

ELMO Software Limited
Appendix 4E
Preliminary final report

Company details

Name of entity:	ELMO Software Limited
ABN:	13 102 455 087
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

Results for announcement to the market

\$'000

Revenues from ordinary activities	up	51% to	40,053
Loss from ordinary activities after tax attributable to the owners of ELMO Software Limited	up	341% to	(13,180)
Loss for the year attributable to the owners of ELMO Software Limited	up	341% to	(13,180)

Dividends

No dividend was paid or proposed during the financial year ended 30 June 2019 (2018: \$nil).

The loss for the year amounted to \$13.2m which is due to increased employee costs from additional hires to support the expanding business and related costs of acquiring two businesses during the year. Refer to the Operating and Financial Review included within the Directors' Report for further commentary on the year's results, financial position and likely developments in future years.

Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible (liabilities)/assets per ordinary security	<u>(5.48)</u>	<u>51.29</u>

The net tangible asset per ordinary security is calculated based on 63,232,459 ordinary shares on issue at 30 June 2019 and 63,160,086 shares in existence at 30 June 2018.

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Control gained over entities

Entity HROnboard Pty Limited

Date control gained 31 January 2019

\$'000

Contribution of such entity's loss to the reporting entity's loss from ordinary activities before income tax during the period (476)

Entity Get BoxSuite Pty Limited

Date control gained 31 January 2019

\$'000

Contribution of such entity's loss to the reporting entity's loss from ordinary activities before income tax during the period (565)

Loss of control over entities

Not applicable.

Other information requiring disclosure to comply with ASX listing rule 4.3A is contained in, and should be read in conjunction with the Financial Statements, the notes to the Financial Statements and the Directors' Report for the year ended 30 June 2019 attached to this report.

This report is based on the Consolidated Financial Statements and Notes of ELMO Software Limited which have been audited by Deloitte Touche Tohmatsu with an unqualified opinion issued.

Signed



Barry Lewin
Chairman



Danny Lessem
Director

15 August 2019
Sydney

ELMO Software Limited

ABN 13 102 455 087

Annual Report - 30 June 2019

ELMO Software Limited
Corporate directory
30 June 2019

Directors	Barry Lewin Danny Lessem Kate Hill Leah Graeve
Company secretary	Anna Sandham James Haslam
Registered office	Level 12 680 George Street Sydney NSW 2000 Phone: 02 8280 7100
Principal place of business	Level 27 580 George Street Sydney NSW 2000 Phone: 02 8305 4600
Share register	Link Market Services Pty Limited Level 12 680 George Street Sydney NSW 2000 Phone: 02 8280 7100
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	Mills Oakley Level 7 151 Clarence Street Sydney NSW 2000
Financial adviser	Blackpeak Capital Pty Ltd Level 5 55 Harrington Street The Rocks NSW 2000
Stock exchange listing	ELMO Software Limited shares are listed on the Australian Securities Exchange (ASX code: ELO)
Website	www.ELMOsoftware.com.au
Corporate governance statement	http://investors.ELMOsoftware.com.au/Investors/?page=Corporate-Governance

ELMO Software Limited
Directors' report
30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of ELMO Software Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of ELMO Software Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Barry Lewin (appointed 10 October 2018)
James McKerlie (resigned 19 September 2018)
Danny Lessem
Trevor Lonstein (resigned 4 February 2019)
Kate Hill
Leah Graeve (appointed 12 June 2019)

Dividends

No dividend was paid during the financial year ended 30 June 2019 (2018: \$nil).

Operating and financial review

Principal activities

ELMO is one of Australia and New Zealand's leading providers of Software-as-a-Service (SaaS), cloud-based human resources and payroll solutions.

ELMO's human resources (HR) and payroll management software solutions enable organisations to manage the lifecycle of an employee from hire to retire on a single integrated platform. The Company develops, sells and implements a range of modular software applications to efficiently manage HR and payroll related processes including recruitment, onboarding, performance management, learning and development, rewards and recognition, remuneration, succession planning, payroll, onboarding, workplace rostering, time and attendance.

ELMO also provides HR Core, a software module which organisations use for people management and employee self-service, and HR Survey for internal staff and external customer surveys. ELMO's solutions assist organisations to better address and adapt to the complexities of the Human Capital Management (HCM) industry while increasing their productivity and reducing costs.

Significant changes to the business

During the year ended 30 June 2019 the following acquisitions were made by the Group:

HROnboard

On 31 January 2019 the Company completed the purchase of HROnboard Pty Limited (HROnboard), one of Australia's leading providers of cloud-based employee onboarding software for an estimated total consideration of \$10.0m with an initial amount of \$7.0m paid on completion and a deferred cash payment of \$3.0m (see note 21). The vendor is eligible for an additional conditional cash payment (estimated to be \$5.5m) which will be subject to achieving a range of certain high growth performance targets.

Total consideration payable is subject to adjustments relating to cash, debt and working capital.

The onboarding process is an essential function of the employee's lifecycle within an organisation and the acquisition of HROnboard strategically strengthens ELMO's position as a leading provider of SaaS onboarding solutions in the Australian market.

Goodwill arising on the acquisition reflects potential cost synergies, enhanced market coverage from a broader module suite and the increased opportunities for cross-selling to both new and existing customers.

BoxSuite

On 31 January 2019 the Company completed the purchase of Get BoxSuite Pty Limited (BoxSuite), a SaaS, cloud-based specialist in workplace rostering and time and attendance for casual and shift-based employees, for a total consideration of \$1.4m with an initial amount of \$1.0m paid on completion and \$0.4m deferred based on agreed development milestones.

BoxSuite's rostering module enables organisations to schedule shifts and monitor staff costs while its time and attendance modules enable organisations to efficiently record and manage employee hours, calculate appropriate remuneration rates, and seamlessly integrate with external payroll platforms.

The acquisition of BoxSuite is firmly in line with ELMO's growth strategy to supplement the Company's strong organic growth with complementary technology to offer customers an integrated product suite of HR and payroll solutions.

Review of operations during the year

Certain financial information in the review of operations section below referencing Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) has been derived from the audited financial statements. The Annual Recurring Revenue (ARR), pro forma EBITDA, pro forma revenue and pro forma operating expenses are non-IFRS financial information and as such have not been audited in accordance with Australian Accounting Standards.

For the full year ended 30 June 2019, ELMO reported statutory revenue of \$40.1m (FY2018: \$26.5m). ELMO's statutory loss before income tax, finance expenses, depreciation and amortisation was \$2.5m (FY2018: earnings of \$1.0m) and its statutory net loss after tax was \$13.2m (FY2018: loss \$3.0m).

Annual recurring revenue, which reflects the revenue run rate at a point in time and is considered a key leading metric for prospective revenue, increased to \$46.0m at 30 June 2019 (30 June 2018: \$31.1m). Growth in ARR was driven by a combination of new contracts and the contribution from the FY19 acquisition of HROnboard and BoxSuite.

Pro forma financial performance

For the full year ended 30 June 2019, ELMO's pro forma revenue was \$42.6m (FY2018: \$31.8m), which was consistent with market guidance of \$42.4m. ELMO's pro forma loss before income tax, finance expenses, depreciation and amortisation was \$0.9m (FY18: earnings \$3.5m), which was ahead of market guidance of negative \$1.6m.

The pro forma financial information reflects ELMO's statutory financial statements adjusted for:

- estimated full year revenue and EBITDA contribution from acquisitions, assuming the date of ownership was from 1 July in the respective years; and
- adjustments relating to acquisition related transaction costs and other non-recurring items.

The acquisition revenue and EBITDA adjustments relate to the following acquisitions:

- Quintessential Marketing Consulting, Sky Payroll and Pivot Software during FY18; and
- HROnboard and BoxSuite during FY19.

Pro forma revenue

The growth in pro forma revenue during the period was driven by:

- Strong subscription revenues of 95.4% of total revenue and high customer retention rates of 92.1%;
- Expansion of ELMO's customer base to 1,341 organisations compared to 1,031 at 31 June 2018 (30.1% increase);
- Increased investment into ELMO's sales and marketing team;
- Increased investment and traction in new and existing modules, resulting in increased cross-sell and upsell opportunities amongst ELMO's customer base; and
- Enhanced brand awareness and reputation of ELMO and its product offering.

A reconciliation between revenue based on the statutory accounts and pro forma revenue is provided below.

Reconciliation of revenue	Year ended 30 June 2019 \$m	Year ended 30 June 2018 \$m
Revenue based on statutory accounts	40.1	26.5
<i>Add/(less) net effects of:</i>		
Other income	-	0.1
Full year estimated impact of acquisitions	2.5	5.2
Pro forma revenue	42.6	31.8

Pro forma EBITDA

For FY19, ELMO reported pro forma operating expenses, excluding depreciation and amortisation of \$43.5m (FY18: \$28.3m). The key driver for the increase in operating expenses was ELMO's continued investment in resources to underpin future growth. There was increased investment into:

- ELMO's sales and marketing function which reported pro forma expenses of \$18.8m (FY18: \$9.2m, reflecting a 104.3% increase compared to pro forma FY18 due to increased headcount during the year;
- Increased investment and capacity in client services up to \$5.5m (FY18: \$2.7m). The increased investment was focussed on supporting the increase in activity covering implementation, integration and training;
- Increased investment in research and development, primarily the development of new modules and enhancement of existing modules. Pro forma research and development spend totalled \$11.7m through FY19 (FY18: \$5.0m). The total spend in FY19 was split between operating expenses of \$3.4m and capitalised expenses of \$8.3m (FY18: \$0.8m, \$4.2m); and
- An increase in pro forma general and administrative expenses to \$15.8m (FY18: \$15.6m) driven by an increase in employment and operating costs due to the strengthening of ELMO's infrastructure to scale operations.

A reconciliation between EBITDA based on the statutory accounts and pro forma EBITDA is provided below

Reconciliation of EBITDA	Year ended 30 June 2019 \$m	Year ended 30 June 2018 \$m
EBITDA based on statutory accounts	(2.5)	1.0
<i>Add/(less) net effects of:</i>		
Full year estimated impact of acquisitions	0.4	0.9
Acquisition related costs	0.6	1.2
Other non-recurring items	0.6	0.4
Pro forma EBITDA¹	(0.9)	3.5

Financial position

As at 30 June 2019, ELMO has no debt and a net cash balance of \$27.7m (2018: \$46.0m). The primary reason for the decline in the cash balance through FY19 was \$13.2m of acquisition related payments.

ELMO's underlying strong cash position was driven by the payment of annual license fees in advance, which contributed to the positive operating positive cashflow of \$5.5m through FY19.

Due to growth through acquisitions, intangible assets have increased to \$58.9m (2018: \$35.8m (note 15)).

As a result of the above, the Directors believe the consolidated entity is in a strong and stable position to expand and grow its current operations.

¹ Pro forma EBITDA in the year ended 30 June 2019 reflects the application of AASB16 *Leases* which results in certain leases being reclassified as finance leases. This accounting treatment requires the applicable lease to be capitalised on the balance sheet and the expenses reflected within depreciation and interest costs (below EBITDA). Pro forma EBITDA year ended 30 June 2018 reflects the leases as operating leases with the rent expense included within EBITDA.

Business growth strategy and likely developments

- **Greater usage from existing customers**

ELMO aims to increase usage of its solutions amongst the existing customer base by encouraging customers to subscribe to additional modules. ELMO plans to support this via further investment into sales and marketing and broadening its talent management software offering.

- **Increasing market penetration in Australia and New Zealand**

ELMO currently has a market penetration of circa 5.6%, reflecting the ratio of 1,341 active customers from a total market of 23,813 organisations², across Australia and New Zealand. ELMO plans to accelerate its market penetration in the region by increasing investment into its sales and marketing capabilities and initiatives to drive new customer wins.

- **Expand product offering**

ELMO recently acquired and integrated rostering, onboarding and time and attendance modules to expand its solutions. There is continuous development and deployment planned for new and enhanced features across both the newly acquired and existing modules with additional modules aimed to be launched within the next few years.

ELMO continues to commit to investment in research and development with the total spend in FY19 reflecting 28.8% (FY18: 18.9%) of statutory revenue. Key development plans include the continued enhancement of the user experience and user interface, continued integration of the FY19 acquisitions and further development of the interoperability of the module suite.

- **Acquisitions**

ELMO continues to believe there are opportunities to gain additional market share and/or acquire complementary technology through targeted acquisitions of other HR management software companies.

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

² Frost & Sullivan independent market report 2019

ELMO Software Limited
Directors' report
30 June 2019

Information on directors

Name:	Barry Lewin (appointed 10 October 2018)
Title:	Chairman and Independent Non-executive Director
Qualifications:	Bachelor of Commerce (B.Com) and Bachelor of Laws (LLB) from University of Cape Town, MBA, Swinburne University of Technology.
Experience and expertise:	Barry is the founder and Managing Director of Melbourne-based corporate advisory firm SLM Corporate Pty Limited, where he advises public and private companies on mergers, acquisitions, transaction structuring, debt and equity issues, business sales and all aspects of corporate governance. Prior to establishing SLM Corporate in 1999, Barry spent 12 years as an in-house counsel to a number of ASX-listed companies.
Other current directorships:	Non-Executive Chairman of Praemium Limited (ASX:PPS), Non-Executive Chairman of Quickfee Ltd (ASX:QFE).
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Nomination and Remuneration Committee
Interests in shares:	10,000 fully paid ordinary shares
Interests in options:	None
Contractual rights to shares:	None

Name:	James (Jim) McKerlie (resigned 19 September 2018)
Title:	Former Chairman and Independent Non-executive Director
Qualifications:	Bachelor of Economics (B.Ec) and a Diploma in Financial Management from the University of New England. He is a fellow of the Institute of Chartered Accountants, Australian Institute of Company Directors and Institute of Management Consultants.
Experience and expertise:	Jim has over 30 years of experience across digital, media, technology, energy and professional services industries. Jim has held senior roles as Partner in Charge at Deloitte Touche Tohmatsu, Managing Partner at KPMG, Chairman of onthefhouse.com.au, Executive Chairman of Bullseye and Chairman of Acer Energy and Ambassador Energy.
Other current directorships ³ :	Chairman of Bambu Digital. Independent Non-Executive Director of Beach Energy
Former directorships (last 3 years):	Chairman of Manalto Limited, Lithium Consolidated Minerals Exploration Limited and Drillsearch Energy prior to it being acquired by Beach Energy (BPT.ASX).
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee (until resignation on 19 September 2018).
Interests in shares:	None at 30 June 2019
Interests in options:	None
Contractual rights to shares:	None

³ Directorships current at the time of resignation.

ELMO Software Limited
Directors' report
30 June 2019

Name: Danny Lessem
 Title: Chief Executive Officer, Executive Director and Co-Founder of ELMO
 Qualifications: Bachelor of Laws (LL.B) and Bachelor of Arts and Law from the University of Witwatersrand, South Africa

Experience and expertise: Danny is responsible for leading the development and execution of the Company's long term strategy and delivering on growth objectives for the business. Danny also plays a key part in the day-to-day management of the Company's operations and has been critical to the success of ELMO, including the strategy underpinning the development of the Company's full suite of talent management software solutions.

Danny has extensive experience in the technology industry having led SaaS companies for over 15 years in senior roles, including Compu Technologies where he was the CEO and was responsible for overseeing the transition of the Company's primary business from a digital agency to an eLearning content provider.

Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Member of the Audit and Risk Committee
 Interests in shares: 11,989,816 fully paid ordinary shares
 Interests in options: None
 Contractual rights to shares: None

Name: Trevor Lonstein (resigned 4 February 2019)
 Title: Former Chief Financial Officer and Executive Director
 Qualifications: Bachelor of Commerce (B.Com) in Accounting and Finance from University of Cape Town, South Africa and a Fellow of the Institute of Chartered Accountants in England and Wales.

Experience and expertise: Trevor was responsible for all aspects of the accounting and finance function, from ensuring efficient, controlled and timely recording and reporting systems, to budgeting, forecasting, and cash flow analysis.

Prior to joining ELMO, Trevor owned and operated Adrite Digital Colour Printing and held senior roles as Senior IT Project Manager at Allens Arthur Robinson, Ships Financial Controller at Orient Cruise Lines – MV Marco Polo and a career of over eight years in auditing with Deloitte Touche Tohmatsu's member firms in England and Australia.

Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Member of the Nomination and Remuneration Committee (until resignation on 4 February 2019).
 Interests in shares: 420,695 fully paid ordinary shares
 Interests in options: 31,373 options
 Contractual rights to shares: None

ELMO Software Limited
Directors' report
30 June 2019

Name:	Catherine (Kate) Hill
Title:	Independent Non-Executive Director, Chair of the Audit and Risk Committee
Qualifications:	Bachelor of Science – Honours, Mathematics and Statistics from the University of Bristol, England, a member of the Institute of Chartered Accountants in Australia and New Zealand, and a graduate of the Australian Institute of Company Directors.
Experience and expertise:	<p>Kate has over 20 years' experience as a former audit partner with Deloitte Touche Tohmatsu, advising privately owned and small cap ASX listed clients. She has worked extensively in regulated environments including assisting with Initial Public Offerings, capital raising and general compliance, as well as operating in an audit environment.</p> <p>She also held several leadership positions within Deloitte Australia and built an audit practice serving private clients in the Western Sydney office. She served on the Deloitte Australia board of partners for 2 years.</p>
Other current directorships:	Non-Executive Director of Countplus Limited (CUP.ASX), Chair of their Audit and Risk Committee and a member of the Acquisitions Committee. Non-Executive Chair of Seeing Machines Limited (AIM: SEE).
Former directorships (last 3 years):	None
Special responsibilities:	Interim Chair of the Board from 19 September 2018 until 10 October 2018. Chair of the Audit and Risk Committee and Member of the Nomination and Remuneration Committee
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None

Name:	Leah Graeve (appointed 12 June 2019)
Title:	Independent Non-Executive Director, Chair of the Nomination and Remuneration Committee
Qualifications:	Bachelor of Arts and Law from Monash University and a graduate of the Australian Institute of Company Directors
Experience and expertise:	Leah is a senior executive at Qantas Airways Limited, where she is Head of Procurement – IT and Digital and is also a Board Member of Rare Cancers Australia (not-for-profit). Leah has over 16 years as a successful commercial and contracts negotiator in a range of organisations and industries. She has held roles as a senior manager at Jetstar Airways, Legal Counsel at Engonet, IT Commercial Manager at BHP Limited and was a former Policy Advisor to the Animal Law Institute, a not-for-profit community legal centre.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Nomination and Remuneration Committee effective from her appointment on 12 June 2019 and member of the Audit and Risk Committee
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None

Chief Financial Officer

On 4 February 2019 James Haslam was appointed as Chief Financial Officer. James is a Chartered Accountant and fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). James has over 18 years in accounting and finance including 15 years professional services for KPMG and Deloitte, following which he founded and operated Financial Agility Consulting, specialising in financial analysis, due diligence, accounting, mergers and acquisitions, and capital markets advice, primarily, in recent years, based in the technology sector.

Company Secretary

Anna Sandham has held the role of Company Secretary since 1 May 2017. Anna is an experienced company secretary and governance professional with over 20 years' experience in various large and small, public and private, listed and unlisted companies. Anna has previously worked for companies including AMP Financial Services, Westpac Banking Corporation, BT Financial Group and NRMA Limited. Anna holds a Bachelor of Economics (University of Sydney) and a Graduate Diploma of Applied Corporate Governance (Governance Institute of Australia) and is a Chartered Secretary and a Fellow of the Governance Institute of Australia.

On 4 February 2019 James Haslam, Chief Financial Officer, was appointed as Joint Company Secretary.

Meetings of directors

The number of directors' meetings (including meetings of the committees of directors) and number of meetings attended by each of the Directors of the company during the year ended 30 June 2019 were:

	Board meeting		Audit and Risk Committee		Nomination and Remuneration Committee	
	A	B	A	B	A	B
Barry Lewin	9	9	2	2	2	2
Jim McKerlie	2	2	1	1	2	2
Danny Lessem	14	14	3	3	-	-
Trevor Lonstein	9	8	-	-	2	2
Kate Hill	14	14	3	3	4	4
Leah Graeve	1	1	-	-	1	1

A – Number of meetings held when director was eligible to attend during the year

B – Number of meetings attended during the time the director held office during the year

Directors' interests

The relevant interest of each director in the shares and options over such instruments issued by the Group, as notified by the directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001* at the date of this report is as follows:

Directors	Fully paid ordinary shares	Share options
	Number	Number
Danny Lessem	11,989,816	-
Barry Lewin	10,000	-
Kate Hill	-	-
Leah Graeve	-	-

ELMO Software Limited
Directors' report
30 June 2019

Options granted to the key management personnel of the company, being senior management or directors

Director or 'senior management'	Number of options granted	Issuing entity
Danny Lessem	-	ELMO Software Limited
Gordon Starkey	198,612	ELMO Software Limited
Xin Sun	180,557	ELMO Software Limited
Darryl Garber	130,627	ELMO Software Limited
Monica Watt	112,163	ELMO Software Limited
James Haslam	24,614	ELMO Software Limited

Shares under option

Issuing entity	Share option plan	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
ELMO Software Limited	SEEP	398,712	Ordinary shares	\$2.51	17 October 2027
ELMO Software Limited	SEEP	31,373	Ordinary shares	\$2.51	7 December 2027
ELMO Software Limited	SEEP	223,247	Ordinary shares	\$5.50	29 October 2028
ELMO Software Limited	SEEP	24,614	Ordinary shares	\$5.50	27 March 2029
ELMO Software Limited	HPEP	202,902	Ordinary shares	\$2.51	17 October 2027
ELMO Software Limited	HPEP	8,735	Ordinary shares	\$2.51	11 December 2027
ELMO Software Limited	HPEP	22,260	Ordinary shares	\$5.08	9 March 2028
ELMO Software Limited	HPEP	8,820	Ordinary shares	\$5.08	12 June 2028
ELMO Software Limited	HPEP	455,354	Ordinary shares	\$5.50	5 November 2028
ELMO Software Limited	HPEP	7,885	Ordinary shares	\$5.50	25 February 2029

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 31 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 31 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of Deloitte Touche Tohmatsu

No officer of the company was an audit partner of Deloitte Touche Tohmatsu, being the auditors during the financial year, at a time when the audit firm undertook an audit of the company.

Rounding of amounts

The Group is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- Remuneration governance
- Key management personnel
- Human resource strategy and remuneration policy
- Remuneration payments and link between performance and reward
- Remuneration of key management personnel
- Share-option plan
- Key terms of employment contracts
- Key management personnel equity holdings

Remuneration governance

The Nomination and Remuneration Committee is responsible for reviewing the remuneration arrangements for its Directors and Executives and making recommendations to the Board. The Nomination and Remuneration Committee has two key functions:

- The purpose of the nomination function is to review and make recommendations to the Board with respect to identifying nominees for directorships and key executive appointments; considering the composition of the Board, ensuring that effective induction and education procedures exist for new Board appointees, key executives and senior management; ensuring that appropriate procedures exist to assess and review the performance of the Chairman, Non-executive Directors and senior executives. The responsibility for the Company's remuneration policy rests with the full Board notwithstanding the establishment of the Committee.
- The purpose of the remuneration function is to provide advice, recommendations and assistance to the Board in relation to the Company's remuneration policies and remuneration packages of senior executives, Executive Directors and Non-executive Directors.

Further information regarding the Committee's responsibilities is set out in the Nomination and Remuneration Committee Charter available at <http://investors.elmosoftware.com.au/Investors/?page=Corporate-Governance>.

Remuneration report (audited)
Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including all directors (non-executive and executive) of the consolidated entity.

The directors and other key management personnel (KMP) of the consolidated entity during or since the end of the financial year were:

Position	Effective date
Non-Executive Directors	
Barry Lewin	KMP from appointment on 10 October 2018
James (Jim) McKerlie	KMP until resignation on 19 September 2018
Catherine (Kate) Hill	KMP for the entire financial year
Leah Graeve (appointed 12 June 2019)	KMP from appointment on 12 June 2019
Executive Directors	
Danny Lessem	KMP for the entire financial year
Trevor Lonstein (resigned 4 February 2019)	KMP until resignation on 4 February 2019
Other Key Management Personnel	
James Haslam (appointed 4 February 2019)	Chief Financial Officer and joint Company Secretary
Gordon Starkey	Chief Operating Officer
Xin Sun	Chief Technology Officer
Darryl Garber	Chief Commercial Officer
Monica Watt	Chief Human Resources Officer

Human resource strategy and remuneration policy

The framework encourages executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to be based on market best practice for the delivery of reward. The Board of Directors (the Board) ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

Remuneration payments and link between performance and reward

ELMO's remuneration strategy is designed to assist ELMO to achieve its corporate objectives through appropriate fixed and performance-based remuneration as detailed below:

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework for the current year included:

- cash salary
- superannuation
- short-term incentive
- long-term incentive (share options)

Remuneration report (audited)

The combination of these comprises the executive's total remuneration as detailed under 'Key terms of employment contracts' below.

Fixed remuneration, consisting of base salary, fees and superannuation is reviewed annually by the Nomination and Remuneration Committee based on individual and business performance, the overall performance of the consolidated entity and comparable market remunerations.

Short term incentive plan (STI Plan)

ELMO has established a short term incentive plan under which employees may be provided with a cash bonus for achievement against key performance metrics.

Participation in the STI Plan is determined at the discretion of the Board. Key performance metrics will generally relate to conditions that are within the control of the employee, for example divisional profit targets, strategic measures or other such conditions as ELMO may decide as relevant to the specific executive role. Subject to the discretion of the Board, the STI Plan has been structured based on the overall remuneration structure adopted by ELMO such that 60% of an employee's total package consists of fixed pay and 40% as performance pay, with the performance pay component divided such that 60% is based on short term performance and 40% of long term performance (excluding the CEO where only the STI element will apply for the performance pay). The quantum of any reward is determined by the Board.

Amounts to be paid to employees under the STI Plan will typically be paid after the release of full financial year audited results, and in accordance with the annual review process.

Long-term incentive program (LTI Program)

ELMO has established both a Senior Executive Equity Plan (**SEEP**) and a High Performer Equity Plan (**HPEP**) as part of its LTI Program for the year ended 30 June 2019. During the year key management personnel received awards granted in accordance with the SEEP only.

The Senior Executive Equity Plan (SEEP)

Equity incentives under the SEEP may be granted to employees (or such other person that the Board determines is eligible to participate) in respect of FY18 and beyond. Offers will be made at the discretion of the Board. The terms of the incentives granted under this plan will be determined by the Board at grant and may therefore vary over time. ELMO will regularly assess the appropriateness of its incentive plans and may amend or replace, suspend or cease using the SEEP if considered appropriate by the Board.

The SEEP is intended to align the interests of the senior executives with Shareholders. Awards under the SEEP have been structured as an option to receive shares at a future date subject to the recipient paying the exercise price (**SEEP Option**).

Grants under the SEEP are made annually and are made to the senior executive team and such other executives as the Board may determine from time to time. Any grants are made subject to the ASX Listing Rules, to the extent applicable.

The following table details the fixed, variable, short and long term incentives in relation to executive remuneration and the link to the Group's performance.

Component	Performance measures	Strategic objective/Performance link
Fixed remuneration	<p>The position description of each Executive includes a set of individual performance measures which are reviewed and evaluated each financial year.</p> <p>Remuneration is set competitively in order to:</p> <ul style="list-style-type: none"> Recruit: Attract the best talent to ELMO to ensure sustainable growth Retain: Ensure talent is not lured away by well financed technology organisations or direct competitors. 	<p>Each Executive's individual performance measures are specifically designed to ensure alignment with the Group's strategic plans for the year.</p> <p>Fixed remuneration is based on:</p> <ul style="list-style-type: none"> Role and responsibility Capability and competencies Comparable market remunerations

Remuneration report (audited)

<p><i>Performance-based remuneration (STI's and LTI's)</i></p> <p>ELMO's performance pay consists of short and long-term incentives which are designed to:</p> <ul style="list-style-type: none"> • Motivate: to achieve financial and non-financial corporate objectives • Reward: create performance culture that recognises and rewards outstanding performance • Retain: through the Senior Executive Equity Plan (SEEP) and the subsequent tenure required for options to vest 		
<p>Short-term incentive plan (STI) being cash award</p>	<p>The personal Key Performance metrics of each Executive relate to conditions that are within the control of the employee which include but are not limited to divisional revenue and expense targets, strategic initiatives and such other conditions as the Group requires.</p> <p>STI's are cash-based payments</p> <ul style="list-style-type: none"> • Quantum of STI = % of performance relative to an individual's key performance metrics 	<p>Ensures each Executive is held accountable for the outcomes that are under their control. These outcomes are designed to support the overall Group objectives.</p> <p>STI's motivate individuals, create a high-performance culture and increase employee engagement.</p>
<p>Long-term incentive plan (LTI) under the (SEEP) being share options</p>	<p>Participants must be employed on vesting date for the options to vest.</p> <p>Performance will be tested at the end of each vesting period (years 1, 2, and 3) to determine the extent to which the Company has satisfied the Total Shareholder Return (TSR) performance condition.</p> <p>Vesting against this target will apply if the following is met:</p> <ul style="list-style-type: none"> • 100% of the Options will vest if the company ranks at or above the 75th percentile; • Straight line vesting will occur if the Company ranks between the 50th percentile and the 75th percentile; • 65% of the Options will vest if the Company ranks at the 50th percentile; • 0% of the Options will vest if the Company ranks below the 50th percentile. <p>Performance will be tested relative to a peer group comprising the constituent companies of the S&P/ASX 300 excluding mining and energy companies.</p> <p>The TSR of each company will be measured from the start of the performance period to the end of the performance period.</p>	<p>Ensures a direct link between the performance of the KMP and their departments with the creation of shareholder value.</p>

Remuneration report (audited)

For FY19 performance measures for the STI's were based on revenue and cost targets for each Executive with individual performance reviews conducted at the end of the year.

ELMO is committed to continually evolving the key performance indicators for Executives ensuring meaningful shareholder value aligned targets on which to be assessed.

Non-Executive Directors' remuneration

Each of the Non-Executive Directors has entered into appointment letters with ELMO, confirming the terms of their appointment and their roles and responsibilities.

Under the Constitution, the Board decides the total amount paid to each of the Non-executive Directors as remuneration for their services as a Director. However, under the ASX Listing Rules, the total amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting.

This amount has been fixed by the Company at \$750,000 per annum (inclusive of superannuation). Any change to that aggregated annual sum needs to be approved by the Shareholders. The aggregate sum does not include any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board.

Chair and independent Non-Executive Director, Barry Lewin's annual directors' fee was \$150,000 (inclusive of superannuation), effective from his appointment to the position on 10 October 2018.

Former Chair and independent Non-Executive Director, Jim McKerlie's annual director fee was \$150,000 (inclusive of superannuation) per annum plus an amount of \$75,000 for additional services provided to the company, prior to his resignation on 19 September 2018.

Kate Hill receives an annual fee of \$100,000 per annum (inclusive of superannuation) for her role as a Non-Executive director, Chair of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee.

Leah Graeve receives an annual fee of \$100,000 per annum (inclusive of superannuation) for her role as a Non-Executive director, Chair of the Nomination and Remuneration Committee and a member of the Audit and Risk Committee.

Directors may also be reimbursed for expenses properly incurred by the Directors in connection with the affairs of the Company including travel and other expenses in attending to the Company's affairs. The Directors' fees do not include a commission on, or a percentage of, profits or income.

If a Director renders or is called on to perform extra services or to make any special exertions in connection with the affairs of the Company, the Board may arrange for special remuneration to be paid to that Director, either in addition to or in substitution for that Director's remuneration set out above.

The Non-executive Directors do not receive performance-related compensation, and there are no contractual redundancy or retirement benefit schemes for Non-executive Directors, other than statutory superannuation contributions.

Remuneration report (audited)

Remuneration of key management personnel

The tables below detail remuneration of key management personnel based on the policies previously discussed for the years ended 30 June 2019 and 30 June 2018.

Year ended 30 June 2019

	Cash salary and fees	STI (ii)	Annual leave	Long service leave	Super annuation	Share Options (iii)	Total
	\$	\$	\$	\$	\$	\$	\$
Non-executive Directors:							
James McKerlie (Chairman) (i)	190,558	-	-	-	-	-	190,558
Barry Lewin (Chairman) (i)	109,231	-	-	-	-	-	109,231
Kate Hill	100,000	-	-	-	-	-	100,000
Leah Graeve (i)	5,000	-	-	-	-	-	5,000
Executive Directors:							
Danny Lessem	609,148	411,667	56,056	-	24,695	-	1,101,566
Trevor Lonstein (i)	202,269	-	26,857	-	15,577	3,120	247,823
Other Key Management Personnel:							
James Haslam (i)	130,141	60,000	10,606	-	9,705	28,266	238,718
Gordon Starkey	367,808	158,400	38,720	20,023	21,086	73,700	679,737
Xin Sun	328,500	144,000	16,999	15,137	25,038	67,000	596,674
Monica Watt	217,967	100,000	6,565	-	27,266	43,210	395,007
Darryl Garber	267,637	120,000	20,931	-	21,594	50,856	481,017
	2,528,259	994,067	176,734	35,160	144,961	266,152	4,145,333

Notes in relation to Directors' and Executive officers' remuneration table

(i) The following changes to key management personnel occurred during the financial year:

- On 10 October 2018, Barry Lewin was appointed as Non-Executive Director;
- On 19 September 2018 Jim McKerlie resigned as Non-Executive Director;
- On 12 June 2019 Leah Graeve was appointed as Non-Executive Director;
- On 4 February 2019 James Haslam was appointed; and
- On 4 February 2019 Trevor Lonstein resigned as Executive Director.

From and since those dates the individuals ceased and commenced as key management personnel. The remuneration for each has thereby been disclosed as appropriate until/from these dates.

(ii) The STI bonus is for performance during the retrospective financial year using the performance criteria set out on page 14 after performance reviews were completed and approved by the Nomination and Remuneration Committee. Short-term incentives were approved by the Board post year-end but accrued in the financial statements for the year ended 30 June 2019 and were therefore disclosed.

(iii) The value of the share options granted to key management personnel as part of their remuneration under the long-term incentive plan (LTI) is calculated at the grant date using a Monte Carlo simulation approach subject to the relative total shareholder returns performance conditions, and is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.

Remuneration report (audited)

Year ended 30 June 2018

	Cash salary and fees	Sales commission	STI (iv)	Bonus	Other benefits (v)	Super annuation	Share Options (vi)	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive								
Directors:								
James McKerlie (Chairman)	225,000	-	-	-	-	-	-	225,000
David Hancock (i)	83,710	-	-	-	-	7,953	-	91,663
Kate Hill (i)	6,300	-	-	-	-	-	-	6,300
Executive								
Directors:								
Danny Lessem	475,000	-	-	-	78,557	25,000	-	578,557
Trevor Lonstein	274,960	-	120,000	-	11,669	25,000	31,638	463,267
Other Key Management Personnel:								
Gordon Starkey (ii)	309,952	33,878	132,000	15,000	28,525	20,048	34,802	574,205
Xin Sun (iii)	274,960	-	120,000	-	29,116	25,000	31,638	480,714
Monica Watt	159,817	-	70,000	-	8,605	15,183	18,456	272,061
Darryl Garber	182,648	-	80,000	-	8,429	17,352	21,092	309,521
	1,992,347	33,878	522,000	15,000	164,901	135,536	137,626	3,001,288

Notes in relation to Directors' and Executive officers' remuneration table

- (i) On 8 June 2018, David Hancock resigned as Non-Executive Director and Kate Hill was appointed as Non-Executive Director on the same day. The remuneration for each has thereby been disclosed as appropriate until/from this date.
- (ii) Gordon Starkey, Chief Operating Officer who has an agreed benefits package including a sales commission of 2% received on new business and an additional \$15,000 for a target-related bonus in relation to FY17.
- (iii) Xin (Samuel) Sun received \$90,444 holiday payout included within other benefits due to an accumulation of accrued annual leave.
- (iv) Short-term incentives were approved by the Board post year-end but accrued in the financial statements for the year ended 30 June 2018 and were therefore disclosed.
- (v) Other benefits include annual leave, long service leave and holiday payout.
- (vi) The value of the share options granted to key management personnel as part of their remuneration is calculated at the grant date using a Monte Carlo simulation approach subject to the relative total shareholder returns performance conditions.

Remuneration report (audited)

Share option plan

Details on the options over ordinary shares in the Company that were granted as compensation to each key management personnel during the reporting period are as follows:

Option tranches	Vesting date	Fair value at grant date	Exercise price
Tranche 1	31 August 2019	\$1.18	\$5.50
Tranche 2	31 August 2020	\$1.50	\$5.50
Tranche 3	31 August 2021	\$1.76	\$5.50

The weighted average fair value for the three tranches is \$1.56.

Grant and expiry for all three tranches of options are as follows in relation to key management personnel:

Key management personnel	Grant date	Expiry date
Gordon Starkey	29 October 2018	29 October 2028
Xin Sun	29 October 2018	29 October 2028
Monica Watt	29 October 2018	29 October 2028
Darryl Garber	29 October 2018	29 October 2028
James Haslam	27 March 2019	27 March 2029

	Balance as at 1 July 2018 Number	Granted as compensation			Cancelled	Balance as at 30 June 2019 Number	Vested Number
		Tranche 1	Tranche 2	Tranche 3			
Executive Directors:							
Trevor Lonstein (i)	119,019	12,308	18,462	30,768	(149,184)	31,373	31,373
Other Key Management Personnel:							
James Haslam	-	4,923	7,384	12,307	-	24,614	-
Gordon Starkey	130,920	13,538	20,308	33,846	-	198,612	34,510
Xin Sun	119,019	12,308	18,462	30,768	-	180,557	31,373
Monica Watt	69,428	8,547	12,821	21,367	-	112,163	18,301
Darryl Garber	79,345	10,256	15,385	25,641	-	130,627	20,915

(i) Trevor Lonstein ceased employment on 4 February 2019 and as a result all unvested options were cancelled.

	Balance as at 1 July 2017 Number	Granted as compensation			Balance as at 30 June 2018 Number
		Tranche 1	Tranche 2	Tranche 3	
Executive Directors:					
Trevor Lonstein	Nil	31,373	36,364	51,282	119,019
Other Key Management Personnel:					
Gordon Starkey	Nil	34,510	40,000	56,410	130,920
Xin Sun	Nil	31,373	36,364	51,282	119,019
Monica Watt	Nil	18,301	21,212	29,915	69,428
Darryl Garber	Nil	20,915	24,242	34,188	79,345

Remuneration report (audited)

There were nil ordinary shares of ELMO Software Limited issued during the year ended 30 June 2019 to key management personnel and up to the date of this report resulting from the exercise of options.

Key terms of employment contracts for the year ended 30 June 2019

Name:	Danny Lessem
Title:	Executive Director and Chief Executive Officer
Details:	Base salary for the year ending 30 June 2019 of \$650,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party.
Name:	Trevor Lonstein
Title:	Executive Director and Chief Financial Officer (resigned as director on 4 February 2019)
Details:	Base salary for the year ending 30 June 2019 of \$360,000 including superannuation, pro-rated to 4 February 2019. Trevor was eligible to participate in the short and long term incentive programs for the year ending 30 June 2019, effective until his resignation on 4 February 2019.
Name:	James Haslam (appointed 4 February 2019)
Title:	Chief Financial Officer
Details:	Base salary for the year ending 30 June 2019 of \$360,000 including superannuation, pro-rated from 4 February 2019, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. James was eligible for short term and long term incentive benefit effective from his appointment on 4 February 2019.
Name:	Gordon Starkey
Title:	Chief Operating Officer
Details:	Base salary for the year ending 30 June 2019 of \$396,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Gordon was eligible for short term and long term incentive benefit.
Name:	Xin Sun
Title:	Chief Technology Officer
Details:	Base salary for the year ending 30 June 2019 of \$360,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Xin was eligible for short term and long term incentive benefit.
Name:	Monica Watt
Title:	General Manager: Human Resources
Details:	Base salary for the year ending 30 June 2019 of \$250,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Monica was eligible for short term and long term incentive benefit.
Name:	Darryl Garber
Title:	Chief Commercial Officer
Details:	Base salary for the year ending 30 June 2019 of \$300,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Darryl was eligible for short term and long term incentive benefit.

ELMO Software Limited
Directors' report
30 June 2019

Remuneration report (audited)
Key management personnel equity holdings

Year ended 30 June 2019

	Balance as at 1 July 2018	Purchased/ other changes during the year	Balance as at 30 June 2019
	Number	Number	Number
<i>Non-Executive Directors</i>			
Barry Lewin (i)	-	10,000	10,000
Jim McKerlie (ii)	50,000	(50,000)	-
Kate Hill	-	-	-
Leah Graeve	-	-	-
<i>Executive Directors</i>			
Danny Lessem	11,989,816	-	11,989,816
Trevor Lonstein (iii)	420,695	-	420,695
<i>Other Key Management Personnel</i>			
James Haslam (iv)	-	5,000	5,000
Gordon Starkey	510,945	(90,250)	420,695
Xin Sun	425,695	-	425,695
Monica Watt	1,250	-	1,250
Darryl Garber	460,945	(40,250)	420,695

(i) Barry Lewin was appointed as a Non-Executive Director on 10 October 2018.

(ii) Jim McKerlie resigned as Non-Executive Director on 19 September 2018. At the date of resignation Jim McKerlie held 50,000 shares.

(iii) Trevor Lonstein resigned as a director on 4 February 2019.

(iv) James Haslam was appointed on 4 February 2019.

Year ended 30 June 2018

	Balance as at 1 July 2017	Purchased/ other changes during the year	Balance as at 30 June 2018
	Number	Number	Number
<i>Non-Executive Directors</i>			
Jim McKerlie	50,000	-	50,000
David Hancock (i)	-	-	-
Kate Hill (ii)	-	-	-
<i>Executive Directors</i>			
Danny Lessem	11,989,816	-	11,989,816
Trevor Lonstein	420,695	-	420,695
<i>Other Key Management Personnel</i>			
Gordon Starkey	510,945	-	510,945
Xin Sun	425,695	-	425,695
Monica Watt	1,250	-	1,250
Darryl Garber	460,945	-	460,945

(i) David Hancock resigned as a Director on 8 June 2018.

(ii) Kate Hill was appointed as a Director on 8 June 2018.

This concludes the remuneration report (audited).

ELMO Software Limited
Directors' report
30 June 2019

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



Barry Lewin
Chairman



Danny Lessem
Director

15 August 2019
Sydney

15 August 2019

The Board of Directors
Elmo Software Limited
Level 27, 580 George Street
SYDNEY, NSW 2000

Dear Board Members

Elmo Software Limited

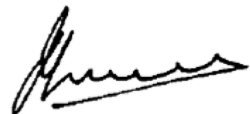
In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Elmo Software Limited.

As lead audit partner for the audit of the financial statements of Elmo Software Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner
Chartered Accountants

ELMO Software Limited

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30 June 2019

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General information

The financial statements cover ELMO Software Limited as a consolidated entity consisting of ELMO Software Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is ELMO Software Limited's functional and presentation currency.

ELMO Software Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Level 12
680 George Street
Sydney NSW 2000

Principal place of business

Level 27
580 George Street
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 15 August 2019. The directors have the power to amend and reissue the financial statements.

ELMO Software Limited
Consolidated Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
Revenue from contracts with customers	4	40,053	26,520
Cost of sales		<u>(5,388)</u>	<u>(2,245)</u>
Gross profit		34,665	24,275
Other income	5	35	127
Sales and marketing expenses		(17,786)	(8,699)
Research and development expenses		(3,247)	(806)
General and administrative expenses		(15,332)	(13,098)
Depreciation and amortisation expense		(9,437)	(4,250)
Impairment loss on trade receivables		(894)	(787)
Net gain on derecognition of financial assets measured at cost	16	98	-
Finance income	7	857	265
Finance costs	8	<u>(764)</u>	<u>-</u>
Loss before income tax expense from continuing operations		(11,805)	(2,973)
Income tax expense	9	<u>(1,375)</u>	<u>(15)</u>
Loss after income tax expense for the year		(13,180)	(2,988)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to the owners of ELMO Software Limited		<u><u>(13,180)</u></u>	<u><u>(2,988)</u></u>
Earnings per share			
From continuing operations		Cents	Cents
Basic earnings	37	(20.85)	(5.29)
Diluted earnings	37	(20.85)	(5.29)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

ELMO Software Limited
Consolidated Statement of financial position
As at 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
Assets			
Current assets			
Cash and cash equivalents	10	27,698	45,995
Trade and other receivables	11	9,540	6,460
Income tax refundable	12	-	7
Other current assets	13	533	1,099
Lease incentive receivable		-	4,164
Finance lease receivable	17	186	-
Total current assets		<u>37,957</u>	<u>57,725</u>
Non-current assets			
Property, plant and equipment	14	4,249	5,789
Intangible assets and capitalised costs	15	58,860	35,815
Right-of-use assets	16	8,173	-
Finance lease receivable	17	289	-
Total non-current assets		<u>71,571</u>	<u>41,604</u>
Total assets		<u>109,528</u>	<u>99,329</u>
Liabilities			
Current liabilities			
Trade and other payables	20	7,286	4,636
Deferred and contingent consideration	21	3,953	5,735
Lease liabilities	18	2,632	-
Employee benefits	22	1,939	1,010
Current tax liabilities	12	71	-
Contract liabilities	23	19,910	13,782
Lease payables and incentives		-	925
Total current liabilities		<u>35,791</u>	<u>26,088</u>
Non-current liabilities			
Deferred and contingent consideration	21	5,500	400
Lease liabilities	18	9,309	-
Employee benefits	25	172	128
Deferred tax	24	2,977	801
Contract liabilities	23	382	-
Lease payables and incentives		-	3,700
Total non-current liabilities		<u>18,340</u>	<u>5,029</u>
Total liabilities		<u>54,131</u>	<u>31,117</u>
Net assets		<u>55,397</u>	<u>68,212</u>
Equity			
Share capital	27	72,733	72,340
Reserves	27	836	158
Accumulated losses	28	(18,172)	(4,286)
Equity attributable to the owners of ELMO Software Limited		<u>55,397</u>	<u>68,212</u>
Total equity		<u>55,397</u>	<u>68,212</u>

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

ELMO Software Limited
Consolidated Statement of changes in equity
For the year ended 30 June 2019

Consolidated	Issued capital \$'000	Foreign currency translation reserves \$'000	Share option reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2017	25,110	(47)	-	(1,298)	23,765
Loss after income tax benefit for the year	-	-	-	(2,988)	(2,988)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,988)	(2,988)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares to the public via Institutional Placement & Share Purchase Plan (net of issue costs & tax)	45,080	-	-	-	45,080
Issue of shares under business combinations	2,150	-	-	-	2,150
<i>Reserves:</i>					
Translation movement during the year	-	-	-	-	-
Equity settled share-based payment	-	-	205	-	205
Balance at 30 June 2018	<u>72,340</u>	<u>(47)</u>	<u>205</u>	<u>(4,286)</u>	<u>68,212</u>

Consolidated	Issued capital \$'000	Foreign currency translation reserves \$'000	Share option reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2018	72,340	(47)	205	(4,286)	68,212
AASB 15 adjustment (net of tax): note 2	-	-	-	(736)	(736)
AASB 16 adjustment (net of tax): note 2	-	-	-	30	30
Restated total at the beginning of the financial year	72,340	(47)	205	(4,992)	67,506
Loss after income tax benefit for the year	-	-	-	(13,180)	(13,180)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(13,180)	(13,180)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares under business combinations – deferred consideration from prior year acquisitions (net of costs)	393	-	-	-	393
<i>Reserves:</i>					
Translation movement during the year	-	52	-	-	52
Equity settled share-based payment	-	-	626	-	626
Balance at 30 June 2019	<u>72,733</u>	<u>5</u>	<u>831</u>	<u>(18,172)</u>	<u>55,397</u>

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

ELMO Software Limited
Consolidated Statement of cash flows
For the year ended 30 June 2019

		Consolidated	
	Note	2019	2018
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		45,060	28,623
Payments to suppliers and employees (inclusive of GST)		(40,226)	(24,655)
		4,834	3,968
Interest received		833	265
Income taxes (paid)/refunded		(196)	150
Net cash from operating activities	36	5,471	4,383
Cash flows from investing activities			
Payments for property, plant and equipment		(1,001)	(5,628)
Payments for intangibles		(9,433)	(4,845)
Payments for transaction costs of acquisitions		(494)	
Payment for acquisitions of businesses and subsidiaries, net of cash acquired		(13,222)	(17,564)
Receipt for lease incentives		2,874	-
Net cash used in investing activities		(21,276)	(28,037)
Cash flows from financing activities			
Proceeds from issue of shares		-	46,023
Share issue transaction costs (net of tax)		(51)	(2,975)
Repayment of lease liabilities		(2,441)	-
Net cash from financing activities		(2,492)	43,048
Net increase in cash and cash equivalents		(18,297)	19,394
Cash and cash equivalents at the beginning of the financial year		45,995	26,601
Cash and cash equivalents at the end of the financial year	10	27,698	45,995

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

This is the first set of the Group's annual financial statements in which AASB 15 *Revenue*, AASB 9 *Financial Instruments*, have been applied and the Group has chosen to early adopt AASB 16 *Leases*. Application of new Australian accounting standards are described in note 2.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ELMO Software Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. ELMO Software Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Transactions eliminated upon consolidation

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired when the control is transferred to the group.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss, except if related to the issue of equity securities.

Note 1. Significant accounting policies (continued)

Principles of consolidation (continued)

Business combinations (continued)

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. Any goodwill that arises is tested annually for impairment. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is ELMO Software Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Revenue recognition

Revenue from contracts with customers

From 1 July 2018 the Group has applied AASB 15, *Revenue from contracts with customers*. Information regarding the Group's accounting policies in relation to contracts with customers and the effect of initially applying AASB 15 is provided in note 2(ii).

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 1. Significant accounting policies (continued)

Other income

Government grants

Government grants, including non-monetary grants at fair value, are only recognised when there is reasonable assurance that:

- (a) all conditions attaching to the Government grant will be complied with;
- (b) the value of the grant can be determined with reasonable certainty;
- (c) the grant will be received.

Government grants are recognised as revenue during the period, or periods in which the expenses for which the grants are intended to compensate are recognised.

If the Government grant cannot be determined with reasonable certainty, then the grant is recognised as revenue when it is received.

Finance income and finance costs

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- Foreign currency gain or loss on financial assets or financial liabilities;
- Gain on the remeasurement to fair value of any pre-existing interest in an acquired entity as part of a business combination; and
- Fair value loss on contingent consideration classified as a financial liability through a business combination.

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Interest revenue includes interest for the lease receivable in relation to the sub-lease held.

Interest expense includes interest in relation to lease liabilities and is calculated based on the default interest rate implicit in the lease contract.

Cost of sales

Cost of sales includes wages, salaries and other expenses of employees who carry out implementation, training and support of software for customers. Cost of sales also includes third party hosting costs.

Income tax

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable for the previous years. The amount of current tax payable or receivable is the best estimate of the tax expected to be paid or received. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Note 1. Significant accounting policies (continued)

Income tax (continued)

Deferred tax (continued)

Deferred tax assets are recognised for deductible temporary differences, unused tax credits and unused tax losses to the extent it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash at bank and term deposits over 90 days.

Trade and other receivables

Trade receivables are initially recognised at cost being their carrying value which is a reasonable approximation of their fair value. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

Upon the initial application of AASB 9 *Financial Instruments*, (note 2(i)), the Group recognises a loss allowance at an amount equal to lifetime expected credit losses (ECL) (see note 26 for further discussion).

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 1. Significant accounting policies (continued)

Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives and is recognised in profit or loss.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Leasehold improvements	3-8 years
Plant and equipment	3-7 years
Computer equipment	2-4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

(i) Recognition and measurement

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment.

The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Software development costs - Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

Capitalised sales commission costs

Commission costs are those amounts paid to business development employees as remuneration for securing new contracts based on a discretionary fixed percentage of revenue.

Note 1. Significant accounting policies (continued)

Intangible assets (continued)

(i) Recognition and measurement (continued)

Customer lists

Upon acquisition of a new business, customer lists which are acquired including active revenue contracts are amortised over management's best estimate of their useful life.

Trademark

The trademark is treated as having an indefinite useful life because it is expected to contribute to net cash flows indefinitely and thus the trademark is not amortised until its useful life is determined to be finite. It will be tested for impairment annually and whenever there is an indication that it may be impaired.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits of the specific asset to which it relates. All other expenditure including any expenditure for internally generated goodwill or brands is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of the intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill and trademarks are not amortised.

The estimated useful lives for current and comparative periods are as follows:

Software development costs	3 years
Capitalised sales commission costs	1-3 years
Customer lists	7-10 years

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or a group of CGUs that are expected to benefits from the synergies of the consolidation.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of the asset of CGU is the higher of the assets fair value less costs to sell and value in use.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of other assets in the CGU or on a pro-rata basis.

An impairment in respect of goodwill is not reversed. For other assets, an impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 1. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Short-term benefits are expensed as the relative service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, to the share option reserve, over the vesting period of the awards. The fair value of the share options has been determined as detailed in note 38.

Other long-term employee benefits

The Group's obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the high quality corporate bonds at the statement of financial position date, the maturity of which approximates to the terms of the Group's obligations.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of Elmo Software Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Note 1. Significant accounting policies (continued)

Earnings per share (continued)

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. In the case that the Group is in a loss position for the period no effect will be applied in relation to dilutive factors.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 July 2018. The Group has decided to early adopt AASB 16, *Leases*. The accounting policy and impact on transition is provided in note 2(iii).

From the remaining standards and interpretations issued but not yet effective, the Group has assessed that there will be no significant impact on the financial statements.

Note 2. Application of new Australian accounting standards

(i) AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. As a result of the adoption of AASB 9, where relevant the Group has adopted amendments to AASB 101 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of the profit or loss or other comprehensive income.

Impairment: New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. Impairment of trade receivables which would previously have been included in other expenses is now stated as 'impairment loss on trade receivables'. Any impairment losses on other financial assets are presented under 'finance costs' and not presented separately in the statement of profit or loss and other comprehensive income.

The Group has assessed the effect of this requirement upon the trade receivables being the only relevant asset grouping. It has been the policy of the Group to continually assess the collectability of all trade receivables including the assessment of credit risk at the outset of a sale and relevant past experience. There were no significant amendments required upon the adoption of AASB 9 for the Group or amendments to be disclosed.

Note 2. Changes to significant accounting policies

(ii) AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 *Revenue from Contracts with Customers*, from 1 July 2018. The Group has applied AASB 15 using the modified approach, with any cumulative effect being recognised in opening retained earnings.

AASB 15 establishes a framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. AASB introduces a 5-step approach to revenue recognition. Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying a particular performance obligation is transferred to the customer.

Accounting treatment under AASB 15

The group has two primary revenue streams:

- Software solution services; and
- Professional services

(i) Identification of distinct elements and separate performance obligations

Software solution services

In the case where the customer contract includes a license and additional integration services provided including implementation and training ("software solution services") the assessment has been performed as to whether a separate performance obligation exists for each element. These additional services provided with the licence are not distinct or separately identifiable and therefore the contract includes only one performance obligation under AASB 15.

Under the Group's previous revenue recognition policy, revenue from the sale of software licences when sold in conjunction with integration services (which includes but is not limited to installation, implementation and initial training) were generally treated as separate performance obligations with the associated revenue recognised on satisfaction of each separate performance obligation.

Professional services

These services can be provided at any point during the life of the licence contract and are therefore classified as a separate performance obligation. No impact of the transition to AASB 15 Revenue has been identified to the accounting policy for standalone professional services.

(ii) Revenue recognition under AASB 15

The Group now recognises revenue from the following major sources under AASB 15 as below:

Revenue Stream	Performance Obligation	Timing of Recognition
"Software solution services" - software licences, implementation and integration services	Access to software	Over the life of the contract as the customer simultaneously receives and consumes the benefits of accessing the software
Professional services	As defined in the contract but typically at completion of the service	Recognised over time, but because time delivered is minimal, point in time recognition has been applied.

Note 2. Changes to significant accounting policies (continued)

(ii) AASB 15 Revenue from Contracts with Customers (continued)

(iii) Impact of transition to AASB 15

An assessment has been performed and determined that during the three annual financial years to 30 June 2018, revenue of \$1,052,000 was recognised (under AASB 118) for the additional services provided to customers as part of a software solution services contract. Under AASB 15, these services are not considered to be a separately identifiable performance obligation.

Accordingly, this revenue cannot be recognised separately but instead should be recognised over the period for which services are being delivered. Consistent with the transition arrangements no adjustment has been made to the year ended 30 June 2018 comparative revenue balance but an adjustment has been made to the opening balances to the balance sheet to reduce retained earnings by \$736,400 (net of tax), with a corresponding increase to contract liabilities (deferred income). The amounts that have been deferred will be recognised over the remaining life of the contracts, typically over the next two to three years.

There are no other significant adjustments required in relation to the adoption of AASB 15 for the current financial year.

(iii) AASB 16 Leases

General impact of application of AASB 16 Leases

In the current year, the Group, for the first time, has applied AASB 16 *Leases* in advance of its effective date with the date of initial application of AASB 16 for the Group being 1 July 2018.

AASB 16 introduces new requirements with respect to lease accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases except for short-term leases, being those less than 12 months, and leases of low-value assets.

The Group has applied AASB 16 using the modified retrospective approach, with no restatement to the comparative information.

Impact of the definition of a new lease

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has applied this definition to all lease contracts currently held.

Impact on lessee accounting

Previously, under AASB 117 for the comparative period, all leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments under operating leases were recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117 including:

- Recognising right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- Recognising depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- Separating the total amount of cash paid separated into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Cash flow statement.

Lease incentives under AASB 16 are recognised as part of the measurement of the right-of-use assets and lease liabilities.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

Note 2. Changes to significant accounting policies (continued)

(iii) AASB 16 Leases (continued)

Impact on lessor accounting

Under AASB 16 the Group is required to assess the classification of the sub-lease commenced during the financial year with reference to the right-of-use asset, not the underlying asset. The Group concluded that the sub-lease is a finance lease under AASB 16. Upon commencement of the sub-lease the right-of-use asset held by the Group as the intermediate lessor is derecognised, recognising a lease receivable being the present value of sub-lease payments to be received with any gain or loss being recognised in the profit or loss.

Financial impact of initial application of AASB 16

On transition to AASB 16, at 1 July 2018, the Group recognised an additional \$10.3m of right-of-use assets and \$10.3m of lease liabilities.

When measuring lease liabilities, the Group discounted lease payments using the interest rate implicit in the lease contract, being 6%.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Revenue recognition

Judgement is required as to whether revenue is recognised over time or at a point in time.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

There is significant judgement involved including determining the fair value of consideration and critically valuing the intangible assets for each business combination. Several factors are taken into consideration in valuing intangibles including replacement cost for software and revenue growth assumptions and discount rates underlying the valuation of customer lists and software.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Impairment of goodwill

The consolidated entity assesses impairment of goodwill and other indefinite life intangible assets annually by performing a fair value less costs of disposal calculation, which incorporate a number of key estimates and assumptions. In determining the Elmo CGU's fair value significant judgement is used in considering the appropriate comparable companies, and consequently the appropriate revenue multiple to determine Elmo's fair value.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Estimation of useful lives of assets

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

Leases

For the purpose of measuring the right-of-use asset lease term, duration is estimated. This requires judgement and is based on an assessment as to whether an option to extend or terminate a lease will be exercised. The Group must also consider each contract held to assess whether a contract includes a lease under AASB 16.

Recovery of deferred tax assets

Deferred tax assets for tax losses and R&D tax credits are only recognised if the Group considers it is probable that future taxable amounts will be available to utilise those tax losses and R&D tax credits against.

Note 4. Revenue from contracts with customers

The effect of initially applying AASB 15 *Revenue from contracts with customers*, is described in note 2(ii). Due to the transition method adopted, comparative information has not been restated to reflect the new requirements.

Identification of reportable operating segments

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is disclosed in the statements and notes to the financial statements.

Geographical information

	Revenue from external customers		Geographical non-current assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Australia	37,124	25,423	58,313	35,593
New Zealand	2,929	892	13,258	6,011
Singapore	-	205	-	-
	<u>40,053</u>	<u>26,520</u>	<u>71,571</u>	<u>41,604</u>

The majority of the Group's revenue is generated from sales contracts with Australia, Singapore and New Zealand companies. The geographic split of this revenue across all companies is: a) Australia (87.70%, 2018: 89.70%); b) New Zealand (10.20%, 2018: 8.40%); c) Singapore (0.60%, 2018: 0.90%) and d) Other (1.50%, 2018: 1.0%)

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 4. Revenue from contracts with customers (continued)

Timing of revenue recognition

	Consolidated 2019 \$'000
Products and services transferred at a point in time	1,839
Products and services transferred over time	<u>38,214</u>
Total revenue	<u><u>40,053</u></u>

Note 5. Other income

	Consolidated 2019 \$'000	2018 \$'000
Government grants	-	93
Other income	<u>35</u>	<u>34</u>
	<u><u>35</u></u>	<u><u>127</u></u>

Note 6. Expenses

	Consolidated 2019 \$'000	2018 \$'000
<i>Employment expenses</i>		
Sales and marketing	13,076	5,369
Research and development	3,132	792
General and administrative	<u>7,187</u>	<u>6,560</u>
	<u><u>23,395</u></u>	<u><u>12,721</u></u>
<i>Included in general and administrative expenses</i>		
Consultancy and subcontractor expenses	1,189	1,651
Rental expenses	<u>1,056</u>	<u>1,514</u>

Note 7. Finance income

	Consolidated 2019 \$'000	2018 \$'000
Interest on lease receivable	24	-
Other interest income	<u>833</u>	<u>265</u>
	<u><u>857</u></u>	<u><u>265</u></u>

Note 8. Finance costs

	Consolidated	
	2019	2018
	\$'000	\$'000
Interest on lease liability	751	-
Foreign exchange loss	13	-
	<u>764</u>	<u>-</u>

Note 9. Income tax expense

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax expense	(358)	6
Deferred tax - origination and reversal of temporary differences	(1,017)	107
Adjustment recognised for prior periods	-	(128)
	<u>(1,375)</u>	<u>(15)</u>
Aggregate income tax expense		
Income tax expense is attributable to:		
Loss from continuing operations	<u>(1,375)</u>	<u>(15)</u>
Aggregate income tax expense	<u>(1,375)</u>	<u>(15)</u>
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 24)	<u>(1,017)</u>	107
Deferred tax - origination and reversal of temporary differences	<u>(1,017)</u>	107
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax expense from continuing operations	<u>(11,805)</u>	<u>(2,988)</u>
Loss before income tax expense	<u>(11,805)</u>	<u>(2,988)</u>
Tax at the statutory tax rate of 30%	3,541	896
Tax effect amounts which are not deductible in calculating taxable income:		
Effect of expenses that are not deductible in determining taxable profit	(209)	(381)
Effect of tax concession (Research and Development Tax Incentives)	-	(628)
Non-deductible R&D costs (R&D tax offset not booked)	(3,623)	-
Tax losses not recognised	(451)	-
Benefit of tax losses not previously recognised	9	-
Other	56	-
	<u>(677)</u>	<u>(113)</u>
Adjustment to opening deferred tax asset	(698)	-
Adjustment recognised for prior periods	<u>-</u>	<u>98</u>
Income tax expense	<u>(1,375)</u>	<u>(15)</u>
<i>Amounts credited directly to equity</i>		
Deferred tax liabilities (note 24)	<u>-</u>	<u>1,040</u>

Note 10. Cash and cash equivalents

	Consolidated	
	2019	2018
	\$'000	\$'000
Cash at bank	25,640	45,861
Term deposits	2,058	134
	<u>27,698</u>	<u>45,995</u>
Cash and cash equivalents	<u>27,698</u>	<u>45,995</u>

Note 11. Trade and other receivables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade receivables	11,015	7,326
Loss allowance	(1,475)	(902)
	<u>9,540</u>	<u>6,424</u>
Other receivables	-	36
	<u>9,540</u>	<u>6,460</u>

The consolidated entity has recognised a loss of \$894,268 (2018: \$786,971) in profit or loss in respect of impairment of receivables for the year ended 30 June 2019.

Information about the Group's exposure to credit and market risks, and impairment losses for trade receivables is included in note 26.

Note 12. Current tax

(i) Current tax asset: income tax refundable

	Consolidated	
	2019	2018
	\$'000	\$'000
Income tax refundable	-	7

The income tax refundable for the prior year comprises of tax refunds owing to the subsidiaries in the Group.

(ii) Current tax liabilities: income tax payable

	Consolidated	
	2019	2018
	\$'000	\$'000
Income tax payable	71	-

For the year ended 30 June 2019 as the Group revenue exceeded the \$20m threshold relating to research and development tax credits, there will be a non-refundable tax offset carried forward of \$3,622,740 available to the parent entity (2018: \$841,312).

The Group has decided not to book the non-refundable Research and Development tax offset carried forward as a deferred tax asset in this financial year until there is a reasonable certainty that sufficient future taxable income will be available (see note 24).

Note 13. Other current assets

	Consolidated	
	2019	2018
	\$'000	\$'000
Prepayments	473	1,096
Other debtors	60	3
	<u>533</u>	<u>1,099</u>

Note 14. Property, plant and equipment

	Consolidated	
	2019	2018
	\$'000	\$'000
Plant and equipment - at cost	608	518
Accumulated depreciation	(342)	(296)
	<u>266</u>	<u>222</u>
Computer equipment – at cost	1,288	855
Accumulated depreciation	(830)	(541)
	<u>458</u>	<u>314</u>
Leasehold improvements – at cost	4,311	5,253
Accumulated depreciation	(786)	-
	<u>3,525</u>	<u>5,253</u>
	<u>4,249</u>	<u>5,789</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and equipment \$'000	Computer equipment \$'000	Leasehold improvements \$'000	Total \$'000
Balance at 1 July 2017	153	170	183	506
Additions	97	197	5,257	5,551
Additions through business combinations	25	52	-	77
Disposals	(1)	-	(157)	(158)
Depreciation expense	(52)	(105)	(30)	(187)
Balance at 30 June 2018	<u>222</u>	<u>314</u>	<u>5,253</u>	<u>5,789</u>
Additions	165	421	415	1,001
Additions through business combinations	-	1	-	1
Disposals	-	(76)	(1,355)	(1,431)
Transfers	(48)	48	-	-
Depreciation expense	(73)	(254)	(786)	(1,113)
Effects of movements in exchange rates	-	4	(2)	2
Balance at 30 June 2019	<u>266</u>	<u>458</u>	<u>3,525</u>	<u>4,249</u>

Note 15. Intangibles assets and capitalised costs

	Consolidated	
	2019	2018
	\$'000	\$'000
Software development costs	24,712	13,606
Accumulated amortisation	(11,099)	(6,633)
	<u>13,613</u>	<u>6,973</u>
Capitalised sales commission costs	3,490	2,338
Accumulated amortisation	(2,089)	(1,588)
	<u>1,401</u>	<u>750</u>
Customer lists (acquired through business combinations)	8,816	6,995
Accumulated amortisation	(1,600)	(525)
	<u>7,216</u>	<u>6,470</u>
Goodwill (acquired through business combinations)	36,051	21,380
Trademarks (acquired through business combinations)	579	242
	<u>58,860</u>	<u>35,815</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Software development costs \$'000	Capitalised Commission costs \$'000	Customer list \$'000	Goodwill \$'000	Trademarks \$'000	Total \$'000
Consolidated						
Balance at 1 July 2017	2,772	762	366	2,071	-	5,971
Additions	4,200	645	-	-	-	4,845
Additions through business combinations (note 21)	3,113	-	6,585	19,309	242	29,249
Amortisation expense	(3,112)	(657)	(481)	-	-	(4,250)
Balance at 30 June 2018	<u>6,973</u>	<u>750</u>	<u>6,470</u>	<u>21,380</u>	<u>242</u>	<u>35,815</u>
Additions	8,283	1,148	-	2	-	9,433
Additions through business combinations (note 21)	2,759	-	1,821	14,669	337	19,586
Amortisation expense	(4,466)	(501)	(1,075)	-	-	(6,042)
Effects of movements in exchange rates	64	4	-	-	-	68
Balance at 30 June 2019	<u>13,613</u>	<u>1,401</u>	<u>7,216</u>	<u>36,051</u>	<u>579</u>	<u>58,860</u>

Goodwill arose during the current financial year through the acquisition of HROnboard and BoxSuite (2018: Quintessential Marketing Consulting, Sky Payroll and Pivot Software); refer to Note 21 for further details.

An impairment loss, if any, is recognised for the amount by which the carrying amount exceeds its recoverable amount of the cash generating unit (classified as a single CGU by the Group under the current business model). The recoverable amount is determined on a Fair Value Less Cost of Disposal Basis and as at 30 June 2019 following impairment testing there are no indicators to suggest that an impairment would occur.

Note 16. Right of use assets

The Group holds leases for several properties with lease terms ranging from 3 to 5 years. AASB 16 *Leases* has been adopted with a modified retrospective transition approach so there are no right of use assets recognised for the comparative year ended 30 June 2018.

<i>Right-of-use assets: property</i>	Consolidated 2019 \$'000
As at 1 July 2018: cost recognised upon transition to AASB 16	11,492
Less: accumulated depreciation recognised upon transition to AASB 16	(1,156)
Net carrying amount as at 1 July 2018	<u>10,336</u>
Additions	627
Derecognition of right-of-use asset (i)	(505)
Depreciation	(2,285)
Net carrying amount as at 30 June 2019	<u>8,173</u>
<i>Amounts recognised in profit or loss in relation to leases</i>	
Interest expense	751
Expense relating to low value assets	19
Expense relating to variable lease payments not included in the measurement of the lease liability	449
<i>Cash flow from leases</i>	
Total cash outflow as a lessee	3,917
Income from sub-leasing of right-of-use asset	152

(i) During the financial year, a sub-lease was entered into derecognising the right-of-use asset in relation to the head lease and recognising a financial lease receivable (note 17) with a resulting gain to the profit or loss of \$98,332.

Note 17. Finance lease receivable

The Group holds a sub-lease which commenced during the current financial year in relation to a property recognised as a finance lease under AASB 16 *Leases*.

	Consolidated 2019 \$'000
Current finance lease receivable (recoverable within 12 months)	<u>186</u>
Non-current finance lease receivable (recoverable after 12 months)	<u>289</u>

Note 18. Lease liabilities

AASB 16 *Leases* has been adopted with a modified retrospective transition approach so there are no right of use liability disclosures for the comparative year ended 30 June 2018.

	Consolidated 2019 \$'000
Amounts due for settlement within less than 12 months (current liabilities)	2,632
Amounts due for settlement in more than 12 months (non-current liabilities)	9,309

	Consolidated 2019 \$'000
<i>Maturity analysis</i>	
Not later than 1 year	2,632
Later than 1 year but not later than 5 years	9,309
Later than 5 years	-
	<u>11,941</u>

The lease liabilities are interest bearing at a rate of 6% based on the interest rates implicit in the lease contract. There are options to extend included in several of the lease contracts held. However, these options are not expected to be exercised based on current business operations. There are no other future cash flows anticipated in relation to leases held which have not been disclosed in the financial statements. As at 30 June 2019, there are no other leases which have not commenced but a commitment has been made.

The Group does not face a significant liquidity risk in relation to its lease liabilities.

Note 19. Lease commitments

	Consolidated 2019 \$'000	2018 \$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	3,035
One to five years	-	11,027
	<u>-</u>	<u>14,062</u>

Operating lease commitments includes contracted amounts for offices and equipment under non-cancellable operating leases expiring within one to ten years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Following the early adoption of AASB 16 *Leases*, (see note 2), significant property leases previously reported as operating leases are now recognised as finance leases. The maturity analysis for lease liabilities as at 30 June 2019 is detailed in note 18.

Note 20. Trade and other payables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade payables & accruals	4,506	3,773
Other payables	2,780	838
Loans from a related party	-	25
	<u>7,286</u>	<u>4,636</u>

Note 21. Business combinations and acquisitions of business assets

During the year the Company acquired interests in HROnboard and BoxSuite (2018: Quinttessential Marketing Consulting (QMC), Sky Payroll and Pivot Software). Key information on the acquisitions is summarised in the table below:

	Acquired in the year ended 30 June 2018			Acquired in the year ended 30 June 2019	
	QMC	Sky Payroll	Pivot Software	HROnboard	BoxSuite
	\$'000	\$'000	\$'000	\$'000	\$'000
Net fixed assets	14	-	63	1	-
Cash	10	-	481	332	13
Customer list intangible asset	3,020	-	3,565	1,806	15
Software intangible asset	1,053	324	1,736	1,580	1,179
Trademark intangible asset	134	-	108	337	-
Other assets	599	-	697	498	9
Deferred revenue	(1,501)	-	(1,779)	(1,303)	-
Deferred tax liability	(946)	-	(1,102)	(1,117)	(358)
Loans repaid to previous shareholders	-	-	(3,551)	(948)	-
Other liabilities	(50)	-	(463)	(426)	(4)
Net identifiable (liabilities)/assets acquired	2,333	324	(245)	760	854
Goodwill on acquisition	9,718	1,476	8,115	14,123	546
Acquisition-date fair value of the total consideration transferred	<u>12,051</u>	<u>1,800</u>	<u>7,870</u>	<u>14,883</u>	<u>1,400</u>

During the financial year ended 30 June 2019 the following payments were made in relation to deferred consideration for business combinations in the prior year:

Acquired entity	Consideration settled in shares	Consideration settled in cash
	\$'000	\$'000
QMC	-	4,000
Sky Payroll	-	400
Pivot Software	393	931

As at 30 June 2019, consideration has been settled in final in relation to the prior year acquisitions in QMC and Pivot Software, with consideration for Sky Payroll to be finalised during the year ending 30 June 2020.

Note 21. Business combinations and acquisitions of business assets (continued)

HROnboard

On 31 January 2019 the Company completed the purchase of HROnboard Pty Limited ('HROnboard'), one of Australia's leading providers of cloud-based employee onboarding software for an estimated total consideration of \$10.0m with an initial amount of \$7.0m paid on completion and a deferred cash payment of \$3.0m. The vendor is eligible for an additional conditional cash payment (estimated to be \$5.5m) which will be subject to achieving a range of certain high growth performance targets.

Total consideration payable is subject to adjustments relating to cash, debt and working capital.

The onboarding process is an essential function of the employee's lifecycle within an organisation and the acquisition of HROnboard strategically strengthens ELMO's position as a leading provider of SaaS onboarding solutions in the Australian market.

Goodwill has arisen through this acquisition from synergies, the opportunities for cross-selling and ability to provide a broader product suite to offer to the market.

BoxSuite

On 31 January 2019 the Company completed the purchase of Get BoxSuite Pty Limited ('BoxSuite'), a SaaS, cloud-based specialist in workplace rostering and time and attendance for casual and shift-based employees, for a total consideration of \$1.4m with an initial amount of \$1.0m paid on completion and \$0.4m deferred based on agreed milestones.

BoxSuite's rostering module enables organisations to schedule shifts and monitor staff costs while its time and attendance modules enable organisations to efficiently record and manage employee hours, calculate appropriate remuneration rates, and seamlessly integrate with external payroll platforms.

The acquisition of BoxSuite is firmly in line with ELMO's growth strategy to supplement the Company's strong organic growth with complementary technology to offer customers an integrated product suite of HR and payroll solutions.

Results for each acquisition included in the consolidated statement of comprehensive income for the current and prior reporting period since the appropriate acquisition date for each transaction as stated above are as follows:

	Revenue	Loss after tax
Year ended 30 June 2019	\$'000	\$'000
HROnboard	1,004	(476)
BoxSuite	5	(565)
Year ended 30 June 2018		
QMC	2,161	(206)
Sky Payroll	61	(315)
Pivot Software	1,235	(263)

If the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period, the results for ELMO Software Limited, being the combined entity including a full year of results for HROnboard and BoxSuite (2018: QMC, Sky Payroll and Pivot Software) would have been:

	2019	2018
	\$'000	\$'000
Revenue	42,600	31,800
Loss before tax	(11,400)	(1,900)

The Group incurred costs of \$0.55m (2018: \$1.16m) in relation to all acquisitions made during the year. These costs have been included in business acquisition expenses.

ELMO Software Limited
Notes to the financial statements
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Note 22. Employee benefits: current liabilities

	Consolidated	
	2019	2018
	\$'000	\$'000
Employee benefits	1,939	1,010

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement.

Note 23. Contract liabilities

	Consolidated	
	2019	2018
	\$'000	\$'000
Contract liabilities		
Current	19,910	13,782
Non-current	382	-

Note 24. Deferred tax: non-current liabilities

Year ended 30 June 2019

	As at 1 July 2018	Prior year adjustments (Note 2)	Recognised in profit or loss (Note 9)	Acquired in business combinations (Note 21)	As at 30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000
Provision for doubtful debts	172	-	44	-	216
Prepayments	(2)	-	1	-	(1)
Property, plant and equipment	(1)	-	9	-	8
Intangibles	(1,514)	-	(888)	-	(2,402)
Right-of-use assets	-	(3,101)	(363)	-	(3,464)
Blackhole expenses	13	-	(6)	-	7
IPO costs	554	-	(185)	-	369
Transaction costs on share issue	476	-	(119)	-	357
<i>Acquired on business combination:</i>					
Customer list	(1,941)	-	216	(546)	(2,271)
Capitalised software development costs	59	-	76	(828)	(693)
Trademarks	(73)	-	-	(101)	(174)
Superannuation payables	84	-	100	-	184
Accruals	189	-	415	-	604
Provision for employee benefits	342	-	206	-	548
Contract liabilities	-	316	(164)	-	152
Lease liabilities	-	3,101	482	-	3,583
R&D tax incentive	841	-	(841)	-	-
Deferred tax assets/(deferred tax liabilities)	(801)	316	(1,017)	(1,475)	(2,977)

The Group has decided not to book the 2019 refundable Research and Development tax offset carried forward of \$3,622,740 as a deferred tax asset, until there is a reasonable certainty that sufficient future taxable income will be available. The Group has also reversed the 2018 non-refundable Research and Development tax offset carried forward of \$841,312 in the 2019 year.

Note 24. Deferred tax: non-current liabilities (continued)

The Group has decided not to book the deferred tax asset impact arising from the total tax losses carried forward of \$451,339, until there is a reasonable certainty that sufficient future taxable income will be available. ELMO is considering tax consolidation in FY20 and no tax losses for acquired subsidiaries have been recognised as the available fraction of tax losses has not been calculated.

Year ended 30 June 2018

	As at 1 July 2017	Recognised in profit or loss (Note 9)	Recognised in equity (Note 9)	Acquired in business combinations	As at 30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000
Provision for doubtful debts	135	37	-	-	172
Prepayments	-	(2)	-	-	(2)
Property, plant and equipment	34	(35)	-	-	(1)
Intangibles	(1,060)	(454)	-	-	(1,514)
Blackhole expenses	758	(745)	-	-	13
IPO costs	-	108	446	-	554
Transaction costs on share issue	-	(119)	595	-	476
<i>Acquired on business combination:</i>					
Customer list	(110)	144	-	(1,975)	(1,941)
Capitalised software development costs	-	59	-	-	59
Trademarks	-	-	-	(73)	(73)
Superannuation payables	71	13	-	-	84
Accruals	40	149	-	-	189
Employee benefits	231	111	-	-	342
Carried forward non-refundable R&D tax incentive	-	841	-	-	841
Deferred tax assets/(deferred tax liabilities)	99	107	1,040	(2,048)	(801)

Note 25. Employee benefits: non-current liabilities

	Consolidated	
	2019	2018
	\$'000	\$'000
Employee benefits	172	128

Note 26. Financial risk management

The Group has exposure to the following risks arising from financial assets and liabilities:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the Audit and Risk committee, which includes responsibility for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The role of the Audit and Risk Committee for the Group is to:

- Provide oversight of the integrity of internal financial reporting and the external financial statements;
- Review the effectiveness of the internal financial controls;
- Review the independence, objectivity and performance of the external auditors; and
- Provide guidance on risk management,

The Group maintains a comprehensive risk exposure matrix which is regularly reviewed, monitored and updated. As part of the risk management strategy the Group constantly evaluates risk and risk acceptance.

Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations; related to trade receivables and lease receivables for the Group.

The average credit period on sales of products and services is 30 days. No interest is charged on outstanding trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtors current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry and an assessment of both current and forecast conditions.

New customers are typically invoiced in advance of their contract commencing with annual renewals also being due for payment in advance of the renewal anniversary. Receivables held are monitored on an ongoing basis to minimise the Group's exposure. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables (see note 11) and lease receivables (note 17).

Note 26 Financial risk management (continued)

Expected credit loss rates and allowances for expected credit losses are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2019 %	2018 %	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Neither past due nor impaired	-	-	4,192	3,395	-	-
0 to 3 months overdue	14%	6%	5,392	2,366	731	144
3 to 6 months overdue	52%	48%	1,431	1,565	744	758
Total			11,015	7,326	1,475	902

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Opening balance	902	914
Additional/(reduction in) provisions recognised	573	(12)
Closing balance	1,475	902

Liquidity risk

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by cash or other financial asset. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation. This risk is managed through constant monitoring of cash resources and future obligations.

The Group currently does not hold debt and has a cash balance of \$27.7m at 30 June 2019. In the event that further resources are required the Group has the potential to raise additional funds through a capital raising and/or acquire debt.

Interest rate risk

As the Group does not currently hold debt, the only significant liabilities which are subject to interest rate risk are lease liabilities held. The interest charged on these liabilities is implicit in the lease and is fixed for all leases currently held and committed.

Note 26. Financial risk management (continued)

Market risk: Currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investment in foreign subsidiaries.

ELMO's financial statements are presented in Australian Dollars with only a small proportion of sales denominated in overseas currencies as denoted under note 3 *Revenue from rendering of services* and these transactions are conducted at spot rates as necessary in normal operations.

The Group's assets and liabilities at balance date denominated in foreign currencies is:

	New Zealand Dollar \$'000	Singapore Dollar \$'000
Assets		
Current	2,434	127
Non-current	4,442	-
Liabilities		
Current	(2,270)	-
Non-current	(3,432)	(620)

Movements in foreign exchange rates are unlikely to have a significant impact on the Group's financial performance.

Note 27. Equity - share capital and reserves

Ordinary shares issued and fully paid	Shares	\$'000
At 1 July 2017	54,171,584	25,110
Shares issued under business combinations	465,827	2,150
Shares issued under Institutional Placement	8,333,334	45,000
Shares issued under Share Purchase Plan	189,341	1,022
Less: Capitalised share placement costs (net of tax)	-	(942)
At 30 June 2018	63,160,086	72,340
At 1 July 2018	63,160,086	72,340
Shares issued under business combinations – deferred consideration from acquisition in the prior period	72,373	393
At 30 June 2019	63,232,459	72,733

Note 27. Equity - share capital and reserves (continued)

Ordinary shares

Issue of ordinary shares

No shares were issued in relation to business' acquired in the current year. However ordinary shares were issued as deferred consideration for prior year acquisitions as follows:

		Number	Issue price	\$'000
Year ended 30 June 2019				
30 July 2018	Pivot Software (3)	41,101	\$5.53	227
31 January 2019	Pivot Software (4)	31,272	\$5.31	166
		<hr/> 72,373		<hr/> 393
Year ended 30 June 2018				
1 February 2018	Sky Payroll	141,643	\$3.53	500
13 March 2018	Pivot Software (1)	290,429	\$5.05	1,467
30 April 2018	Pivot Software (2)	33,755	\$5.43	183
		<hr/> 465,827		<hr/> 2,150

See note 21 for further detail regarding acquisitions during the year.

Shares issued in the year ended 30 June 2018

On 28 March 2018, the Company issued 8,333,334 ordinary shares under an institutional placement at a price of \$5.40 per share.

Additionally, 189,341 shares were issued under the share purchase plan for eligible existing shareholders at a price of \$5.40. On 5 April 2018, the company offered existing ELMO shareholders the opportunity to acquire additional shares in ELMO at a fixed price of \$5.40 per share. Existing shareholders with registered addresses in Australia or New Zealand on 26 March 2018 being the record date will be entitled to subscribe for up to \$15,000 in new ELMO shares through the share purchase plan.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. For the current and prior periods, no dividends have been paid or proposed.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Note 27. Equity - share capital and reserves (continued)

Nature and purpose of reserves

Reserves

	Consolidated	
	2019	2018
	\$'000	\$'000
Foreign exchange translation reserve	5	(47)
Share options reserve	831	205
	<u>836</u>	<u>158</u>

(i) Foreign exchange translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(ii) Share options reserve

The share options reserve comprises the value of the share-based payment arrangements recognised in equity.

Note 28. Equity - accumulated losses

	Consolidated	
	2019	2018
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(4,286)	(1,298)
AASB 15 <i>Revenue from contracts with customers</i> , adjustment, net of tax (note 2)	(736)	-
AASB 16 <i>Leases</i> , adjustment, net of tax (note 2)	30	-
Loss after income tax benefit for the year	<u>(13,180)</u>	<u>(2,988)</u>
Accumulated losses at the end of the financial year	<u>(18,172)</u>	<u>(4,286)</u>

Note 29. Equity - dividends

There were no dividends paid or proposed for the year ended 30 June 2019 (2018: \$nil).

Note 30. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and key management personnel of the consolidated entity is set out below:

	Consolidated	
	2019	2018
	\$'000	\$'000
Short-term employee benefits	3,734	2,727
Post-employment benefits	145	136
Share-based payment	<u>266</u>	<u>138</u>
	<u>4,145</u>	<u>3,001</u>

Further details of the compensation made to directors and other key management personnel are included in the remuneration report within the Directors' report.

Note 31. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company, its network firms and unrelated firms:

	Consolidated	
	2019	2018
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit of the financial statements	239,000	103,000
<i>Other due diligence services - Deloitte Touche Tohmatsu</i>	110,000	330,000
	<u>349,000</u>	<u>433,000</u>

During the financial year the following fees are payable for services provided by Mann & Associates PAC as auditors and Hawksford as accountants for ELMO Talent Management Software Pte Limited:

<i>Audit services - unrelated firms</i>		
Audit of the financial statements for ELMO Talent Management Software Pte Limited	5,435	4,800
<i>Other services – unrelated firms</i>		
Accountancy fees for ELMO Talent Management Software Pte Limited	7,191	7,400
	<u>12,626</u>	<u>12,200</u>

Note 32. Related party transactions

Parent entity

ELMO Software Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

Loans to/from related parties

In the year ended 30 June 2019, a loan payable of \$24,564 with one of its shareholders was written off to the profit or loss and \$948,000 of loans were repaid to the former shareholders of HROnboard. In the prior year, the Company repaid \$3.551m loans to the former shareholders of Pivot.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2019	2018
	\$'000	\$'000
Loss after income tax benefit	(11,946)	(1,361)
Total comprehensive loss	(11,946)	(1,361)

Statement of financial position

	Parent	
	2019	2018
	\$'000	\$'000
Total current assets	33,634	61,417
Total assets	103,676	97,426
Total current liabilities	27,208	24,181
Total liabilities	44,887	26,968
Equity		
Issued capital	72,733	72,340
Reserves	822	205
Accumulated losses	(14,766)	(2,087)
Total equity	58,789	70,458

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
ELMO Accredited Pty Limited	Australia	100%	100%
ELMO Talent Management Software Pty Limited	Australia	100%	100%
International Colleges Pty Limited	Australia	100%	100%
Studywell College Pty Limited	Australia	100%	100%
Techni Works Pty Limited	Australia	100%	100%
Techniworks Action Learning Pty Limited	Australia	100%	100%
Quinntessential Marketing Consulting Pty Limited	Australia	100%	100%
ELMO Talent Management Software Pte Limited	Singapore	100%	100%
ELMO Software Limited	New Zealand	100%	100%
ELMO New Zealand Holdings Limited	New Zealand	100%	100%
Pivot Remesys Group Holdings Limited	New Zealand	100%	100%
Pivot Remesys IP Limited	New Zealand	100%	100%
Pivot Remesys Limited	New Zealand	100%	100%
Pivot Remesys Pty Limited	Australia	100%	100%
HROnboard Pty Limited	Australia	100%	-
Get BoxSuite Pty Limited	Australia	100%	-

Note 35. Events after the reporting period

There is no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 36. Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
	2019	2018
	\$'000	\$'000
Loss after income tax benefit for the year	(13,180)	(2,988)
Adjustments for:		
Amortisation and depreciation	9,437	4,438
Bad debt expense	894	787
Transaction costs	545	-
Loss on disposal of assets	-	158
Rental expenses	-	460
Share based payment	626	205
Adjustments to revenue arising from adoption of AASB 15	(546)	-
Other expenses	3	(354)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(4,029)	(3,415)
Increase in other assets	620	(727)
Decrease in lease incentive	1,290	-
Decrease in income tax refundable	(196)	396
Increase in deferred tax liabilities	853	(231)
Increase in trade and other payables	3,324	2,236
Increase in employee benefits	685	369
Increase in contract liabilities	4,779	3,049
Increase in lease payables	366	-
Net cash from operating activities	<u>5,471</u>	<u>4,383</u>

Note 37. Earnings per share

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Earnings per share for profit from continuing operations</i>		
Loss after income tax	<u>(13,180)</u>	<u>(2,988)</u>
	Cents	Cents
Basic earnings per share	(20.85)	(5.29)
Diluted earnings per share	(20.85)	(5.29)

The calculation of EPS has been based on the following loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

There are no adjustments in relation to the effects of all dilutive potential ordinary shares due to the current loss-making position of the Group for the current financial year.

Note 37. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	63,210,660	56,517,696
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>63,210,660</u></u>	<u><u>56,517,696</u></u>

Note 38. Share-based payment arrangement

Description of share-based payment arrangement

As at 30 June 2019 the Group had the following share-based payment arrangements in place.

Share options (equity-settled)

ELMO has established both a Senior Executive Plan (**SEEP**) and a High Performer Equity Plan (**HPEP**) as part of its long term incentive (LTI) Program.

Equity incentives under the SEEP or the HPEP may be granted to employees (or such other person that the Board determines is eligible to participate) in respect of FY18 and beyond. Offers will be made at the discretion of the Board. The terms of the incentives granted under these plans will be determined by the Board at grant and may therefore vary over time. ELMO will regularly assess the appropriateness of its incentive plans and may amend or replace, suspend or cease using either or both of the SEEP or HPEP if considered appropriate by the Board.

The Senior Executive Equity Plan (SEEP)

The SEEP is intended to align the interests of the senior executives with Shareholders. Awards under the SEEP will be structured as an option to receive Shares at a future date subject to the recipient paying the exercise price (**SEEP Option**). The rules of the SEEP will provide the Board with the flexibility to award restricted shares, performance rights and options, and to cash settle any award, at the discretion of the Board.

Grants under the SEEP are expected to be made annually and will be made to the senior executive team and such other executives as the Board may determine from time to time. Any grants will be made subject to the ASX Listing Rules, to the extent applicable.

The High Performer Equity Plan (HPEP)

The Plan is designed to link to performance, encourage retention, reward tenure and provide High Performers with participation in the Company.

Awards under the Plan will be structured as an option to receive shares on a certain date in the future subject to the participant paying the exercise price. The Plan rules will provide the Board the flexibility to award restricted shares, performance rights and options, and to cash settle any Award. Grants will be made to the High Performers and such other executives as the Board may determine.

Note 38. Share-based payment arrangement (Continued)

Grant date/employees entitled	No of options granted and outstanding as at 30 June 2018	Granted	Cancelled	No of options outstanding as at 30 June 2019	Vested
<i>Options granted to key management personnel under SEEP</i>					
17 October 2017	398,712	-	-	398,712	105,099
7 December 2017	119,019	-	(87,646)	31,373	31,373
29 October 2018	-	223,247	-	223,247	-
23 November 2018	-	61,538	(61,538)	-	-
27 March 2019	-	24,614	-	24,614	-
Total SEEP options	517,731	309,399	(149,184)	677,946	136,472
<i>Options granted to personnel under HPEP</i>					
17 October 2017	202,902	-	-	202,902	-
11 December 2017	8,735	-	-	8,735	-
9 March 2018	22,260	-	-	22,260	-
12 June 2018	8,820	-	-	8,820	-
5 November 2018	-	455,354	-	455,354	-
25 February 2019	-	7,885	-	7,885	-
Total HPEP options	242,717	463,239	-	705,956	-
Total options	760,448	772,638	(149,184)	1,383,902	136,472

There is a vesting condition relevant to all share options under the SEEP and HPEP that the participant must be employed at the vesting date. The conceptual life of the options/maximum term is 10 years.

As at 30 June 2019 none of the options have been exercised (2018: none vested or exercised).

An expense of \$626,000 (2018: \$205,000) in relation to the share options granted has been recognised in the statement of profit or loss with a corresponding increase to the share payment reserve in the year ended 30 June 2019 (2018: \$205,000).

Measurement of fair values

Share options (equity-settled)

The fair value of the employee share options under the SEEP has been measured using the Monte Carlo simulation approach subject to the total shareholder returns (TSR) performance criteria.

The fair value of the employee share options under the HPEP has been measured using the Binomial option pricing model. Non-market performance conditions attached to the arrangements were not taken into account in measuring fair value in accordance with accounting standards.

Note 38. Share-based payment arrangement (Continued)
Measurement of fair values (continued)

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

For the year ended 30 June 2019	Share options plans				
	SEEP			HPEP	
	Tranche 1	Tranche 2	Tranche 3	5 Nov 2018	25 Feb 2019
Fair value at grant date	\$1.18	\$1.50	\$1.76	\$1.64	\$1.64
Share price at grant date	\$5.50	\$5.50	\$5.50	\$5.50	\$5.50
Exercise price	\$5.50	\$5.50	\$5.50	\$5.50	\$5.50
Expected volatility (weighted-average)	37%	37%	37%	37%	37%
Expected life	2.7 years	3.7 years	4.7 years	3.5 years	3.5 years
Expected dividends	0%	0%	0%	0%	0%
Risk-free interest rate	2.05%	2.14%	2.25%	2.11%	2.11%

For the year ended 30 June 2018	Share option plans						
	SEEP			HPEP Grant date			
	Tranche 1	Tranche 2	Tranche 3	17 Oct 2017	11 Dec 2017	9 Mar 2018	12 Jun 2018
Fair value at grant date	\$0.51	\$0.66	\$0.78	\$0.79	\$0.79	\$1.44	\$1.44
Share price at grant date	\$2.50	\$2.50	\$2.50	\$2.50	\$3.60	\$5.80	\$5.50
Exercise price	\$2.51	\$2.51	\$2.51	\$2.51	\$2.51	\$5.08	\$5.08
Expected volatility (weighted-average)	40%	40%	40%	40%	40%	40%	40%
Expected life	2.7 years	3.7 years	4.7 years	2.7 years	2.7 years	2.7 years	2.7 years
Expected dividends	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	1.88%	2.02%	2.14%	1.88%	1.88%	1.88%	1.88%

Volatility is a measure of price variation of a financial instrument over the life of the award. Since ELMO is newly listed on the ASX, there is no sufficient market data to measure the historical volatility and there are no publicly traded options over the company's ordinary shares. Therefore this valuation has based the expected volatility on average annualised historical volatility of constituents in S&P/ASX 300 Software & Services Industry Index over the three year period to the valuation date.

ELMO's current policy is not to distribute dividends but rather reinvest in the growth of the company hence zero dividend yield is used in this valuation report.

ELMO Software Limited
Directors' declaration
30 June 2019

1. In the opinion of the directors of ELMO Software Limited (the 'Company'):
 - a) The consolidated financial statements and notes that are set on pages 25 to 63 and the Remuneration report on pages 12 to 21 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - b) 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. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2019.
3. The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Barry Lewin
Chairman



Danny Lessem
Director

15 August 2019
Sydney

Independent Auditor's Report to the Members of Elmo Software Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Elmo Software Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, 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 year then ended, and notes to the consolidated 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:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulation 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 *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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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 judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the scope of our audit responded to the Key Audit Matter
<p>Revenue Recognition – rendering of services (\$40.1m)</p> <p><i>Refer to the description of accounting principles and Note 4.</i></p> <p>For the year ended 30 June 2019, \$40.1 million was recognised by the Group from rendering of services.</p> <p>As the Group continues to expand, and its software offering evolves, there is a considerable risk associated with recognizing its services revenue.</p> <p>A significant level of judgment is required in ensuring the relevant revenue recognition criteria is met as per the relevant accounting standard. This judgment and manual nature could affect the timing and quantum of revenue recognized in each period.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of all the revenue streams and the appropriateness of the Group's principles in determining that the revenue recognized is in accordance with the criteria outlined in the relevant accounting standards; • Assessing the key controls in relation to the recognition and measurement of revenue; process for recording accounts receivable and assessing the provision for doubtful debts to identify and test relevant internal controls; • Testing on a sample basis, revenue transactions by assessing management's calculations against the relevant criteria and tracing to agreements with clients; • Testing journal entries posted to revenue accounts to identify any unusual items; • Testing on a sample basis the completeness of credit notes issued post year end; and • Reconciling the deferred revenue balance as at 30 June 2019 using the invoice amortisation schedule, noting any exceptions. <p>We also assessed the appropriateness of the disclosures in Note 4 to the financial statements.</p>
<p>Business combinations</p> <p><i>Refer to Note 21.</i></p> <p>During the financial year ended 30 June 2019, the Group acquired the following:</p> <ul style="list-style-type: none"> • On 31 January 2019, 100% of the voting rights of HROnboard, for a total consideration of \$15.5 million. • On 31 January 2019, 100% of the voting rights of Get BoxSuite, for a total consideration of \$1.4 million. 	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Understanding the sales and purchase agreement terms and conditions of the acquisition and evaluating management's application in accordance with the relevant accounting standard; • Evaluating the methodology and assumptions utilised to identify and determine the fair value of separately identified intangible assets;

Key Audit Matters	How the scope of our audit responded to the Key Audit Matter
<p>The accounting for a business combination can be complex and involves several significant judgments and estimates including:</p> <ul style="list-style-type: none"> • The determination of the fair value of the contingent consideration; • The determination of separately identifiable intangible assets; and • Measurement of the separately identifiable intangible assets including customer relationships, trademarks and Software. 	<ul style="list-style-type: none"> • Assessing whether there have been any significant changes to the underlying performance of the business acquired; • Assessing the useful economic life of software and customer list intangibles acquired; and • Confirming the estimation of the contingent consideration was in accordance with the sale and purchase agreement terms and conditions, and challenging the key assumptions such as revenue growth rates used in the forecasts. <p>We also assessed the appropriateness of the disclosures in Note 21 to the financial statements.</p>
<p>Goodwill impairment</p> <p><i>Refer Note 15</i></p> <p>The Group has \$36.1 million of Goodwill as at 30 June 2019.</p> <p>The Group performed an impairment assessment which requires significant judgements over the goodwill balance by:</p> <ul style="list-style-type: none"> • Determining the cash generating unit (CGU) and the amount of goodwill attributed from business combinations. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the budgeting process and approvals of the budget by the board; • Assessing the key controls over the impairment model process; • Evaluating the Group's categorization of CGUs and the allocation of goodwill to the carrying value of a CGU based on our understanding of the Group's business. This evaluation included performing an analysis of the Group's internal reporting; and • Engaging with our valuation specialists to assist with challenging the key assumptions adopted by management in their fair value less cost of disposal valuation approach including: <ul style="list-style-type: none"> • assessing the comparable companies identified; and • the appropriate revenue multiple determined as a consequence. <p>We also assessed the appropriateness of the disclosures in Note 15 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and ASX Additional Information, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the annual report (but does not include the financial report and our auditor's report thereon): Company Description, Chairman's message, CEO's overview and other Company information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Company Description, Chairman's message, CEO's overview and other Company information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

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 ability of the Group to continue as a going concern, disclosing, as applicable, matters related 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 has 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 judgement and maintain professional skepticism 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 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 with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 21 of the Directors' Report for the year ended 30 June 2019.

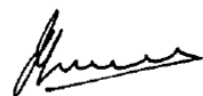
In our opinion, the Remuneration Report of Elmo Software Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner
Sydney, 15 August 2019