to a net loss over the same period in 2016 that amounted to \$2,938,878.

Included in the net loss incurred at 31 December 2017 was:

- Non-cash, share based payment expense of \$283,938 in contrast from \$1,253,387 at 31 December 2016. The expense relates to equity instruments issued to employees, directors and advisors of the Company as described in Note 9;
- Sales and marketing expenses of \$201,303 in contrast to \$653,883 at 31 December 2016. These expenses relate to overall Company promotion as well as marketing of the Company's products and customer acquisition costs; and
- Patent, research and development expense of \$50,151 relates to World Wi-Fi, World Message and Corona development and enhancements. This does not include the salaries and wages of engineers involved in R&D. Lower costs were incurred as majority of the patents have been granted before this reporting period.

At 31 December 2017 Norwood holds \$1,007,596 in cash, and the Directors remain confident in Norwood's ability to fund further growth.

Dividends

There were no dividends paid or declared during the period.

Significant Changes in State of Affairs

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

Likely Developments and Expected Results of Operation

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

Signed in accordance with a resolution of the Directors.

Mr Paul Ostergaard



Managing Director
26 February 2018

Financial Report

For the half year ended 31 December 2017

ABN: 15 062 959 540



Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Note	31 Dec 2017 \$	31 Dec 2016 \$
Revenue	5	149,317	119,472
Other income	5	959,032	1,296,649
Cost of sales		(86,371)	(70,564)
Sales and marketing expenses		(201,303)	(653,883)
Patent, Research and Development expenses		(50,151)	(76,689)
IT Infrastructure Cost		(127,561)	(299,469)
Employee and director benefits expense		(1,245,276)	(1,369,695)
Listing expense		(42,566)	(23,288)
Consultancy and subcontractor fees		(172,879)	(8,000)
Legal fees		(33,722)	(20,303)
Rent		(55,519)	(47,613)
Finance Cost		(507)	(165)
Other expenses		(66,743)	(32,717)
Administration expenses		(331,745)	(490,793)
Share based payment expense	9	(283,938)	(1,253,387)
Depreciation		(10,853)	(8,433)
Loss before income tax		(1,600,785)	(2,938,878)
Income tax benefit		-	-
		-	-
Loss after tax for the period attributable to the members of Norwood Systems Ltd		(1,600,785)	(2,938,878)
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to the members of Norwood Systems Ltd		(1,600,785)	(2,938,878)
Basic and diluted loss per share (cents per share)	6	(0.14)	(0.30)

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

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2017

	Note	31 Dec 2017 \$	30 June 2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents		1,007,596	1,481,103
Trade and other receivables		354,546	221,823
Total Current Assets		1,362,142	1,702,926
Non-Current Assets			
Plant and equipment		153,053	135,155
Total Non-Current Assets		153,053	135,155
TOTAL ASSETS		1,515,195	1,838,081
LIABILITIES			
Current Liabilities			
Trade and other payables		504,565	625,170
Provisions		170,266	144,746
Deferred revenue		49,748	78,663
Total Current Liabilities		724,579	848,579
Non-Current Liabilities			
Provisions		82,269	68,227
Total Non-Current Liabilities		82,269	68,227
TOTAL LIABILITIES		806,848	916,806
NET ASSETS		708,347	921,275
EQUITY			
Issued capital	7	25,299,195	24,223,426
Reserves	8	8,442,057	8,129,969
Accumulated losses		(33,032,905)	(31,432,120)
TOTAL EQUITY		708,347	921,275

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

Consolidated Statement of Changes of Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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

	Issued Capital \$	Option Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2016	22,258,701	5,720,855	(24,678,761)	3,300,795
Loss for the period	-	-	(2,938,878)	(2,938,878)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(2,938,878)	(2,938,878)
<i>Transaction with owners, directly recorded in equity</i>				
Shares issued	50,000	-	-	50,000
Share based payment	-	1,253,387	-	1,253,387
Total transactions with owners	50,000	1,253,387	-	1,303,387
Balance at 31 December 2016	22,308,701	6,974,242	(27,617,639)	1,665,304

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

Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Note	31 Dec 2017 \$	31 Dec 2016 \$
Cash flows from operating activities			
Receipts from customers		103,880	78,081
Government grants received		959,032	1,296,649
Interest received		2,876	10,317
Payments to suppliers and employees		(2,571,623)	(3,124,896)
Interest paid		-	(289)
Net cash flows used in operating activities		(1,505,835)	(1,740,138)
Cash flows from investing activities			
Purchase of plant & equipment		(25,672)	(6,940)
Net cash flows used in investing activities		(25,672)	(6,940)
Cash flows from financing activities			
Proceeds from issue of shares		1,058,000	-
Share issue costs		-	-
Net cash flows from financing activities		1,058,000	-
Net decrease in cash and cash equivalents		(473,507)	(1,747,078)
Cash and cash equivalents at the beginning of the period		1,481,103	3,888,765
Cash and cash equivalents at the end of the period		1,007,596	2,141,687

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

Notes to the Consolidated Financial Statements

For the six months ended 31 December 2017

NOTE 1: BASIS OF PREPARATION

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

The half-year financial report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity. The half-year financial report should be read in conjunction with the annual financial report of Norwood Systems Ltd as at 30 June 2017 which was prepared in accordance with the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. It is also recommended that the half-year financial report be considered together with any public announcements made by the Company during the period 1 July 2017 to the date of this report in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The financial report is presented in Australian currency.

Going Concern

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

As disclosed in the review report for the half year ended 31 December 2017 the Group recorded a loss of \$1,600,785 and had net cash outflows from operating activities of \$1,505,835.

While the Group has cash on hand of \$1,007,596 at 31 December 2017, the Group's future cash flow forecast for the period ended 31 December 2017 reflects that the Group will require additional working capital through equity over that period in order to meet the Group's stated strategic objectives.

These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

- The completion of a rights issue to professional and sophisticated investors last financial year to raise \$2,070,996;
- The completion of an over-subscribed placement to institutional investors this financial year to raise \$1,058,000;
- Successful signing of Corona contracts with multinational firms during the reporting period;
- Launch of World Wi-fi, World Secure and World Message during the half year;
- Active cost cutting measures have been undertaken;
- Securing and drawing down on part of an R&D tax offset funding agreement to the amount of \$356,395 subsequent to period end;
- Cash on hand of \$1,007,596 as at 31 December 2017; and
- Net assets of \$708,347 as 31 December 2017.

Notes to the Consolidated Financial Statements

For the six months ended 31 December 2017

NOTE 1: BASIS OF PREPARATION (CONT'D)

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities at amounts that differ to those stated in the financial report.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

NOTE 2: BASIS OF ACCOUNTING

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

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

Significant Judgements and Key Assumptions

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

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

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

NOTE 3: ADOPTION OF ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2017.

NOTE 4: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the half-year ended 31 December 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2017.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies as a result of the adoption of new and revised accounting standards.

The Directors have reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2017. The Directors have decided against early adoption of any new Standards and Interpretations. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies as a result of accounting standards issued not yet effective.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 5: REVENUE AND OTHER INCOME

	31 Dec 2017 \$	31 Dec 2016 \$
Revenue and other income		
Sales revenue		
World Phone revenue	95,168	104,327
Corona Revenue	50,990	3,124
Other revenue	1,455	1,524
Total sales revenue	147,613	108,975
Other revenue		
Interest revenue	1,704	10,497
Total other revenue	1,704	10,497
Total revenue	149,317	119,472
Other income		
Government grant income	959,032	1,296,649
Total other income	959,032	1,296,649

NOTE 6: LOSS PER SHARE

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

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

	31 Dec 2017 \$	31 Dec 2016 \$
Loss used in the calculation of basic and diluted loss per share	1,600,785	2,938,878
Basic loss per share attributable to equity holders	(0.14)	(0.30)

	Number	Number
Weighted average number of ordinary shares outstanding during the half year used in calculation of basic and diluted loss per share	1,113,758,461	968,965,390

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

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 7: ISSUED CAPITAL

	31 Dec 2017	30 June 2017
	\$	\$
1,165,430,387 (30 June 2017: 1,100,216,853) fully paid ordinary Shares	25,299,195	24,223,426
Total	25,299,195	24,223,426

	No.	\$
Opening balance – 1 July 2016	968,779,576	22,258,701
Dec 2016 – Issue of Shares as consideration for professional services received	2,000,000	50,000
May 2017 – Shares offered under non-renounceable entitlement issue	129,437,277	2,070,996
Cost of share issues	-	(156,271)
Closing balance – 30 June 2017	1,100,216,853	24,223,426
Nov 2017 – Issue of Ordinary Shares	58,777,777	1,058,000
Nov 2017 - Issue of shares in lieu of cash payment for services at \$0.022	909,091	20,000
Nov 2017 - Issue of shares in lieu of cash payment for services at \$0.015	2,000,000	30,000
Nov 2017 - Issue of shares in lieu of cash payment for services at \$0.028	3,526,666	98,747
Nov 2017 - Capital Raising Fee	-	(130,978)
Closing balance – 31 December 2017	1,165,430,387	25,299,195

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

NOTE 8: SHARE BASED PAYMENT RESERVE

	No.	\$
Opening balance – 1 July 2016	102,374,485	5,720,855
Oct 2016 – Option expiry	(1,000,000)	-
Nov 2016 – Option expiry	(5,000,000)	-
Share Based Payment – Further vesting value of options	-	2,409,114
Closing balance – 30 June 2017	96,374,485	8,129,969
Share Based Payments – Further vesting value of options	-	213,964
Nov 2017 - Director Options	9,187,500	69,974
Nov 2017 - Supplier Options	3,000,000	28,150
Closing balance – 31 December 2017	108,561,985	8,442,057

Nature and Purpose of Reserve

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

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 9: SHARE BASED PAYMENTS

Share based payments during the half year ended 31 December 2017 are summarised below.

(a) Recognised Share Based Payment Expense

	31 Dec 2017 \$	31 Dec 2016 \$
Expense arising from equity settled share based payment transactions	283,938	1,253,387

(b) Shares Granted During the Half Year

The Company granted the following fully paid ordinary shares as share based payments during the half year to 31 December 2017:

- 2,000,000 Shares having a total value of \$30,000 were granted as consideration for professional services received during the period. The value was determined with reference to the vendor's invoice.
- 909,091 Shares having a total value of \$20,000 were granted as consideration for professional services received during the period. The value was determined with reference to the vendor's invoice.
- 3,526,666 Shares having a total value of \$98,747 were granted as consideration for professional services received during the period. The value was determined with reference to the vendor's invoice.

(c) Options Granted During the Half Year

Unlisted options as share based payments were granted during the half year to 31 December 2017 are as follows:

Tranche	Class of Options	Issue Date	Exercise Price	Expiry Date	Vesting Date	Disposal Restriction
J	4,187,500 Director Options	22 Nov 2017	Nil	2 years from date of issue	1 year after the issue date	None
K	2,500,000 Managing Director Options	22 Nov 2017	\$0.023	3 years from date of issue	Immediately on issue	None
L	2,500,000 Managing Director Options	22 Nov 2017	\$0.028	3 years from date of issue	Immediately on issue	None
M	3,000,000 Advisor Options	22 Nov 2017	\$0.035	1 year from date of issue	Immediately on issue	None

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 9: SHARE BASED PAYMENTS (CON'T)

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

Tranche	Dividend yield	Expected volatility	Risk-free interest rate	Expected life of options (years)	Option exercise price	Share price at grant date
A	-	125%	2.25%	5	\$0.198	\$0.135
B	-	125%	2.25%	5	\$0.297	\$0.135
C	-	125%	2.25%	3	\$0.173	\$0.135
D	-	125%	2.25%	5	\$0.135	\$0.135
E	-	125%	2.25%	3	\$0.02	\$0.135
F	-	125%	2.25%	3	\$0.02	\$0.135
G	-	125%	2.25%	3	\$0.02	\$0.135
H	-	125%	2.25%	3	\$0.107	\$0.085
I	-	108%	2.25%	5	\$0.057	\$0.035
J	-	110%	1.50%	2	Nil	\$0.027
K	-	110%	1.50%	3	\$0.023	\$0.027
L	-	110%	1.50%	3	\$0.028	\$0.027
M	-	110%	1.50%	1	\$0.035	\$0.027

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 10: SEGMENT INFORMATION

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

Six Months Ended 31 December 2017

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

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 10: SEGMENT INFORMATION (CONT'D)

Six Months Ended 31 December 2016

	Voice Telecommunications Services	Corporate	Total
Segment revenue and other income			
Sales revenue	108,510	-	108,510
Interest received	10,497	-	10,497
Government grant income	1,296,649	-	1,296,649
Other income	-	465	465
Total revenue and other income	1,415,656	465	1,416,121
Segment expenses			
Cost of Sales	(70,564)	-	(70,564)
Operating expenses	(1,780,670)	(1,218,655)	(2,999,325)
Listing expenses	-	(23,289)	(23,289)
Loss on conversion of debt to equity	-	-	-
Share based payment expenses	-	(1,253,388)	(1,253,388)
Loss before depreciation	(435,578)	(2,494,867)	(2,930,445)
Depreciation	(8,433)	-	(8,433)
Loss before income tax	(444,011)	(2,494,867)	(2,938,878)
Segment assets and liabilities			
Cash	925,881	1,215,806	2,141,687
Trade and other receivables	151,629	49,239	200,868
Plant and equipment	55,220	-	55,220
Trade and other creditors	(329,542)	(95,652)	(425,194)
Provisions	(143,894)	(95,930)	(239,824)
Deferred revenue	(67,453)	-	(67,453)
Borrowings	-	-	-
Convertible notes	-	-	-
Net assets/(liabilities)	591,841	1,073,463	1,665,304

Notes to the Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 11: EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to period end Norwood launched both World Wi-Fi and World Secure apps, following development activities undertaken during the period.

US-based Investment Bank Contract for Corona Compliance and Corona CRM

Post period end on 2 January 2018, Norwood signed a contract with a highly regarded mid-market US-based investment bank, for the supply of all of Norwood's currently available enterprise services, including Corona Compliance and Corona CRM, in addition to undertaking a paid pilot for Norwood's World Secure cyber-security platform. The agreement establishes a new vertical for the Corona service platform offerings in the US banking sector. This landmark deal will also assist Norwood in progressing additional US-based Corona Compliance deals currently in its sales pipeline, either directly or through emerging resellers.

Addcom Reseller Partnership MOU

On 30 January 2018, Norwood announced the signing of an MOU towards agreeing a reseller partnership with Addcom. Addcom has been an Australian leader in the call recording and speech analytics market for over 10 years, supporting some of Australia's leading organisations including Fire, Ambulance, Police, contact centres and financial markets firms. The MoU outlines the basis for a partnership agreement to be negotiated in good faith for a minimum of two years, with extension by mutual consent. The MoU will see Norwood's World Apps (World Phone, World Secure, World Message and World Wi-Fi) marketed to a subset of Addcom's existing 2,500 resellers and direct customers, while Norwood will introduce Addcom, and its Wave e-Discovery voice recording software, to named accounts where there is an opportunity for co-selling, particularly in the finance and banking vertical.

Norwood believes this collaboration with Addcom has the potential to generate significant recurring revenue, in particular on the voice recording compliance front.

Research and Development Funding Facility

As at 31 December 2017, the Company had in place an undrawn, approved facility available which allows the Company to receive advance funding on its expected FY2018 research and development (R&D) rebate. Subsequent to period end, Norwood has now chosen to utilise this facility to receive advance funding on the expected FY2018 R&D rebate for the first six months of FY2018. In all, Norwood has received \$356,394.60 pursuant to the funding agreement.

NOTE 12: CONTINGENT LIABILITIES

The Group has a contingent liability in respect of promotional minutes issued to and unconsumed by customers as at the reporting date. If the full balance of promotional minutes on issue were to be consumed by customers, the maximum cost to the Group is estimated to be \$153,577. The ultimate cost that will be incurred by the Group, if any, is dependent upon a variety of factors including customer consumption, consumption timing, prevailing USD:AUD exchange rates, and supply agreements.

The Directors are not aware of any other contingent liabilities that may arise from the Group's operations as at 31 December 2017.

Director's Declaration

The directors of the Group declare that:

- 1) the financial statements comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - a) comply with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
 - b) give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance of the half year ended on that date.
- 2) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Paul Ostergaard', with a stylized flourish at the end.

Mr Paul Ostergaard
Managing Director
26 February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Norwood Systems Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Norwood Systems Ltd (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

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

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'P. Murdoch', written over a horizontal line.

Phillip Murdoch

Director

Perth, 26 February 2018

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

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

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

This declaration is in respect of Norwood Systems Ltd and the entities it controlled during the period.



Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 26 February 2018

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