



ELMO Software Limited
ACN 102 455 087

ANNUAL REPORT 2018



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AGM Details

ELMO Software Limited (ELMO) advises that it will hold its 2018 Annual General Meeting on Thursday, 22 November 2018 at 2.00pm (Sydney time) at the ELMO office, Level 27, 580 George Street, Sydney.

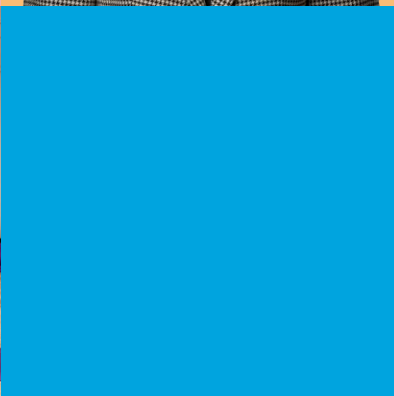
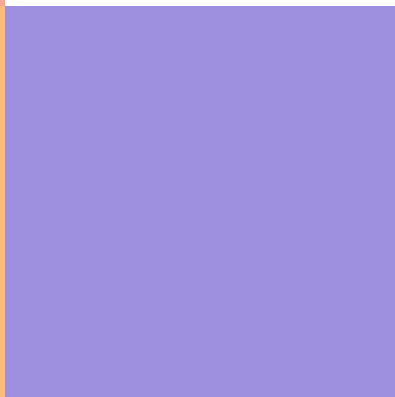
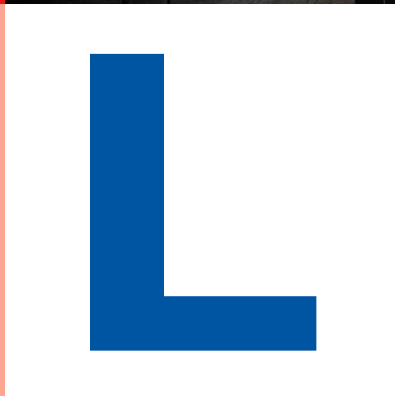
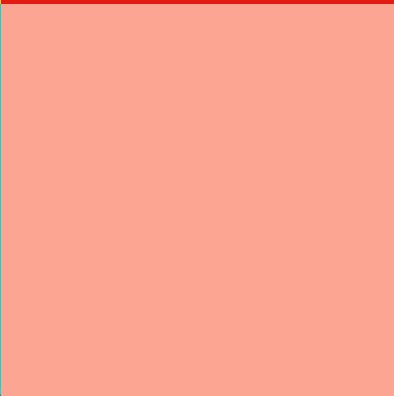
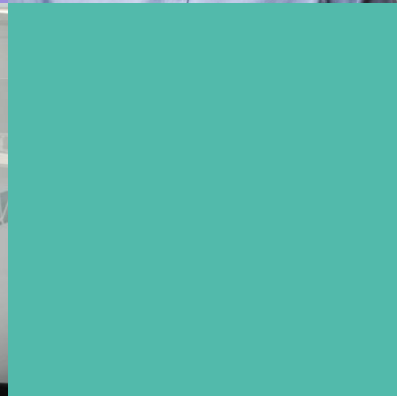
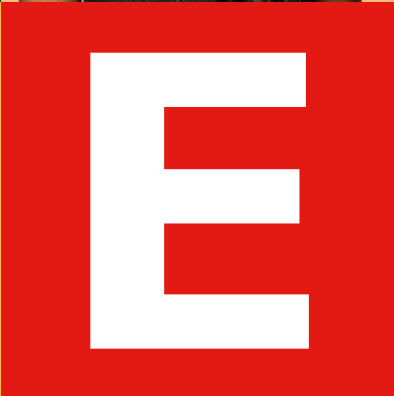
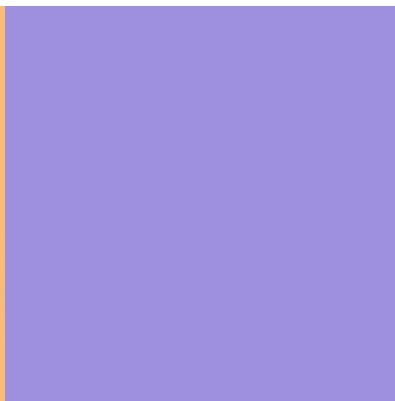
ELMO IS ONE OF
AUSTRALIA AND NEW
ZEALAND'S LEADING
INTEGRATED CLOUD
HR AND PAYROLL
SOLUTION, OFFERING:

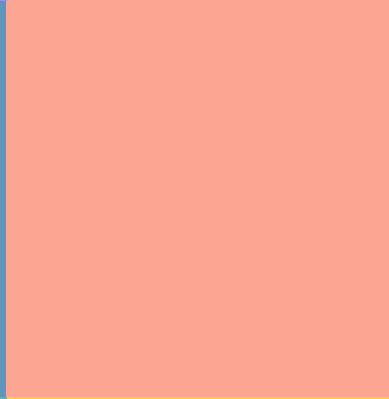
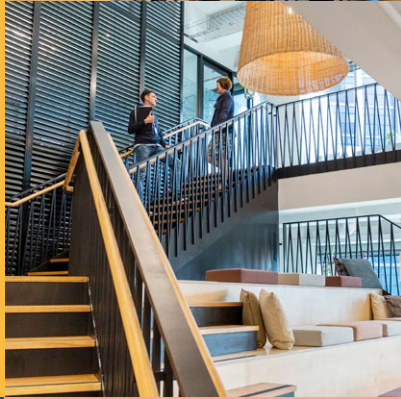
ONE VENDOR

ONE DASHBOARD

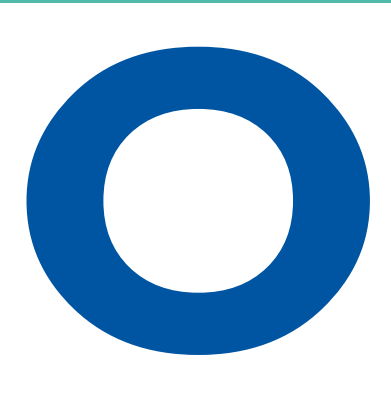
ONE USER-EXPERIENCE

Meet our team of ELMOnians





ONE
user-
experience



Co-founder and CEO message

Dear Shareholder,

We are pleased to report that ELMO Software Limited (ELMO) performed well during FY18.

We made good progress delivering on our growth strategy and we strengthened our position as the leading cloud, Software-as-a-Service (SaaS), HR and payroll solutions provider in Australia and New Zealand.

ELMO develops, sells and implements Human Resource (HR) & payroll software solutions that enable organisations to automate many of the Human Capital Management (HCM) processes and functions, efficiently managing the stages of an employee's life cycle from "hire to retire", including pay.

In FY18, we expanded our market leading product suite from 7 to 12 modules. We now provide a unified, intuitive, user-friendly, single dashboard solution for recruitment, onboarding, performance management, learning and development, pre-built courses, succession planning, remuneration, HR surveys and employee administration (HR core). Payroll was added in February 2018 with the acquisition of Sky Payroll, unlocking a new and complementary \$657 million market¹.

We also continue to deliver strong results financially, delivering on our upgraded guidance, with pro forma SaaS revenue of \$29.8 million for the year. The underlying ELMO business performed well with organic SaaS revenues growing in FY18 by 37% compared to FY17. Over 93% of our revenues are subscription-based

SaaS revenues³, which are recurring in nature. Our customer retention in dollar terms was 119% in FY18, highlighting the successful cross-selling of our enlarged suite of solutions into our sticky customer base. We have supplemented this growth with 3 selective acquisitions to broaden our offering with complementary technology and/or a high quality customer base, that enhance our cross-sell potential.

Other highlights include:

- Total pro forma revenue including acquisitions of \$31.9 million
- Annual cash receipts of \$28.2 million
- 145 product enhancements
- Successful completion of a \$45 million equity placement to accelerate growth
- Acquiring PeoplePulse, Live Salary, Sky Payroll and Pivot Software
- Receiving numerous accolades including Deloitte Fast 500, SmartCompany – Smart50, and the Anthill Cool Company award

With the continuation of strong sales momentum, our customer base increased by 97% to 1,031². The organic average SaaS revenue per customer increased to \$34,500. Customer retention³ remains consistently high at 92% and the module penetration per customer has steadily grown to 2.56³.

Importantly, we continue to lay the foundations for long term, sustainable growth. Our total addressable market opportunity is large and has grown substantially from ~\$600 million to

~\$1.7 billion per annum due to the larger view we now have of the market. With roughly 9% market share based on customer numbers, and only a 2.56 module penetration per customer and substantial cross-sell potential, we have significant scope for growth for many years to come. Encouragingly, the modules we recently acquired are also gaining traction with new customers and through our extended customer base.

Furthermore, we have increased visibility on the opportunities in the lower mid-market and upper mid-market tiers, the former covering organisations with less than 200 employees and the latter more than 1,000 employees. With this wider view of the market, and a larger suite of solutions, we are organising and allocating our resources purposefully to optimise our results in these markets.

2019 will be a year of investment in long term, sustainable growth. We expect to increase our capabilities, headcount, sales and marketing resources, and continue our commitment to develop technology and product leadership.

Our guidance for FY19 assumes strong revenue growth to \$39.5 million and an increase in investment with EBITDA expected to be \$1.1 million. We are confident these investments will generate strong, long term returns for shareholders as we take full advantage of the wider view we now have of the market.

Our FY18 SaaS revenue run rate reflects 88%⁴ of forecast FY19 SaaS revenue, and our investment is to ensure long-term sustainable growth in FY20 and beyond.

NEW PRODUCT OFFERINGS



Cloud Payroll, Rewards & Recognition, HR Surveys, Salary Benchmarking and Remuneration

TECHNOLOGY ENHANCEMENTS



145 product enhancements

ACQUISITIONS



PeoplePulse
LiveSalary Sky Payroll
Pivot Software

WORKFORCE



193 employees²

AWARDS



Deloitte Fast 500
2017 Smart50
2017 Anthill Cool
Company 2017

1. Frost & Sullivan independent market report

2. Includes PeoplePulse, LiveSalary, Sky Payroll and Pivot Software

3. Excludes PeoplePulse, LiveSalary, Sky Payroll and Pivot Software

4. June 2018 SaaS revenue annualised

In March 2018, successfully completed \$45m institutional placement to accelerate growth.

ELMO is fortunate to have a deeply experienced management team that continues to successfully execute our accelerated growth strategy and deliver on expectations.

We would also like to extend a warm welcome to Barry Lewin, who joined the ELMO board as non-executive director and independent Chair in October 2018. Barry is the current non-executive Chairman of ASX-listed Praemium Limited (ASX:PPS) and brings a wealth of relevant and complementary experience to ELMO.

We would also like to thank our customers for their much appreciated support and all our shareholders for their loyalty. We look forward to sharing further successes with you.

Yours Sincerely,

Danny Lessem
Co-founder and CEO

SaaS revenue¹

\$37.8m



Total revenue¹

\$39.5m



1. Includes PeoplePulse, LiveSalary, Sky Payroll and Pivot Software



Key success FY18

The **E** numbers ...

\$31.9m

FY18 pro forma total revenue¹
Up 2.2% on upgraded guidance

\$29.8m

FY18 pro forma SaaS revenue¹
Up 0.3% on upgraded guidance

\$5.7m

Pro forma EBITDA¹
Delivered on upgraded guidance

1,031

Customer base^{2,3}
Up 96.8% since 30 June 2017

2.56

Modules per customer^{3,4}
Up from 2.29 since 30 June 2017

92.0%

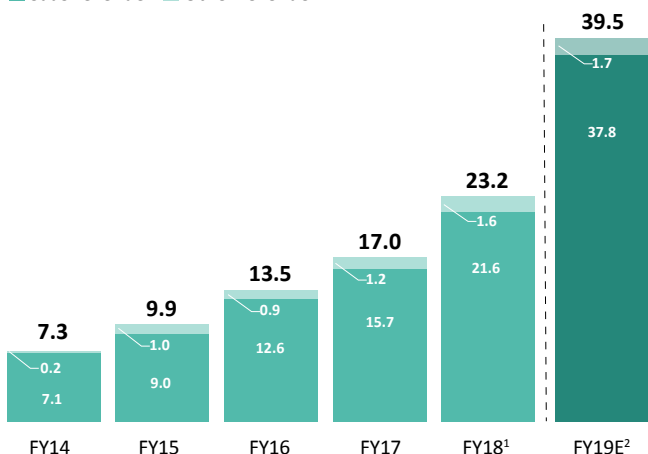
Customer retention rate^{4,5}
119% customer retention in dollar terms⁶

1. Includes PeoplePulse, LiveSalary, SkyPayroll and Pivot Software
2. Includes 405 customers from PeoplePulse, LiveSalary, SkyPayroll and Pivot Software
3. As at 30 June 2018
4. Excludes PeoplePulse, LiveSalary, SkyPayroll and Pivot Software
5. Customer retention is calculated by dividing the number of customers in the reference period who were customers at the end of the prior period by the number of customers at the end of the prior period
6. Customer retention in dollar terms measures the ratio of like for like revenue growth of customers who transacted in the current and the preceding year

Building on our track record

Pro forma historical and forecast revenue (\$m)

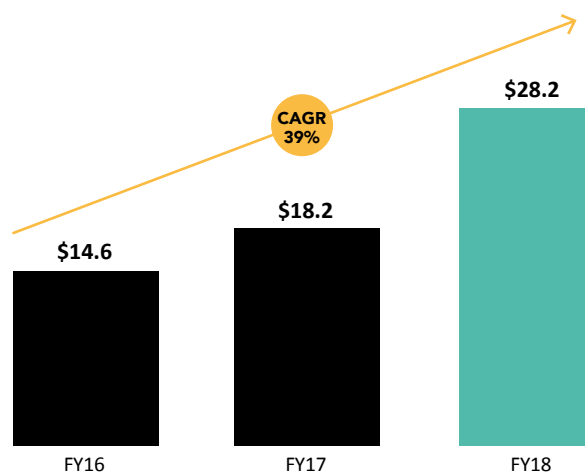
■ SaaS revenue ■ Other revenue



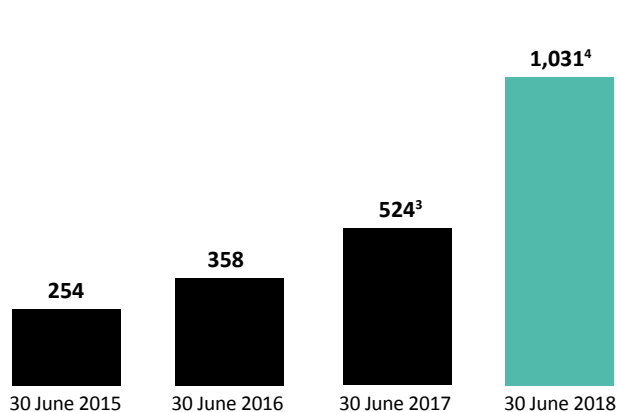
Recurring revenue				
97%	90%	93%	93%	93%

SaaS revenue growth				
	37%	50%	31%	37%

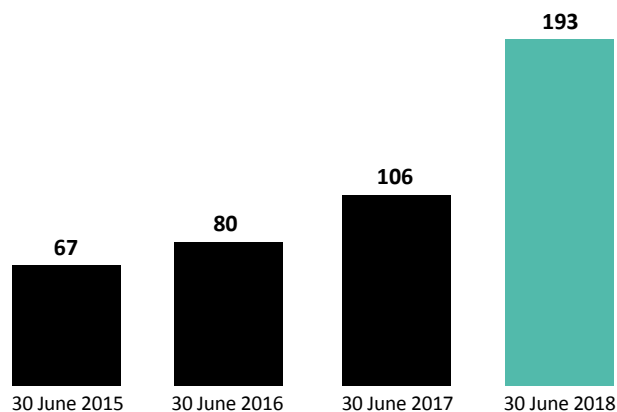
Annual customer receipts (\$m)



ELMO's customer base growth (including acquisitions)



ELMO's employee growth (including acquisitions)



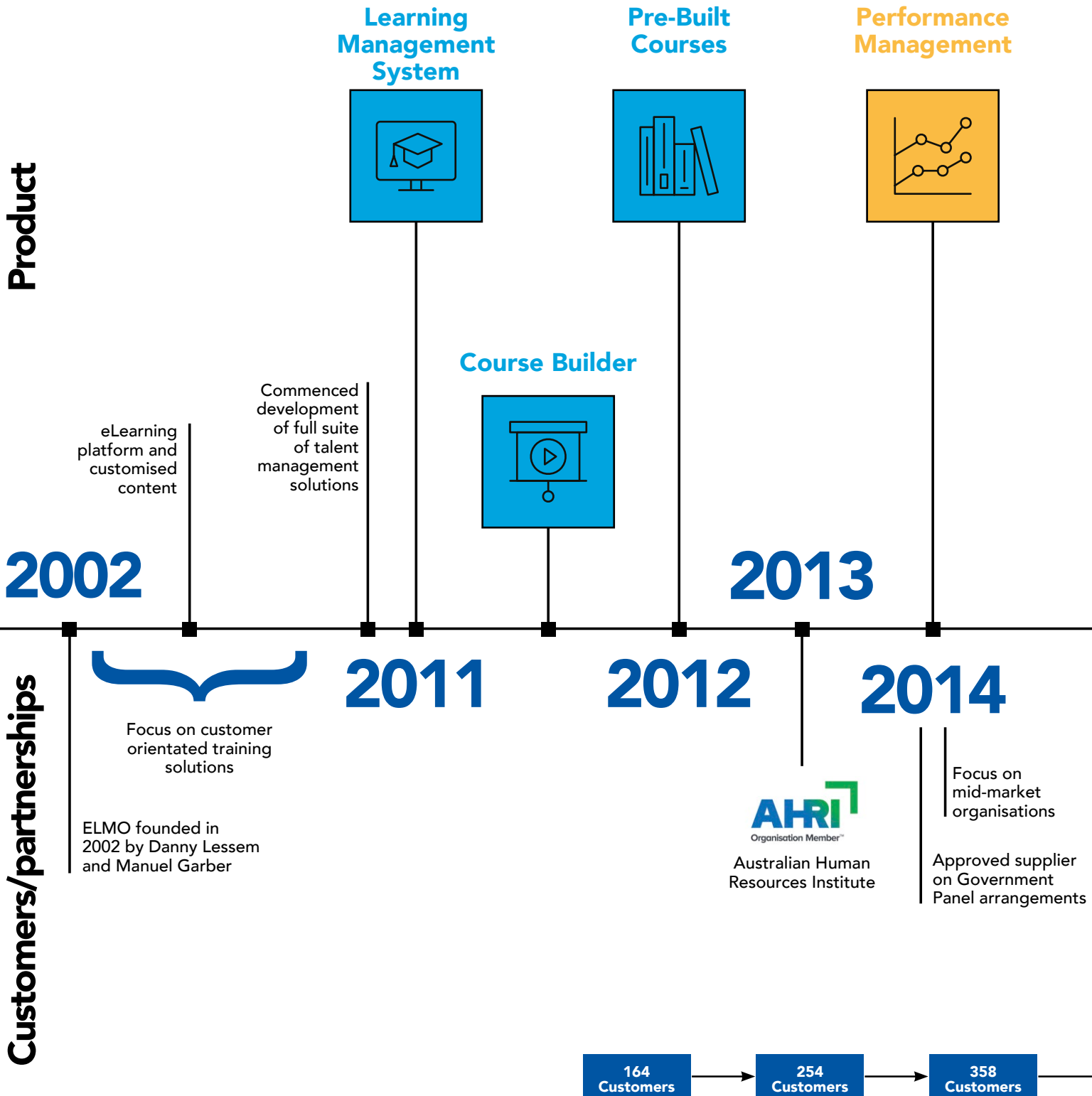
1. Excludes acquisitions

2. Includes acquisitions

3. Includes 82 customers from Techniworks

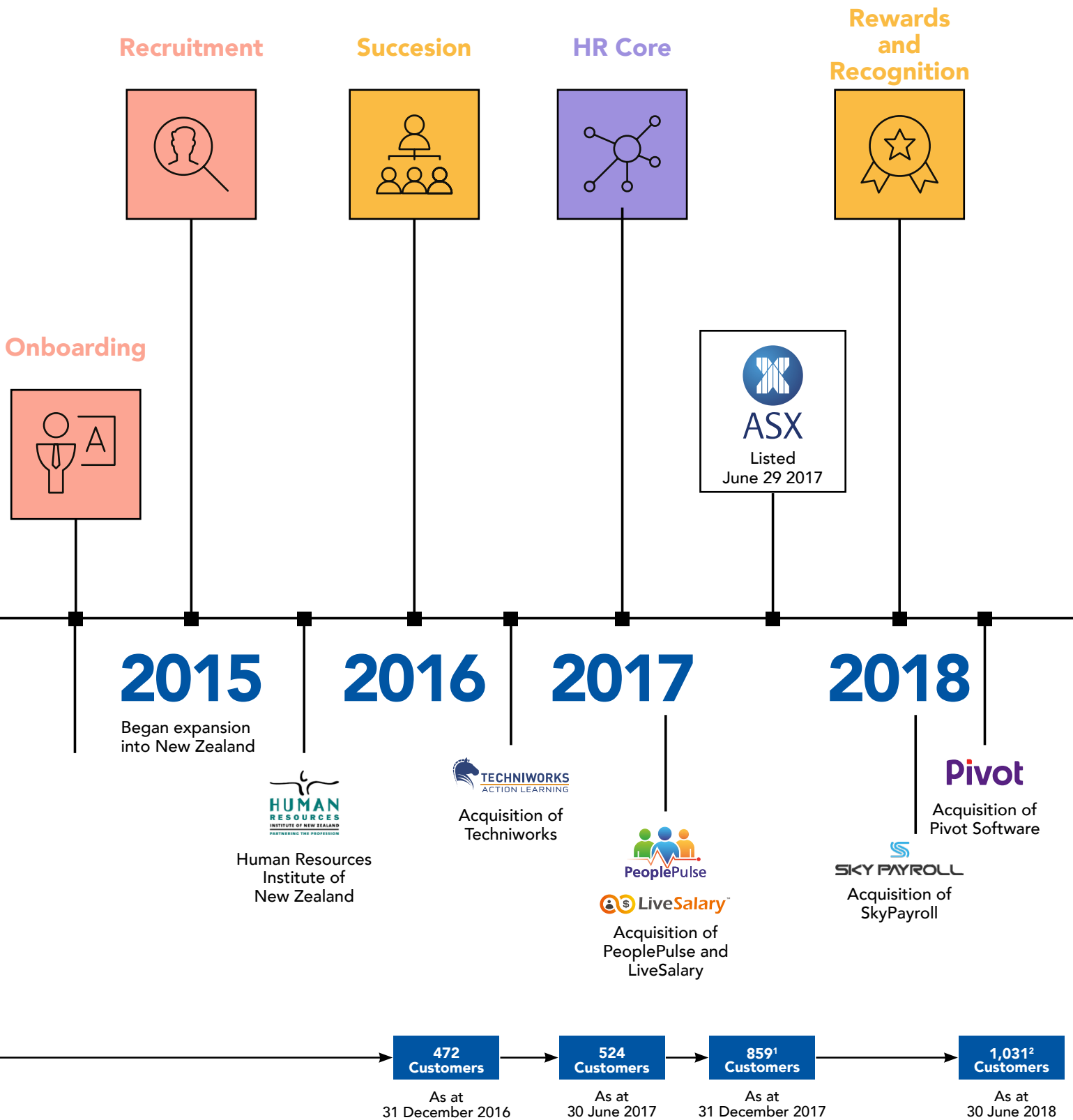
4. Includes 405 customers from PeoplePulse, LiveSalary, SkyPayroll and Pivot Software

Onward and upward ...



1. Includes 280 customers from PeoplePulse & LiveSalary

2. Includes 405 customers from PeoplePulse, LiveSalary, Sky Payroll and Pivot Software



UNLOCK THE POTENTIAL OF YOUR ORGANISATION.

Leading integrated cloud HR & payroll platform



Offer self-service functionality to managers and employees and provide real-time access to payroll and personal data from anywhere, anytime, on any device



Carry out core HR functions, including the ability to process and approve leave, timesheets and retrieve pay slips, and ensure HR initiatives are optimised with employee surveys



HIRE

Set your new hires up for success from the start by streamlining talent identification, recruitment and onboarding processes



RETAIN

Improve retention by capturing performance feedback to identify star performers, manage career development plans and align compensation accordingly



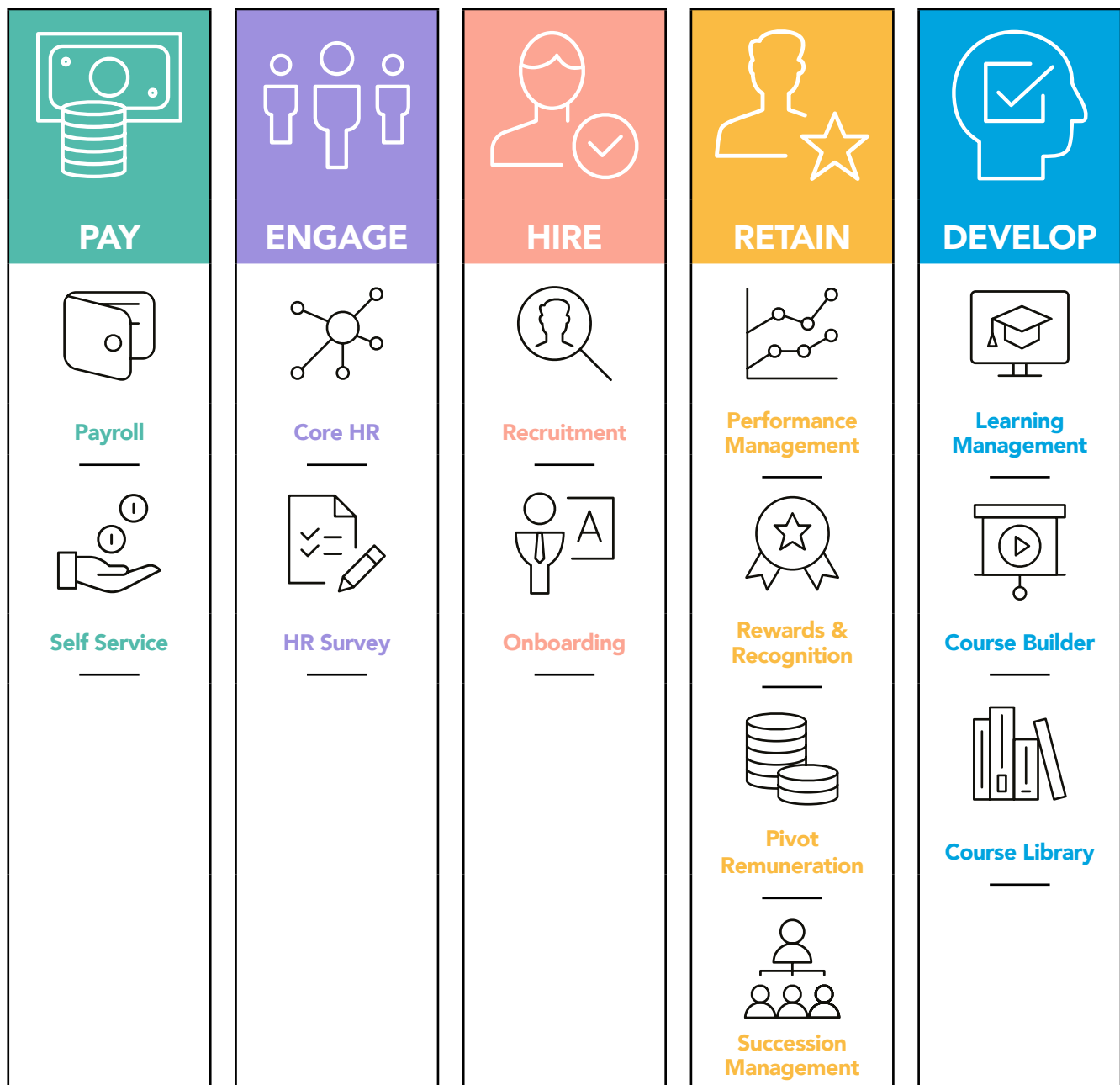
DEVELOP

Keep skills compliant and up-to-date with personalised learner plans, access to pre-built courses and the ability to customise learning content

The ELMO solution

ELMO provides a suite of cloud HR & payroll software solutions that aim to address and automate key HCM activities and pay processes. ELMO's software modules cover all stages of an employee's lifecycle, from 'hire to retire'. Our modules can be used together or stand alone and are configurable to an organisation's unique processes and workflow.

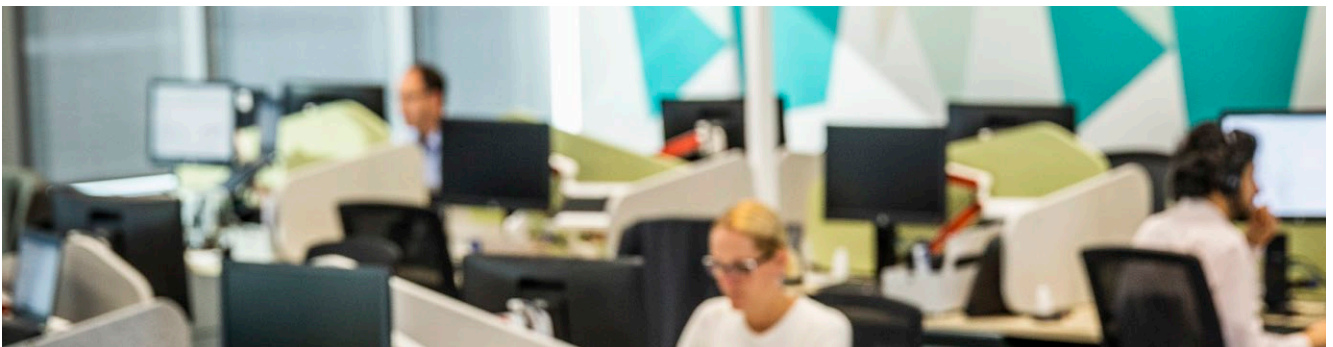
Leading integrated cloud HR and payroll solutions





Offer self-service functionality to managers and employees and provide real-time access to payroll and personal data from anywhere, anytime, on any device

PAY



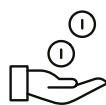
Payroll

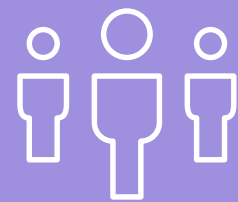
- Employee & manager self-service – Review leave balance and payment summaries, authorise leave requests, and eliminate paper-based timesheets
- Enhanced compliance – From creating bank files to Single Touch Payroll (STP) or SuperStream compliance, ELMO Payroll covers all compliance needs
- Tailored reporting – Generate audit, variance, payroll tax, compliance and other reports; export General Ledger journals; tap into historical and current payroll data to identify trends or anomalies



Self Service

- Employee Self-Service – Ease HR's administrative burden by empowering employees to obtain real-time leave balances, make leave requests, update KPIs, complete timesheets, and access payslips and payment summaries
- Real-time data – Empower managers to make informed decisions based on data and provide self-service functionality to track employee absentee rates and performance, and approve leave requests
- Streamline processes – Reduce cost, save time and go paper-free by digitising and automating admin tasks





Carry out core HR functions, including the ability to process and approve leave, timesheets and retrieve pay slips, and ensure HR initiatives are optimised with employee surveys

ENGAGE



Core HR

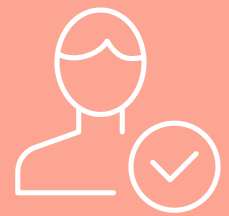
- Employee and manager self-service – Empower employees to access and update personal information, request leave and access pay slips; enable managers to access employee information and view team analytics
- Leave management – Streamline leave requisition and authorisation workflows; allow managers to plan and forecast leave entitlements; integrate leave data with payroll
- Organisation charts – Create an overview of organisational structure including roles and reporting lines, and provide tiered access to profile details



HR Survey

- Collect, manage, analyse and compare data – Assess employee engagement levels and obtain actionable insight into their attitudes towards work; compare results by key demographics
- HR Survey Library and Benchmarking – Use templates from ELMO's Survey Library and compare results against similar organisations across benchmarked data points
- Real-time updates and reporting – Access team analytics, dashboards and reports that can be instantly updated and generated, allowing for real-time data comparison and analysis





Set your new hires up for success from the start by streamlining talent identification, recruitment and onboarding processes

HIRE



Recruitment

- Job requisition – Select the required job position, add specific requirements, alert the recruitment manager, track and monitor progress, and customise approval workflows
- Talent pool – Search existing employees and the wider candidate database, match job criteria, and rank candidates
- Job posting – Integrate with job boards and social media, pre-set posting rules, and track costs; or create a careers webpage with customised branding and corporate media, and post jobs automatically



Onboarding

- Personalised onboarding – Present new hires with their own onboarding portal, which can include company information, guidelines for onboarding process, task lists, and team member introductions
- Workflows and approvals – Configure processes and select stakeholders, prerequisites, time delays and conditions, and allocate courses for new recruits from the ELMO Course Library
- Electronic forms – Lighten administrative workloads with configurable forms, document upload facility, and integration with ATO and other third parties





Improve retention by capturing performance feedback to identify star performers, manage career development plans and align compensation accordingly

RETAIN



Performance Management

- Tailored performance appraisals – Gain access to pre-built goals, development objectives and a behavioural competency library, and obtain a holistic view of performance with 360 reviews
- Manager team view – Access reports to view the status of appraisals, utilise the search facility or collaborate using the export and print functions
- Simplified and automated workflows – Incorporate appraisal cycle periods and implement more effective stakeholder management with automated sign-offs and approvals



Rewards and Recognition

- Peer-to-peer recognition – Empower employees to recognise peers with recommendations and configurable badges
- Customised trophies – Recognise an employee’s work anniversary or birthday, acknowledge course completion, or reward employees who achieve a pre-determined number of points by creating customised trophies, which can be displayed on employee profiles
- Schedule awards – Create a customised workflow for awards such as Employee of the Month, including peer nominations and voting, and automated awarding



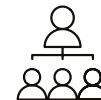
Pivot Remuneration

- Streamlined processes – Manage all remuneration structures including discretionary or complex STI/ LTI plans, design efficient workflows, and automate production of final letters
- Rules-based modelling – Create rules-based controls on spend and policy management, gain visibility of the entire process and those involved, and help ensure managers adhere to company policy
- Real-time reporting – Create real-time standard and customised reporting for all roles, and provide clarity for managers around remuneration decisions against budgets



Succession Management

- Manage succession plans – Determine role criticality, increase bench strength for key positions, and mitigate flight risk by ensuring valued employees are developed
- Identify high performers – Ensure business continuity by finding and developing top performers, matching employees to critical roles, and comparing candidate suitability by skills, performance, potential and aspirations
- Career progression – Empower employees to view succession pathways, investigate desired career paths, identify skills gaps, and create development plans





Keep skills compliant and up-to-date with personalised learner plans, access to pre-built courses and the ability to customise learning content

DEVELOP



Learning Management

- Learner's view – Offer personalised learning plans, eLearning courses and instructor-led training (ILT); generate policy acknowledgements, assessments and surveys; empower employees to track progress
- Course catalogue – Provide self-directed learning with access to over 400 pre-built eLearning courses, use configurable enrolment rules, and configure and assign CPD plans
- Manager team view – Access and generate direct and indirect reports, keep track of employee learning needs, course completion rates and compliance requirements



Course Builder

- Create courses – Use simple editing tools – with no coding experience required – to create bespoke eLearning courses: insert images/movies, edit text, record voice-over, and include interactive features (buttons, rollovers, hotspots, etc.)
- Create assessments – Challenge and engage learners with randomised assessment questions
- Preview and publish – Customise content with corporate colours, logos and images; update content in real-time; preview end-user view prior to publishing; publish to ELMO Learning or SCORM compliant LMS



Course Library

- Best practice content – Gain access to over 400 courses covering compliance, soft skills and productivity training – all built using instructional design principles and updated monthly to stay compliant with Legislative changes
- Tailored content – Copy and tailor content with Course Editor. Utilise corporate branding and access ELMO's royalty free image library to bring multimedia-enabled, touch screen optimised content to life
- Assessment features – Automatic marking, multiple question types, all modified with ELMO Course Editor



Large and growing addressable market

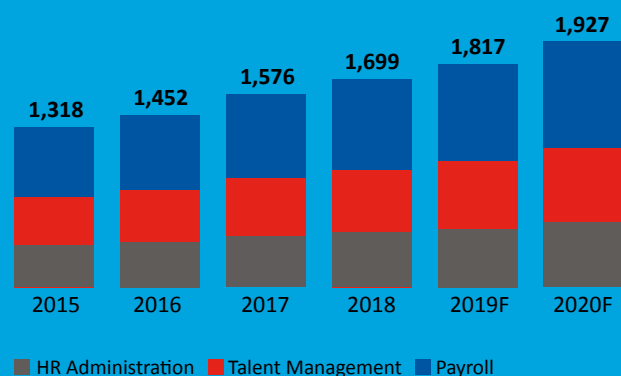
The market for ELMO's solutions across ANZ continues to grow with a target market size of over 12,000 organisations and a \$1.7 billion revenue opportunity



ANZ target market size of ~12,029 organisations¹ ELMO currently has ~9% market share in ANZ



ANZ HR & Payroll TAM (\$m)¹



1. Frost & Sullivan independent market report

Industry partnerships

ELMO has forged a deep and exclusive relationship with the industry peak bodies in Australia and New Zealand. This enhances the ability of ELMO to access potential customers, increases industry recognition and enables ELMO to work closely with industry stakeholders to enhance current solutions and develop new solutions to meet their evolving needs.



ELMO has worked in partnership with AHRI, Australia's peak HR industry association, since 2013. This relationship provides ELMO with unprecedented exposure to AHRI's 20,000+ HR industry members through a series of national networking forums, conferences, the annual HR Awards and the flagship AHRI National Convention and Exhibition. AHRI also provide members with access to ELMO's pre-built content library via their online portal and recently, has launched a HR Certification program designed to advance the HR profession within Australia.



ELMO has worked in partnership with HRINZ, New Zealand's peak HR industry association since 2015. 45% of the New Zealand HR Industry (just over 3000 individuals) are current HRINZ members and through this membership, can access education and information services, conferences and seminars and participate in the annual NZ HR Awards. ELMO's sponsorship of key events, and the provision of the ELMO solution via the HRINZ online portal offers exposure and brand awareness for our growing list of New Zealand clients.



RCSA is the peak association for the Australian and New Zealand recruitment industry with over 3000 corporate and individual members. Members can access education, research and business advisory support. ELMO has been in partnership with the RCSA since 2015, ELMO's sponsorship of key events and the provision of ELMO technology and content via the RCSA online portal offers exposure and brand awareness to potential clients working in the recruitment industry.



Stronger together



ELMO has forged a deep and exclusive relationship with the industry peak bodies in Australia and New Zealand

Strong organic growth strategy

Accelerated with selective acquisitions for complementary technology and /or customer lists



Greater usage from existing customers

- Increasing penetration amongst existing customer base with average modules per customer of 2.56 at 30 June 2018, up from 2.29 at 30 June 2017¹
- Consistently high customer retention, 92% in FY18²
- Strong customer dollar value retention of 119% indicating cross-selling of additional modules to existing customer base



New customers in existing markets

- 507 new customers added during FY18 (including acquisitions)
- Total customer base, including PeoplePulse, LiveSalary, Sky Payroll and Pivot Software of 1,031 as of 30 June 2018
- Continuation of strong sales momentum with broadened suite
- Aim to further increase adoption amongst mid-market firms
- Significant opportunity to further penetrate existing markets



Expand product line

- Acquired and integrated cloud payroll, HR survey, and remuneration modules
- Rewards and Recognition launched in FY18
- Spent 21.6% of FY18 revenue on R&D^{3,4}
- Continuous development and deployment of new features on existing modules with 145 enhancements released during FY18
- New modules slated for release in the next 2-3 years



Growth through acquisitions

- Acquisition of PeoplePulse, LiveSalary, Sky Payroll and Pivot Software
- Actively seeking complementary technology to augment ELMO's value proposition or customer lists.
- Disciplined approach, with significant resource and management expertise to complete integrations well and deliver synergy benefits

1. Excludes PeoplePulse, LiveSalary, SkyPayroll and Pivot Software

2. Customer retention is calculated by dividing the number of customers in the reference period who were customers at the end of the prior period by the number of customers at the end of the prior period

3. Includes both expensed and capitalised research and development costs

4. Based on pro forma revenue

Recent acquisitions

Broadening ELMO suite and increasing market share



PeoplePulse is an online employee and customer feedback survey platform that includes specialised HR surveys such as staff pulse surveys, onboarding surveys, training evaluations, net promoter scores and exit surveys

LiveSalary is an online salary database and benchmarking platform to assist customers better recruit, reward and retain employees

- Purchase price \$10m
 - \$8m payable in cash upfront
 - \$2m cash earn out payable on anniversary of completion
 - Additional \$2m cash payable on the first anniversary of completion should stretch targets be met
- Over 300 customer licenses
- FY17 Revenue \$4.1m, with over 90% recurring
- EV/FY17 Revenue multiple 2.4x

Payroll is a critical function and represents a market opportunity of approximately \$600m¹

In December 2017, ELMO announced the acquisition of Sky Payroll, a native cloud-based Australian payroll software system

Total purchase price of \$1.4m:

- \$1.0m upfront (50% in cash and 50% in scrip with 24 month escrow)
- \$0.4m deferred payment
- Additional consideration of \$0.4m, should performance targets be achieved

Pivot Software is the leading provider of SaaS, cloud based Remuneration software in Australia and New Zealand

- 120 customers
- Annual revenues of \$4.5m, with 86% recurring revenue
- \$8.8m initial purchase price and \$2.4m conditional deferred payment should performance targets be met (settled with a combination of cash and scrip, subject to voluntary escrow)
- EV/LTM² revenue multiple of 2.0x, before synergies



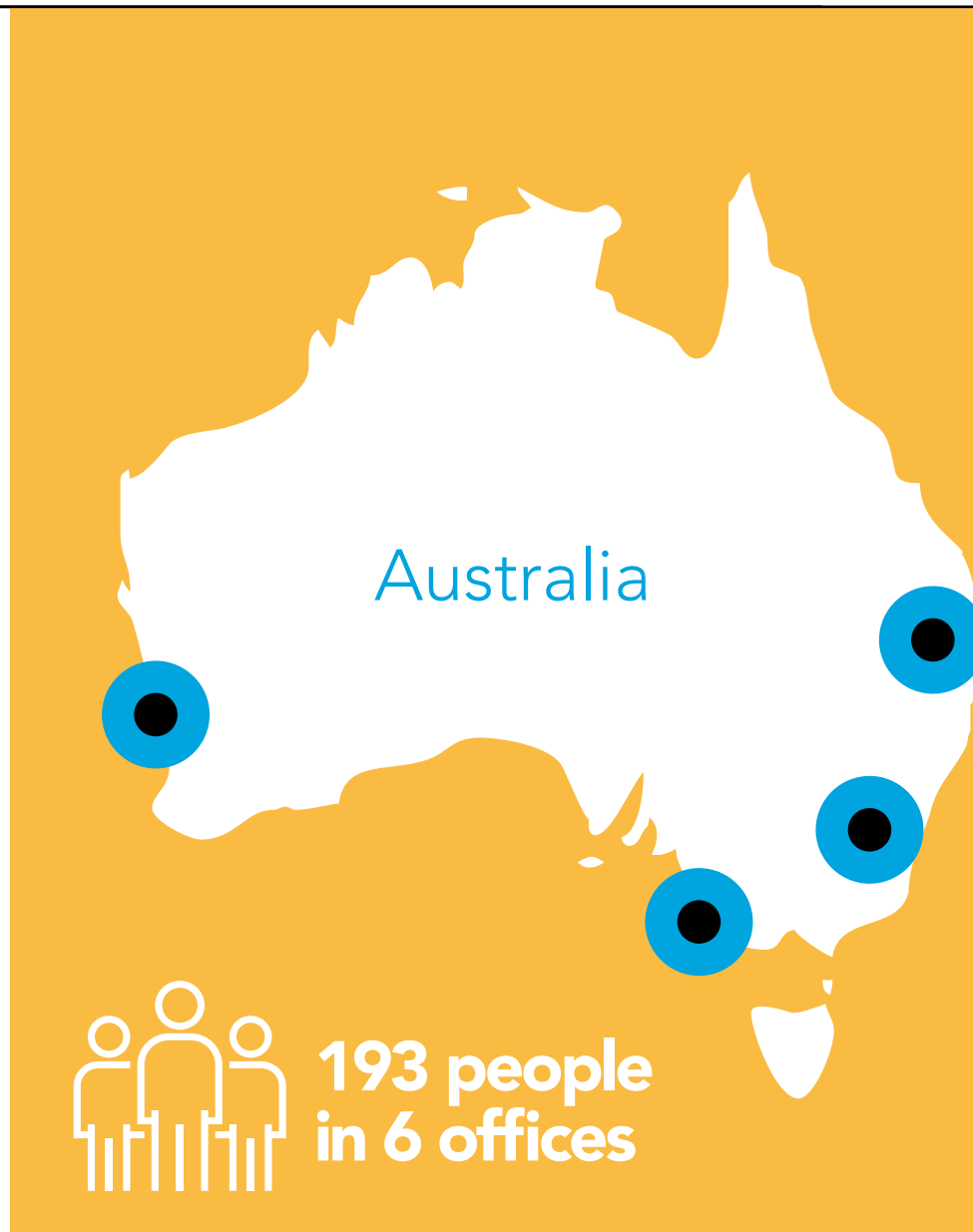
November 2017 → December 2017 → February 2018

Acquired modules gaining traction with ELMO's growing customer base

1. Frost & Sullivan independent market report
2. Last 12 months to 31 Dec 2017

ELMO at a glance ...

A leading provider of cloud HR & Payroll software in Australia & NZ



ELMO is one of Australia and New Zealand's leading providers of integrated cloud human resources "HR" and payroll software solutions

ELMO's SaaS, cloud-based platform provides organisations with a centralised approach to managing an employee's lifecycle from 'hire to retire' including payroll

1. As at 30 June 2018, includes PeoplePulse, LiveSalary, Sky Payroll and Pivot Software
2. Includes 405 customers from PeoplePulse, LiveSalary, Sky Payroll and Pivot Software
3. Includes construction and mining, education, finance, government, healthcare and pharmaceuticals, hospitality, industrials, IT, telecommunications and media, not for profit organisations, professional services, property, retail and transport

ELMO employees 193 people across 6 offices in Australia and New Zealand¹



Integrated cloud-based HR and Payroll software providing 'hire to retire' software solutions across 12 modules



Platform, technology, software solutions and learning content is developed and maintained in-house by ELMO's Australian based team



Over 400 eLearning course content library covering a broad range of topics which has been developed for over 15 years



Customer base of 1,031² organisations and deployed across 13³ different industries

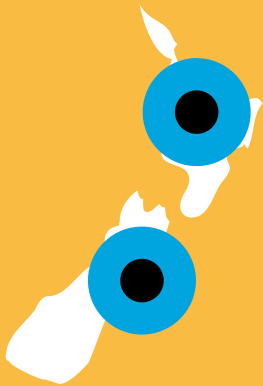


Primarily targets mid-market organisations (100 – 1,000 employees)



Scalable SaaS, cloud-based platform, multi tenant infrastructure, single source code

New Zealand



ELMO's customer base – consisting of more than 1,000 organisations spread across 13 different industries – all benefit from solutions that are developed and maintained in-house by the Australian and New Zealand ELMO team. Local knowledge and support has been a key part of ELMO's ongoing success and today over 190 employees in 6 offices across Australia and New Zealand work tirelessly to ensure customer expectations are met and exceeded.

ELMO primarily targets mid-market organisations (100-1000 employees), who stand to benefit by automating their HR and Payroll operations with ELMO's constantly evolving suite of 12 integrated modules. Customers can also gain access to a library of over 400 eLearning courses covering a broad range of compliance, soft skills and technical skills – all of which are updated and curated by the local team.



Business model

Wider view of the market opportunity

ELMO’s cloud HR & payroll software solutions and business model have been primarily built to address the HCM requirements of mid-market organisations. During FY18, ELMO’s module count increased from 7 to 12. This has increased the market opportunity available from ~\$600 million to \$1.7 billion¹. In addition, with modules such as HR core and payroll, there has been increased interest from the lower mid-market for a unified solution (organisations with less than 200 employees). As a result, ELMO has invested in fully commercialising this new opportunity by adopting a relevant sales and marketing strategy and adapting the solution to be user-friendly and intuitive for this group.

In addition, the Pivot acquisition in March 2018, provided ELMO with a customer base and product which is popular for upper mid-market organisations (over 1,000 employees),

where ELMO is increasingly seeing new business opportunities.

Currently, most SaaS HR & payroll providers that offer a unified solution target large enterprise and government organisations. The HR & payroll solutions offered by these providers are typically costly to implement, require significant time investment and involve complex integration processes, making such solutions unsuited in addressing the HCM requirements of mid-market and lower mid-market organisations. Consequently, mid-market and lower mid-market organisations have limited HR solution options and many existing solution providers only address a single vertical of the various HR functions. In addition, the payroll landscape in this market is primarily dominated by legacy providers. As a result, ELMO believes a large underserved market has emerged, which is growing as organisations increasingly recognise the strategic importance of HR & payroll and the need to adopt an efficient and

scalable cloud solution. ELMO believes these organisations require more flexible and cost effective HR & payroll software solutions that can be delivered on shorter sales cycles, with simpler implementation processes than those currently provided by HR & payroll solution providers who are typically focused on larger enterprises.

Multi-jurisdictional and industry agnostic

Thanks to a multi-jurisdictional and industry agnostic platform, ELMO’s cloud HR & payroll software solutions have been designed to be scalable on an international basis. ELMO currently provides HR & payroll software solutions to customers based principally in Australia and New Zealand; however, the platform can be translated into nearly any language and is multi-jurisdiction compatible.

ELMO currently deploys its HR & payroll software solutions across 13 different industries.

INDUSTRIES ELMO HR & PAYROLL SOFTWARE SOLUTIONS ARE DEPLOYED IN		
✓ Construction and mining	✓ Hospitality	✓ Professional services
✓ Education	✓ Industrials	✓ Property
✓ Finance	✓ Information Technology telecommunications and media	✓ Retail
✓ Government	✓ Logistics	
✓ Healthcare and pharmaceuticals	✓ Not for profit	

Revenue generation

ELMO generated 93% of its FY18 pro forma revenue from subscription-based fees for its HR & payroll software solutions. Typically, customers enter into three-year contracts with ELMO for access to its solutions. It is customary for ELMO to be paid annually in advance by the customer, with revenue recognised evenly over the 12 months of the contract. The amount of the annual fee is dependent on the number of modules subscribed to by the customer and the number of users on the platform.

In addition to subscription-based fees, ELMO also generates revenue from charging professional service fees for providing non-standard implementation, configuration, training and integration services, as well as other revenue including government grants.

1. Frost & Sullivan independent market report

Customer	% of FY18 statutory revenue	Revenue model	Revenue recognition policy	Description
Recurring revenue	~93%	SaaS subscription fee	<ul style="list-style-type: none"> ELMO's recurring revenue is recognised evenly on a monthly basis. The balance of the revenue received in advance is categorised as a liability (referred to as deferred income). 	<ul style="list-style-type: none"> ELMO typically receives an annual fee, payable in advance over the term of the contract Amount of fee varies depending on the number of modules subscribed for and the number of users on the platform Customers are invoiced on an annual basis throughout the term of the contract
Professional services fees	~7%	Consultation or integration fees	<ul style="list-style-type: none"> ELMO's professional service fees are recognised as revenue once delivery of the required services is completed 	<ul style="list-style-type: none"> ELMO receives a professional service fee associated with providing any additional implementation, configuration and integration services as well as other services Fees are typically invoiced during the first year of the contract Amount of fee varies depending on the level of service provided and complexity of the process

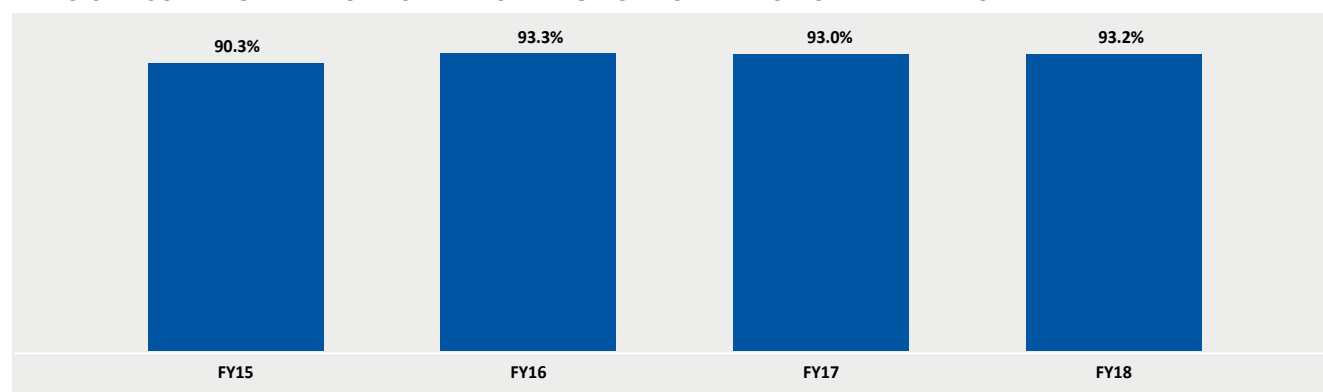
Attractive cash flow profile

ELMO's attractive financial and cash flow profile is supported by the high recurring revenue, strong customer retention rates and favourable payment terms as a result of the Company's SaaS-based revenue model with long term contracts paid annually in advance, as explained below:

High recurring revenues

ELMO has a high proportion of revenue that is classified as recurring in nature (recurring revenue), as shown below, which is a result of the subscription-based revenue model.

ELMO'S RECURRING REVENUE AS A PERCENTAGE OF TOTAL PRO FORMA REVENUE



From FY15 to FY18, ELMO has consistently achieved more than 90% in recurring subscription revenue. In FY18, 93.2% of ELMO's pro forma revenue excluding acquisitions was recurring in nature, reflecting the SaaS business model and the Company's focus on subscription revenue.

Our people

One
team
united



193 ELMOOnians
across 6 offices
in Australia and
New Zealand



Environment, social and governance



ELMO is focused on building a culture and environment that sustains our ELMOians as people, engages them as part of a team, and encourages them to innovate and thrive.

Supporting our ELMOians

The ELMO team continues to grow both organically and through acquisitions across Australia and New Zealand. We now have offices in Sydney, Melbourne, Perth, and Brisbane, in addition to Auckland and Christchurch. On 1 July 2018, ELMO launched our new head office in the heart of Sydney's CBD with a focus on maximising our employee value proposition through engagement, wellbeing, productive spaces and community activities.

We believe ELMO is an awesome place to be, because our ELMOians are just that...AWESOME! We embrace the diversity of skills, experience, cultures and attributes that each ELMOian brings and shares each day. We value everyone's uniqueness and their personal contributions towards making ELMO a great place to work.

The ELMOian employee value proposition (EVP)

ELMO's leaders are working with each department to ensure we continuously introduce activities and initiatives that focus on supporting and retaining our amazing ELMOians and help to attract the right people to join the team. As a part of our EVP we are focusing on activities that reflect what our ELMOians need to sustain them as human beings. That means, in addition to compensation and benefits, we also provide:

- Challenging and meaningful work
- Opportunity for personal achievement
- Amazing and engaging organisational culture
- Career development.

Corporate Social Responsibility (CSR)

ELMO is committed to being actively involved in worthy causes within every community in which we are located. Our CSR activities target what matters most to our ELMOians; the goal is to deliver initiatives they care about, while also supporting the wider Australian community and contributing to Australian economic development.

This year ELMO supported:

- Australian Farmers fundraising morning tea

- RSPCA Million Paws Walk
- Dry July
- MS Swimathon
- Firefighters Stair Climb
- MS Rideathon
- United Against Domestic Violence
- Cancer Council's Biggest Morning Tea
- RUOK Day morning tea.

ELMOian Wellbeing and Engagement

ELMO prides itself on caring for the health and wellbeing of employees. Our workplace health and wellbeing programs not only have a positive impact on the wellbeing of ELMOians, they have led to a significant increase in our team's engagement, cohesiveness and overall productivity.

Our last employee engagement and welfare survey provided deep insight to the needs, feelings and "mood" of our team. The results have seen a multitude of engagement, community and wellbeing programs being explored and implemented. Some of these include:

- Yoga
- Mindful Meditation
- Tough Mudder
- Toastmasters
- City to Surf
- ELMO Bake Off
- Morning teas and shared lunches



- Flexible working arrangements
- Job sharing
- Healthy food initiatives
- Gratitude practice including badges, employee and CEO awards.

Our diverse programs are delivered throughout the year with the goal of improving the mind and body – and ultimately enhancing the work satisfaction and performance – of all ELMOonians.

In addition, our Employee Assistance Program (EAP) offers free short-term counselling designed to help ELMOonians prevent or resolve personal, family and workplace problems affecting their wellbeing and job performance.

Toastmasters

ELMO Melbourne and Sydney Toastmasters Club have moved into their second year, with new ELMOonians joining the team fortnightly. We have seen enormous success with the Toastmasters program helping to build communication and leadership skills across the business. Through Toastmasters our ELMOonians are encouraged to listen and answer, to plan and lead, to give feedback and to accept it, thereby becoming more effective communicators and leaders.

Professional Development

ELMO recognises that organisation-wide learning and development starts at the top. We are dedicated to the sustained growth of the business through

development of our senior leadership and management teams, and we also believe in building the strength of all our teams. We know that having strong leaders who coach, counsel, mentor and model design thinking, questioning, continuous improvement, accountability, responsibility and clear communication means that our ELMOonians will in turn be supported and empowered to grow in their roles.

To support individual and team development, ELMO invests in various training and professional development opportunities, some of which are listed below:

- AHRI National Convention and State Conferences
- National and State HR Summits
- HR Tech Summit
- HR Tech Fest
- HR Leaders' Summit
- Reimagine HR
- Third Sector Live
- Women in Leadership
- Courageous Leaders readiness for change programs
- Toastmasters
- Sydney University Centre for Continuing Education short courses
- AHRI short courses
- AIM short courses

Environment

With ELMO's continued growth, we are looking for opportunities to improve our operations and environmental footprint. To build a long-term, sustainable business, ELMO is endeavouring to move its operations to work environments that have an up to date Building Energy Efficiency Certificate, and NABERS rating. In July 2018, ELMO relocated the HQ from Bondi Junction to a building with a 4.5 NABERS rating in Sydney's CBD. ELMO has subsequently established an office in Brisbane's CBD with a 3.5 NABERS rating, and has relocated the Perth team into a new office space with a 4 NABERS rating.

Policy Update

ELMO has invested in on our Quality Management System and streamlining policies and processes. This will assist with ensuring policies and processes support business activity and enable the business to operate in a productive, safe and agile manner.

Corporate Governance

ELMO takes a deliberate and focused approach to corporate governance. Our compliance with the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council is described in our Corporate Governance Statement, which is available from our website: <http://investors.elmotalent.com.au/Investors/?page=Corporate-Governance>

Board of Directors



1. Barry Lewin

Chairman and Independent Non-executive Director

Mr Barry Lewin is non-executive Chairman of ELMO, having been appointed to the position on 10 October 2018. Barry is the founder and Managing Director of Melbourne-based corporate advisory firm SLM Corporate Pty Ltd where he advises public and private companies on mergers, acquisitions, transaction structuring, debt and equity issues, business sales and on 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.

Barry is non-executive Chairman of ASX-listed Praemium Limited (ASX:PPS), and has held previous directorships at ASX-listed Senetas Corporation Limited (ASX:SEN) and Clean TeQ Holdings Limited (ASX:CLQ), where he also served as Chairman of the Audit Committee.

He has degrees in Commerce and Law and holds an MBA from Swinburne University.

2. Danny Lessem

CEO, Executive Director and Co-founder

Mr Danny Lessem is the CEO, Executive Director and co-founder of ELMO. Member of the Audit and Risk Management Committee.

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. Danny holds a Bachelor of Laws (LL.B.) and Bachelors of Arts and Law from the University of Witwatersrand, South Africa.



3. Trevor Lonstein

Chief Financial Officer

Mr Trevor Lonstein is the CFO and Executive Director of ELMO and joined the Company in 2014. Member of the Nomination and Remuneration Committee. Trevor has over 15 years of experience in accounting and finance. Trevor is 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.

Trevor holds a Bachelor of Commerce (BCom) in Accounting and Finance from the University of Cape Town in South Africa and is a Fellow of the Institute of Chartered Accountants in England and Wales.

4. Kate Hill

Independent Non-executive Director

Ms Kate Hill is an independent Non-executive Director of ELMO, Chair of the Audit and Risk Committee and member of Nomination and Remuneration Committee. She has over 20 years' experience as an audit partner with Deloitte Touche Tohmatsu, working with ASX listed and privately owned 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.

Kate is also an independent Non-executive Director of CountPlus Limited (ASX:CUP) where she serves as Chair of the Audit and Risk Committee and is a member of the Acquisitions Committee. She is the Company Secretary of Kazia Therapeutics Limited (ASX:KZA, Nasdaq: KZIA). She held a variety of leadership and executive roles in Deloitte and served for a period on the Board of Partners of the Australian firm.

Kate holds a Bachelor of Science (Hons) from Bristol University, is a member of the Institute of Chartered Accountants in Australia and New Zealand, and a graduate of the Australian Institute of Company Directors.

Key Management Team

Samuel Sun

Chief Technology Officer

Mr Samuel Sun is the Chief Technology Officer (CTO) of ELMO and joined the Company in 2010. Samuel has over 10 years of experience in software development roles.

As CTO at ELMO, Samuel is responsible for setting the overall direction for the organisation's software and technology, and manages the strategy, architecture, engineering, design, governance and information security functions of ELMO's solutions and platform.

Prior to joining ELMO as a Research and Technical Development Manager, Samuel was a Lead Developer at Scholani Education College and a Software Developer at IBM.

Samuel holds a Masters in Information Technology from the University of NSW and a Bachelor of Telecommunication Engineering from Tongji University, China.

Darryl Garber

Chief Commercial Officer

Mr Darryl Garber is ELMO's Chief Commercial Officer (CCO). Darryl joined ELMO in 2011 and has over 8 years of experience in roles encompassing business development, marketing, corporate finance, management and strategy.

As CCO, Darryl's core objective is to develop, evaluate and execute ELMO's growth strategy. This includes pursuing and driving merger & acquisition activities, securing financing, launching go-to-market products and investigating new markets. Darryl is also responsible for ELMO's investor relations activities.

Darryl played a critical role during ELMO's 2017/18 period of expansion by acting as project lead for the IPO and subsequent capital raising. His past experience working across a number of ELMO departments has been invaluable during this transformative period. Darryl is adept at managing rapid change, scaling operations and driving strategy.

Darryl holds a Graduate Diploma in Applied Finance from Kaplan University and an MBA (Dean's List) from Bond University.

Monica Watt

General Manager Human Resources

Mrs Monica Watt is General Manager Human Resources at ELMO. Monica has over 10 years of experience working across Compliance and Human Resource roles.

Monica is responsible for optimising the business performance through innovation and people engagement and elevating team performance through innovative leadership. Monica has a broad range of experience in leading organisational transformations, driving large scale growth, talent acquisition, leadership development, and succession planning.

Prior to joining ELMO, Monica was previously Senior Compliance Manager at Open Colleges and Instructional Designer for SkillsDMC, Transpacific Industries and TAFE NSW. She is also currently appointed as Officer Commanding of 204 Army Cadet Unit, Timor Barracks, Dundas, and holds the rank of Captain (AAC) in the Australian Army Cadets.



Trevor Lonstein

Chief Financial Officer

Mr Trevor Lonstein is the CFO and Executive Director of ELMO and joined the Company in 2014. Member of the Nomination and Remuneration Committee. Trevor has over 15 years of experience in accounting and finance. Trevor is 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.

Trevor holds a Bachelor of Commerce (BCom) in Accounting and Finance from the University of Cape Town in South Africa and is a Fellow of the Institute of Chartered Accounts in England and Wales.

Gordon Starkey

Chief Operating Officer

Mr Gordon Starkey is the COO of ELMO and joined the Company in 2007. Gordon has extensive experience across enterprise SaaS solutions, including roles with responsibilities across general management, business development, product design, financial management and strategy.

Gordon is responsible for overseeing ELMO's business development, sales and marketing, product and client services. Gordon is essential to driving the strategic direction of the Company and managing partnership alignment with ELMO's customers.

Prior to joining ELMO as an eLearning/ LMS Consultant, Gordon served in various teaching, consulting and research roles at Macquarie University.

Gordon holds a Bachelor of Business Administration (Hons) and a Bachelor of Psychology from Macquarie University.

Danny Lessem

CEO, Executive Director and Co-founder

Mr Danny Lessem is the CEO, Executive Director and co-founder of ELMO. Member of the Audit and Risk Management Committee.

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. Danny holds a Bachelor of Laws (LL.B.) and Bachelors of Arts and Law from the University of Witwatersrand, South Africa.



Directors' Report

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 2018.

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:

James David McKerlie
Danny Isaac Lessem
David Charles Hancock (resigned on 8 June 2018)
Trevor Rael Lonstein
Catherine Jane Hill (appointed on 8 June 2018)

Dividends

No dividend was paid during the financial year ended 30 June 2018 (2017: \$nil).

Operating and financial review

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 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 human resource (HR) and payroll related processes including recruitment, onboarding, performance management, learning and development, rewards and recognition, remuneration, succession planning and payroll.

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 2018 the following acquisitions were made by the Group:

Quintessential Marketing Consulting

On 15 November 2017, ELMO Software Limited acquired the net assets of two complementary HR software solutions, PeoplePulse and LiveSalary (Quintessential Marketing Consulting) for a total maximum consideration of \$12.1m (see note 15). The acquisition included the assets and employee entitlements provisions of the following two specialised, SaaS based, HR management software solutions:

- PeoplePulse, an online employee and customer feedback survey platform that includes specialised HR surveys such as staff pulse surveys, onboarding surveys, training evaluations, net promoter scores and exit surveys; and
- LiveSalary, an online salary database and benchmarking platform to assist customers to better recruit, reward and retain employees.

PeoplePulse and LiveSalary's highly scalable modules accelerate ELMO's product release program. In addition, the acquisition represents a logical and complementary fit into ELMO's integrated HR Administration and Talent Management product suite. Goodwill has arisen through this acquisition based on these benefits gained.

Sky Payroll

On 1 February 2018 the Company completed the purchase of Sky Payroll, a native cloud-based Australian SaaS payroll software system whose revenue model holds similar attributes to ELMO's core business for a total maximum consideration of \$1.8m (see note 15).

Established in 2014, Sky Payroll is a pure HR cloud based payroll software solution for the Australian market. Payroll is central to HR administration and presents as a logical, strategic and highly complementary fit to ELMO's current suite of modules. The addition of Sky payroll has provided a more enhanced and integrated product suite to offer to its current and future customer base whilst enabling ELMO to leverage existing relationships for cross-sell opportunities as well as fostering new ones. The acquisition enables ELMO to enter into the cloud software payroll market with considerable timing and cost advantages over a 'build in-house' approach as well as positioning ELMO to benefit from the industry shift to Single Touch Payroll Reporting (STPR).

Goodwill has arisen from these synergies and the opportunities for cross-selling in the market.

Pivot Software

On 13 March 2018 ELMO acquired Pivot Remesys Group (Pivot Software), a leading provider of remuneration software in Australia and New Zealand, for a total maximum consideration of \$11.4m (including shareholders loan repayments) (see note 15).

ELMO aims to accelerate the growth in the remuneration management SaaS software sector through its strong brand and advanced distribution network. Following the acquisition of Pivot Software, ELMO is able to provide its customers with a solution to manage salary increases, bonuses and complex LTI/STI issues. ELMO plans to offer its existing customer base a dedicated remuneration module which offers high quality reporting as part of a single integrated platform to automate HR and payroll functions. Goodwill has arisen through this acquisition based on these benefits gained.

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 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 2018, ELMO reported statutory revenue of \$26.5m (FY2017: \$16.6m). ELMO's statutory earnings before income tax, finance expenses, depreciation and amortisation was \$1.2m (FY2017: \$0.7m excluding discontinued operations) and its statutory net loss after tax was \$3.0m (FY2017: loss \$0.9m including discontinued operations).

In the original ASX listing prospectus, ELMO reported financial results and forecasts on a pro forma basis. Pro forma adjustments have been made to the current year's results eliminating the contribution of the acquisitions of Quintessential Marketing Consulting, Sky Payroll, Pivot Software, relating acquisition costs and other non-recurring items. Further pro forma adjustments related to one off integration costs have also been made to the current year's results. For FY17 pro forma adjustments included the impact of the acquisition of Techni Works, the RTO discontinued operations, IPO offer costs, standalone public company costs and other non-recurring items.

For the full year ended 30 June 2018, ELMO's pro forma revenue was \$23.2m (FY2017: \$17.0m), which is 3.4% ahead of Prospectus forecast of \$22.4m. ELMO's pro forma earnings before income tax, finance expenses, depreciation and amortisation was \$2.7m (FY2017: \$1.2m), which is 1.4% ahead of Prospectus forecast.

Directors' Report

A reconciliation between statutory EBITDA and pro forma EBITDA is provided below:

Reconciliation of EBITDA	Year ended 30 June 2018 \$000's	Year ended 30 June 2017 \$000's
Statutory EBITDA (excluding discontinued operations)	1,200	656
Add/(less) net effects of:		
EBITDA from acquisitions during the year	(95)	275
Transaction costs	1,156	–
One-off IPO costs	–	1,635
Additional listed company cost	–	(1,115)
Other non-recurring items	460	(229)
Pro forma EBITDA	2,721	1,222

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

- Strong recurring revenues of 93.2% and high revenue dollar retention rates of over 100%;
- Expansion of ELMO's customer base to 626 organisations (excluding QMC, Sky and Pivot customers);
- Increased investment into ELMO's sales and marketing team;
- Enhanced brand awareness and reputation of ELMO and its product offering;
- Increased traction in new modules, resulting in more cross-sell and upsell opportunities amongst ELMO's customer base;
- Continued expansion of ELMO's operations in New Zealand.

There was an additional growth in the statutory revenue due to growth through acquisitions by the Group during the year.

For the year ended 30 June 2018, ELMO reported statutory operating expenses of \$27.6m (2017: \$16.8m excluding discontinued operations) and adjusting for the impact of acquisitions and other non-recurring items the total pro forma operating expenses (excluding depreciation and amortisation) were \$18.5m (FY2017: \$14.1m). The key driver for the increase in operating expenses was ELMO's continued investment in current years and future years growth, primarily resulting in a significant increase in pro forma employment costs to \$10.6m (2017: \$6.5m).

Financial position

As at 30 June 2018, ELMO has no debt and a net cash balance of \$46m. The consolidated entity's strong cash position is due to the following factors:

- *Institutional placement:* During the year ELMO issued 8,333,334 ordinary shares under an institutional placement at a price of \$5.40 per share raising \$45m. An additional \$1m was raised at the same time through an issue of shares to existing shareholders.
- *Payment of license fees in advance resulting in positive cashflow:* ELMO operates its business under a SaaS-based revenue model whereby customers typically enter into three year contracts and pay annual license fees in advance.

The consolidated entity's working capital, being current assets less current liabilities was a positive position of \$31.6m (30 June 2017: \$17.3m). Due to growth through acquisitions, intangible assets have increased to \$35.8m (note 13).

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.

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 plans to accelerate its market penetration across Australia and New Zealand by increasing investment into its sales and marketing capabilities and initiatives to drive new customer wins.
- **Expand product offering**
ELMO recently launched its succession and HR administration module (HR Core) to expand its solutions offering and aims to launch two new modules within the next two years.
- **Acquisitions**
ELMO believes that there is an opportunity 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

Matters subsequent to the end of the financial year include the resignation of James David McKerlie on 19 September 2018 and the appointment of Barry Lewin on 10 October 2018.

No other matter or circumstance has arisen since 30 June 2018 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.

Directors' Report

Information on directors

Name:	James (Jim) McKerlie
Title:	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 onthehouse.com.au, Executive Chairman of Bullseye and Chairman of Acer Energy and Ambassador Energy.
Other current directorships:	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 Management Committee
Interests in shares:	50,000 fully paid ordinary shares
Interests in options:	None
Contractual rights to shares:	None

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

Name:	David Hancock (resigned on 8 June 2018)
Title:	Independent Non-executive Director
Qualifications:	Bachelor of Business from the Queensland University of Technology (QUT) and a member of the Australian Institute of Company Directors (GAICD)
Experience and expertise:	David has over 25 years' experience in financial services and a variety of governance roles. David has been an Executive General Manager at the Commonwealth Bank (CBA.ASX) and was Managing Director and Head of Asia/Australia/Japan Equities for JP Morgan.
Other current directorships:	Chairman of Freedom Insurance Group Limited (FIG.ASX), Chairman of Finclear Pty Limited, an ASX general and clearing participant, Non-executive Director at Tower Insurance (TWR.ASX) and Non-Executive Director and Chairman of the Audit and Risk Committee at Afterpay (AFY.ASX).
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit and Risk Management Committee and Member of the Nomination and Remuneration Committee – prior to resignation on 8 June 2018
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None

Name:	Trevor Lonstein
Title:	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 is 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
Interests in shares:	420,695 fully paid ordinary shares
Interests in options:	119,019 options
Contractual rights to shares:	None

Directors' Report

Name:	Catherine (Kate) Hill (appointed on 8 June 2018)
Title:	Independent Non-Executive Director
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.
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit and Risk Management Committee and Member of the Nomination and Remuneration Committee
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None

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.

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 2018 were:

	Board meeting		Nomination and Remuneration Committee		Audit and Risk Management Committee	
	A	B	A	B	A	B
Jim McKerlie	13	13	4	4	3	3
Danny Lessem	13	13	–	–	3	3
David Hancock	12	11	4	4	3	3
Trevor Lonstein	13	13	4	4	–	–
Kate Hill	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

Directors	Fully paid ordinary shares Number	Share options Number
Danny Lessem	11,989,816	–
Trevor Lonstein	420,695	119,019
Jim McKerlie	50,000	–
David Hancock	–	–
Kate Hill	–	–

Options granted to the 5 most highly remunerated officers of the company, being senior management or directors:

Director or 'senior management'	Number of options granted	Issuing entity
Danny Lessem	–	ELMO Software Limited
Trevor Lonstein	119,019	ELMO Software Limited
Gordon Starkey	130,920	ELMO Software Limited
Xin Sun	119,019	ELMO Software Limited
Darryl Garber	79,345	ELMO Software Limited

Shares under option or issued on exercise of options:

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	119,019	Ordinary shares	\$2.51	7 December 2027
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

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.

Directors' Report

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 25 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 25 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 a former 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 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.

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 immediately after this directors' report.

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>.

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.

Directors' Report

Key management personnel

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

Non-Executive Directors	Position
James (Jim) McKerlie	Chair of the Board, Chair of Nomination & Remuneration Committee and member of Audit & Risk Management Committee
David Hancock (resigned 8 June 2018)	Chair of the Audit & Risk Management Committee and member of Nomination & Remuneration Committee up until 8 June 2018
Catherine (Kate) Hill (appointed 8 June 2018)	Chair of the Audit & Risk Management Committee and member of Nomination & Remuneration Committee from 8 June 2018
Executive Directors	Position
Danny Lessem	Chief Executive Officer and member of Audit & Risk Committee
Trevor Lonstein	Chief Financial Officer and member of Nomination & Remuneration Committee
Other Key Management Personnel	Position
Gordon Starkey	Chief Operating Officer
Xin Sun	Chief Technology Officer
Darryl Garber	Chief Commercial Officer
Monica Watt	General Manager: Human Resources and Administration

Human resource strategy and remuneration policy

The framework aligns 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
- sales commission and bonus where relevant to specified individuals
- superannuation
- short-term incentive
- long-term incentive (share options)

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. 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 ending 30 June 2018. 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 table on the next page details the fixed, variable, short and long term incentives in relation to executive remuneration and the link to the Group's performance.

Directors' Report

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 Executives' 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
<p><i>Performance-based remuneration (STIs and LTIs)</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 		
Short-term incentive plan (STI) being cash award	<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>STIs 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>
Long-term incentive plan (LTI) under the (SEEP) being share options	<p>Participants must be employed on vesting date for the options to vest. Options will be tested against a Relative Total Shareholder Return (TSR) performance condition.</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 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>

For FY18 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. Due to the successful performance of the group in the first year as a listed entity 100% STI's were approved.

ELMO is committed to continue evolving the key performance indicators for Executives ensuring meaningful stretch 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, 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. Non-executive Director, David Hancock's annual fee was \$100,000 (inclusive of superannuation) prior to his resignation on 8 June 2018 and Kate Hill will receive 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.

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.

There are no contractual redundancy or retirement benefit schemes for Non-executive Directors, other than statutory superannuation contributions.

Directors' Report

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 2018 and 30 June 2017.

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

(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.

Year ended 30 June 2017	Cash salary and fees \$	Sales commission \$	Bonus \$	Other benefits \$	Super-annuation \$	Share options \$	Total \$
Non-executive Directors							
Jim McKerlie (Chairman) ⁽ⁱ⁾	12,500	–	–	–	–	–	12,500
David Hancock ⁽ⁱ⁾	8,333	–	–	–	–	–	8,333
Executive Directors							
Danny Lessem	500,000	–	–	–	–	–	500,000
Manuel Garber	272,500	–	–	–	–	–	272,500
Trevor Lonstein	76,923	–	30,000	–	7,308	–	114,231
Other Key Management Personnel							
Trevor Lonstein ⁽ⁱⁱ⁾	139,401	–	–	806	13,243	–	153,450
Gordon Starkey ⁽ⁱⁱ⁾	220,899	158,208	45,662	38,531	38,151	–	501,451
Xin Sun	256,833	–	–	10,492	24,399	–	291,724
Monica Watt	150,685	–	–	966	14,315	–	165,966
Darryl Garber	74,063	–	–	6,515	6,997	–	87,575
	1,712,137	158,208	75,662	57,310	104,413	–	2,107,730

(i) On 5 June 2017 the Non-Executive Directors, James McKerlie and David Hancock were only appointed as Directors of the Company and Manuel Garber resigned as an Executive Director, and the remuneration has thereby been disclosed as appropriate from/until this date.

(ii) Sales commission and bonus for the year ended 30 June 2017 were only recognised in the following cases:

- Gordon Starkey, Chief Operating Officer who has an agreed benefits package including a sales commission of 2% received on new business and a cash bonus based on revenue targets as agreed by the Board.
- Trevor Lonstein, Chief Financial Officer received a bonus of \$30,000 upon the successful listing of the company. Trevor was appointed as Executive Director on 6 March 2017, before which time he was a member of other key management personnel.

For the year to 30 June 2017 there was no link between Company performance and KMP remuneration with the exception of those individuals disclosed separately above.

Directors' Report

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	Grant date ⁽ⁱ⁾	Fair value at grant date ⁽ⁱⁱ⁾	Exercise price	Expiry date ⁽ⁱ⁾
Tranche 1	31 August 2018	17 October 2017	0.51	\$2.51	17 October 2027
Tranche 2	31 August 2019	17 October 2017	0.66	\$2.51	17 October 2027
Tranche 3	31 August 2020	17 October 2017	0.78	\$2.51	17 October 2027

(i) The grant and expiry dates noted apply to all key management personnel with the exception of Trevor Lonstein where the grant date is 7 December 2017 and the expiry date is 7 December 2027.

(ii) The weighted average fair value for the three tranches is \$0.69.

	Balance as at	Granted as compensation			Balance as at
	1 July 2017				30 June 2018
	Number	Tranche 1	Tranche 2	Tranche 3	Number
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

In addition to a continuing employment service condition, vesting is conditional on the Group achieving certain performance hurdles relating to total shareholder return (TSR). TSR is a measurement of investment return in percentage terms, adjusted for any dividend or capital movements, from the start to the end of the relevant performance period.

The share options have been valued using a Monte Carlo simulation approach subject to the relative total shareholder returns performance conditions.

There were nil ordinary shares of ELMO Software Limited issued during the year ended 30 June 2018 to key management personnel and up to the date of this report resulting from the exercise of options.

Key terms of employment contracts

Name:	Danny Lessem
Title:	Executive Director and Chief Executive Officer
Details:	Base salary for the year ending 30 June 2018 of \$500,000 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
Details:	Base salary for the year ending 30 June 2018 of \$300,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Trevor was eligible to participate in the short and long term incentive programs for the year ending 30 June 2018.
Name:	Gordon Starkey
Title:	Chief Operating Officer
Details:	Base salary for the year ending 30 June 2018 of \$330,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 1 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 2018 of \$300,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 30 day 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 2018 of \$175,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 30 day 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 2018 of \$200,000 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.

Directors' Report

Key management personnel equity holdings

Year ended 30 June 2018	Balance as at 1 July 2017 Number	Purchased/ other changes during the year Number	Balance as at 30 June 2018 Number
Non-Executive Directors			
Jim McKerlie	50,000	–	50,000
David Hancock ⁽ⁱ⁾	–	–	–
Kate Hill ⁽ⁱⁱ⁾	–	–	–
Executive Directors			
Danny Lessem	11,989,816	–	11,989,816
Trevor Lonstein	420,695	–	420,695
Other Key Management Personnel			
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.

Year ended 30 June 2017	Balance as at 1 July 2016 Number	Share subdivision ⁽ⁱ⁾	Issued during the year Number	Post share split ⁽ⁱⁱ⁾	Purchased during IPO	Balance as at 30 June 2017 Number
Non-Executive Directors						
Jim McKerlie	–	–	–	–	50,000	50,000
David Hancock	–	–	–	–	–	–
Executive Directors						
Danny Lessem	12	285	–	11,989,816	–	11,989,816
Trevor Lonstein	–	–	10	420,695	–	420,695
Manuel Garber	12	285	–	– ⁽ⁱⁱⁱ⁾	–	–
Other Key Management Personnel						
Gordon Starkey	–	–	10	420,695	90,250	510,945
Xin Sun	–	–	10	420,695	5,000	425,695
Monica Watt	–	–	–	–	1,250	1,250
Darryl Garber	–	–	10	420,695	40,250	460,945

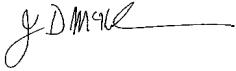
(i) The Company undertook a share subdivision with a ratio of 23.75 for each of its ordinary shares.

(ii) The Company undertook a share split with a ratio of 42,069.53 for each of its ordinary shares.

(iii) No further disclosures have been made with regard to Manuel Garber as he resigned as director on 5 June 2017 prior to the IPO taking place.

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



James McKerlie
Chairman

29 August 2018
Sydney



Danny Lessem
Director

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

29 August 2018

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

Dear Board Members

Elmo Software Limited

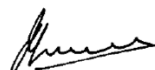
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Elmo Software Limited.

As lead audit partner for the audit of the financial statements of Elmo Software Limited for the financial year ended 30 June 2018, 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 sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
Revenue from rendering of services	3	26,520	16,564
Cost of sales		(2,245)	(1,679)
Gross profit		24,275	14,885
Interest income		265	31
Other income	4	127	125
Amortisation expenses		(4,250)	(2,225)
Employment expenses	5	(12,721)	(7,119)
General and administrative expenses	5	(7,325)	(5,379)
Research and development expenses		(14)	–
Sales and marketing expenses		(3,330)	(2,043)
Loss before income tax expense/benefit from continuing operations		(2,973)	(1,725)
Income tax (expense)/benefit	6	(15)	978
Loss after tax from continuing operations		(2,988)	(747)
Loss after tax from discontinued operations	7	–	(173)
Loss after income tax expense/benefit for the year		(2,988)	(920)
Other comprehensive income for the year, net of tax		–	–
Total comprehensive loss for the year attributable to the owners of ELMO Software Limited		(2,988)	(920)
		Cents	Cents
Earnings per share			
From continuing operations			
Basic earnings	32	(5.29)	(1.79)
Diluted earnings	32	(5.29)	(1.79)
From discontinued operations			
Basic earnings	32	–	(0.41)
Diluted earnings	32	–	(0.41)

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

Consolidated statement of financial position

as at 30 June 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	45,995	26,601
Trade and other receivables	9	6,460	3,568
Income tax refundable	10	7	503
Other current assets	11	1,099	372
Lease incentive receivable	12	4,164	–
Total current assets		57,725	31,044
Non-current assets			
Deferred tax	18	–	99
Property, plant and equipment	12	5,789	506
Intangible assets and capitalised costs	13	35,815	5,971
Total non-current assets		41,604	6,576
Total assets		99,329	37,620
Liabilities			
Current liabilities			
Trade and other payables	14	4,636	3,014
Lease payables and incentives		925	–
Deferred and contingent consideration	15	5,735	1,000
Employee benefits	16	1,010	654
Deferred revenue	17	13,782	9,072
Total current liabilities		26,088	13,740
Non-current liabilities			
Deferred and contingent consideration	15	400	–
Deferred tax	18	801	–
Employee benefits	19	128	115
Lease payables and incentives		3,700	–
Total non-current liabilities		5,029	115
Total liabilities		31,117	13,855
Net assets		68,212	23,765
Equity			
Share capital	21	72,340	25,110
Reserves	21	158	(47)
Accumulated losses	22	(4,286)	(1,298)
Equity attributable to the owners of ELMO Software Limited		68,212	23,765
Total equity		68,212	23,765

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

Consolidated statement of changes in equity

for the year ended 30 June 2018

Consolidated	Issued capital \$'000	Foreign currency translation reserves \$'000	Share option reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016	350	–	–	(378)	(28)
Loss after income tax benefit for the year	–	–	–	(920)	(920)
Other comprehensive income for the year, net of tax	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	(920)	(920)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares to the public on IPO (net of issue costs)	23,515	–	–	–	23,515
Issue of employees gift shares	45	–	–	–	45
Issue of F Class share capital	1,200	–	–	–	1,200
<i>Reserves:</i>					
Translation movement during the year	–	(47)	–	–	(47)
Balance at 30 June 2017	25,110	(47)	–	(1,298)	23,765

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 and Share Purchase Plan (net of issue costs and 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	72,340	(47)	205	(4,286)	68,212

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

Consolidated statement of cash flows

for the year ended 30 June 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		28,623	18,527
Payments to suppliers and employees (inclusive of GST)		(24,655)	(15,529)
		3,968	2,998
Interest and other finance costs paid		–	(21)
Income taxes refunded		150	578
Net cash from operating activities	31	4,118	3,555
Cash flows from investing activities			
Interest received		265	31
Payments for property, plant and equipment		(5,628)	(308)
Payments for intangibles		(4,845)	(2,764)
Payment for acquisitions of businesses and subsidiaries, net of cash acquired		(17,564)	(1,046)
Net cash used in investing activities		(27,772)	(4,087)
Cash flows from financing activities			
Proceeds from issue of shares		46,023	26,200
Share issue transaction costs (net of tax)		(2,975)	(2,084)
Net cash from financing activities		43,048	24,116
Net increase in cash and cash equivalents		19,394	23,584
Cash and cash equivalents at the beginning of the financial year		26,601	3,017
Cash and cash equivalents at the end of the financial year	8	45,995	26,601

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

Notes to the financial statements

30 June 2018

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.

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 2.

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 28.

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 2018 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 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.

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.

Notes to the financial statements

30 June 2018

Note 1. Significant accounting policies (continued)

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.

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. 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 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 is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Services revenue is predominantly from recurring revenues associated with the cloud-based Talent Management Software Solutions. The agreements with customers do not include general rights of return and do not provide customers with the right to take possession of the software supporting the services being provided. As such, revenue is recognized in equal monthly amounts over the life of the agreement, usually a 3 year term, when all of the following criteria are achieved:

- There is persuasive evidence of an agreement;
- The service has been provided to the customer;
- Collection of the fees is reasonably assured; and
- The amount of fees to be paid by the customer is fixed or determinable.

Professional service revenue (integration, implementation and training services) is recognised once the service has been provided.

Interest

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.

Other revenue

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

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.

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.

Notes to the financial statements

30 June 2018

Note 1. Significant accounting policies (continued)

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if 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.

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. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

Property, plant and equipment

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.

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 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.

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.

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. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Notes to the financial statements

30 June 2018

Note 1. Significant accounting policies (continued)

Intangible assets

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. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

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.

Software development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits, which for software the expected useful life is 3 years.

Capitalised sales commission costs

Commission costs paid to employees as a remuneration for securing a new contract are amortised on a straight-line basis over the period of the contract (1-3 years).

Customer lists

Acquired customer lists are amortised over management's best estimate of their useful life which is 7 years on a straight-line basis.

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.

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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Finance costs

Finance costs are expensed in the period in which they are incurred.

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 33.

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 which maturity approximating 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Notes to the financial statements

30 June 2018

Note 1. Significant accounting policies (continued)

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.

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.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, is set out below.

IFRS 9 Financial Instruments

The consolidated entity is required to adopt this standard from 1 July 2018. The standard replaces all previous versions of IFRS 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

Classification: IFRS 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

Based on its assessment of IFRS 9 and the function of the balance sheet including cash, trade receivables and liabilities with no assets held as available for sale, debt or equity securities, the Group does not believe that the classification requirements will have a material impact.

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. The standard introduces additional new disclosures where relevant.

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. It is not expected that there will be a material impact on the accounting treatment of the impairment of trade receivables in the continuation of this current policy. The Group will continue to monitor this under the new requirements of IFRS 9 considering actual credit loss experience and any changes to exposure of external factors including geographic and economic conditions with additional disclosure where required.

IFRS 15 Revenue from Contracts with Customers

The consolidated entity is required to adopt this standard from 1 July 2018. The standard provides a single standard for revenue recognition.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group has performed an assessment of current revenue contracts in light of the requirements of IFRS 15 and as an entity operating in the software industry highlighted the following areas for consideration:

- Performance obligations: consideration given to whether multiple performance obligations exist within each contract. Included within all current contracts are the components of licence, implementation, technical support and training. These products and services are not classified as being distinct and cannot be supplied by another provider. They therefore represent one single performance obligation and are not required to be accounted for separately.
- Licences: the standard requires an entity to assess whether the licence represents a 'right of use' and recognised at a point in time or 'right of access' and recognised over the term of the contract. For all contracts the entity continues to be involved in maintaining and significantly improving the underlying software over the licence period therefore the licence grants a right of access to the customer and the revenue will be recognised over the licence period under the IFRS 15.
- Non-refundable upfront fees: there are no additional non-refundable upfront fees to be recognised over time so no significant accounting impact.
- Financing components: all annual contracts are paid in advance so there is no accounting effect for a financing component.

Based on its initial assessment of the above considerations the Group has determined that its professional services fee revenue stream (relating to integration, implementation and training) may be impacted by a partial deferral in the timing of revenue recognition under IFRS 15. Currently all professional services fee revenue is recognised when the service has been provided.

The Group is in the process of determining whether there is a requirement under IFRS 15 to bundle professional services fee revenue with the licence fees and amortise both revenue streams over the licence fee term. In FY18 Professional service fees totalled \$1.6m out of total revenue of \$26.5m (6% of total revenue).

The Group is in the process of finalising its analysis of the implications of IFRS 15, but based on its procedures to date it does not believe that the introduction of IFRS 15 will lead to a material impact on the Group's FY19 revenue.

Notes to the financial statements

30 June 2018

Note 1. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases.

Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred.

A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

In addition straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be expected to be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

The Group has commenced an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions. So far, the most significant impact identified is that the Group will recognise new assets and liabilities but this is yet to be quantified.

Other amended standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments

Note 2. 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.

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 revenue growth assumptions and discount rates underlying the valuation of customer lists.

Goodwill, other indefinite life intangible assets and annual impairment assessment

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amount of ELMO as a single cash generating unit has been determined based on the fair value less cost of disposal calculations.

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.

Capitalisation of Software Development costs

As discussed in Note 1 internally generated software 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.

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.

Notes to the financial statements

30 June 2018

Note 3. Revenue from rendering of services

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	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australia	25,423	16,396	35,593	6,439
New Zealand	892	–	6,011	32
Singapore	205	168	–	6
	26,520	16,564	41,604	6,477

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 (89.7%, 2017: 93.3%); b) New Zealand (8.40%, 2017: 5.3%); c) Singapore (0.9%, 2017:1.0%) and d) Other (1.0%, 2017: 0.4%)

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. Other income

	Consolidated	
	2018 \$'000	2017 \$'000
Government grants	93	72
Other income	34	53
	127	125

Note 5. Expenses

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Employment expenses</i>		
Sales and marketing	5,369	4,354
Research and development	792	338
General and administrative	6,560	2,427
	12,721	7,119
<i>Included in general and administrative expenses</i>		
Consultancy and subcontractor expenses	1,651	108
Depreciation expenses	187	187
IPO related costs	–	1,635
Rental expenses	1,514	553

Note 7. Discontinued operations

The Company completed the wind down of its Registered Training Organisation (RTO) division on 13 January 2017. The division has been disclosed as a discontinued operation. There is no discontinued operation for the year ended 30 June 2018.

Results of discontinued operations

	Consolidated	
	2018 \$'000	2017 \$'000
Revenue from rendering of services	–	(10)
Cost of sales	–	(101)
Gross loss	–	(111)
Sales and marketing expenses	–	(35)
General and administrative expenses	–	(101)
Operating loss from discontinued operation	–	(247)
Income tax benefit	–	74
Loss after income tax benefit from discontinued operations	–	(173)

The loss after income tax benefit from the discontinued operation of \$173,193 for the year ended 30 June 2017 is attributable entirely to the owners of the Company.

Note 8. Current assets – cash and cash equivalents

	Consolidated	
	2018 \$'000	2017 \$'000
Cash at bank	45,995	26,601

Notes to the financial statements

30 June 2018

Note 9. Current assets – trade and other receivables

	Consolidated	
	2018 \$'000	2017 \$'000
Trade receivables	7,326	4,402
Allowance for doubtful debts	(902)	(914)
	6,424	3,488
Other receivables	36	80
	6,460	3,568

Impairment of receivables

The consolidated entity has recognised a loss of \$786,971 (2017: \$101,816) in profit or loss in respect of impairment of receivables for the year ended 30 June 2018.

Information about the Group's exposure to credit and market risk is detailed in note 20.

The ageing of the impaired receivables provided for above are as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
0 to 3 months overdue	128	515
3 to 6 months overdue	973	399
	1,101	914

The ageing of the receivables not impaired including those past due are as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
Neither past due nor impaired	3,395	1,889
<i>Past due but not impaired</i>		
0 to 3 months overdue	2,238	715
3 to 6 months overdue	592	884
	2,830	1,599

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

	Consolidated	
	2018 \$'000	2017 \$'000
Opening balance	914	851
(Reduction in)/additional net provisions recognised	(12)	63
Closing balance	902	914

Note 10. Current assets – income tax refundable

	Consolidated	
	2018 \$'000	2017 \$'000
Income tax refundable	7	503

In the prior year as the Group revenue was less than \$20m, the income tax refundable for the Group amounted to \$502,772 which is mostly from the R&D tax incentive refundable available to the parent entity. However for the year ended 30 June 2018 as the Group revenue has now exceeded the threshold of \$20m, there will be a non-refundable tax offset carried forward of \$841,312 available to the parent entity.

The income tax refundable for the year ended 30 June 2018 of \$7,339 comprises of tax refund owing to the subsidiaries in the Group.

Note 11. Current assets – other

	Consolidated	
	2018 \$'000	2017 \$'000
Prepayments	1,096	259
Other debtors	3	113
	1,099	372

Notes to the financial statements

30 June 2018

Note 12. Non-current assets – property, plant and equipment

	Consolidated	
	2018 \$'000	2017 \$'000
Plant and equipment – at cost	518	396
Accumulated depreciation	(296)	(243)
	222	153
Computer equipment – at cost	855	606
Accumulated depreciation	(541)	(436)
	314	170
Leasehold improvements – at cost	5,253	233
Accumulated depreciation	–	(50)
	5,253	183
	5,789	506

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 2016	51	215	119	385
Additions	143	70	95	308
Depreciation expense	(41)	(115)	(31)	(187)
Balance at 30 June 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	222	314	5,253	5,789

The leasehold improvements of \$5.3m recognised in the year were in relation to the relocation of ELMO's offices with a corresponding leasehold incentive receivable of \$4.2m. The leasehold improvements from the previous Bondi Junction office had been written off during the year.

Note 13. Non-current assets – intangible assets and capitalised costs

	Consolidated	
	2018 \$'000	2017 \$'000
Software development costs	13,606	6,293
Accumulated amortisation	(6,633)	(3,521)
	6,973	2,772
Capitalised sales commission costs	2,338	1,692
Accumulated amortisation	(1,588)	(930)
	750	762
Customer lists (acquired through business combinations)	6,995	410
Accumulated amortisation	(525)	(44)
	6,470	762
Goodwill (acquired through business combinations)	21,380	2,071
Trademarks (acquired through business combinations)	242	–
	35,815	5,971

Reconciliations

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

Consolidated	Software development costs \$'000	Capitalised Commission costs \$'000	Customer list \$'000	Goodwill \$'000	Trademarks \$'000	Total \$'000
Balance at 1 July 2016	2,241	710	–	–	–	2,951
Additions	2,225	539	–	–	–	2,764
Additions through business combinations (note 15)	–	–	410	2,071	–	2,481
Amortisation expense	(1,694)	(487)	(44)	–	–	(2,225)
Balance at 30 June 2017	2,772	762	366	2,071	–	5,971
Additions	4,200	645	–	–	–	4,845
Additions through business combinations (note 15)	3,113	–	6,585	19,309	242	29,249
Amortisation expense	(3,112)	(657)	(481)	–	–	(4,250)
Balance at 30 June 2018	6,973	750	6,470	21,380	242	35,815

Goodwill arose through the acquisition of Quintessential Marketing Consulting Pty Limited, Sky Payroll and Pivot Software; refer to Note 15 for further details.

An impairment loss, if any, is recognised for the amount by which the carrying amount exceeds its recoverable amount.

The recoverable amount is determined on a Fair Value Less Cost of Disposal Basis and as at 30 June 2018 there are no indicators to suggest that an impairment would occur.

Notes to the financial statements

30 June 2018

Note 14. Current liabilities – trade and other payables

	Consolidated	
	2018 \$'000	2017 \$'000
Trade payables and accruals	3,773	2,390
Other payables	838	599
Loans from a related party	25	25
	4,636	3,014

Note 15. Business combinations and acquisitions of business assets

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

	Techni Works (Acquired in FY2017) \$'000	QMC \$'000	Sky Payroll \$'000	Pivot Software \$'000
Net fixed assets	22	14	–	63
Cash	–	10	–	481
Customer list intangible asset	410	3,020	–	3,565
Software intangible asset	–	1,053	324	1,736
Trademark intangible asset	–	134	–	108
Other assets	147	599	–	697
Deferred revenue	(465)	(1,501)	–	(1,779)
Deferred tax liability	(123)	(946)	–	(1,102)
Loans repaid to previous shareholders	–	–	–	(3,551)
Other liabilities	–	(50)	–	(463)
Net identifiable (liabilities)/assets acquired	(9)	2,333	324	(245)
Goodwill on acquisition	2,071	9,718	1,476	8,115
Acquisition-date fair value of the total consideration transferred	2,062	12,051	1,800	7,870

Acquisitions in FY2017

Techni Works Pty Limited

On 7 October 2016, Elmo Software Ltd acquired 100% of the ordinary shares of Techni Works Pty Ltd and its controlled subsidiary, Techni Works Action Learning Pty Ltd for the total consideration transferred of \$2,062,360.

Techni Works is an Australian eLearning company specialising in the provision of Australian focused cloud based eLearning courses. The strategic rationale underpinning the acquisition of Techni Works and resulting in goodwill on acquisition included:

- Margin expansion from synergy cost savings as a result of a significant reduction in operational costs;
- Low integration risk and ability to extract significant operational efficiencies from leveraging ELMO's existing infrastructure;
- Increasing market share with an enlarged customer base of 82 additional customer. This allows ELMO account managers to leverage existing Techni Works customer relationships to establish new contracts from upselling and cross-selling of ELMO's full suite of talent management software solutions; and
- Expanding ELMO's learning module platform with the addition of new eLearning courses.

Acquisitions in FY2018

Quintessential Marketing Consulting

On 15 November 2017, ELMO Software Limited acquired the assets of Quintessential Marketing Consulting under the terms of a sale and purchase agreement. The acquisition included the assets and employee entitlements provisions of the following two specialised, SaaS based, HR management software solutions:

- PeoplePulse, an online employee and customer feedback survey platform that includes specialised HR surveys such as staff pulse surveys, onboarding surveys, training evaluations, net promoter scores and exit surveys; and
- LiveSalary, an online salary database and benchmarking platform to assist customers to better recruit, reward and retain employees.

PeoplePulse and LiveSalary's highly scalable modules accelerate ELMO's product development program. In addition, the acquisition represents a logical and complementary fit into ELMO's integrated HR Administration and Talent Management product suite.

The agreed consideration for the acquisition was a total cash amount of \$10,051,369, of which \$8,051,369 was paid on completion of the transaction and \$2m to be paid on the first year anniversary from completion. Conditional consideration to a maximum of \$2m will be made dependent on revenue performance targets being achieved in the first 12 months from completion.

Goodwill has arisen from synergies expected to be achieved from the acquisition which include the integration of PeoplePulse and LiveSalary and the cross sell opportunities with the ELMO cloud based suite of products.

Sky Payroll

On 1 February 2018 the Company completed the purchase of the assets of Sky Payroll, a native cloud-based Australian SaaS payroll software system whose revenue model holds similar attributes to ELMO's core business.

Established in 2014, Sky Payroll is a pure HR cloud based payroll software solution for the Australian market. Payroll is central to HR administration and presents as a logical, strategic and highly complementary fit to ELMO's current suite of modules. The addition of Sky payroll has provided a more enhanced and integrated product suite to offer to its current and future customer base whilst enabling ELMO to leverage existing relationships for cross-sell opportunities as well as fostering new ones. The acquisition enables ELMO to enter into the cloud software payroll market with considerable timing and cost advantages over a 'build in-house' approach as well as positioning ELMO to benefit from the industry shift to Single Touch Payroll Reporting (STPR).

The agreed consideration for the acquisition was \$1.0m initial purchase price settled 50/50 in cash and shares and a \$0.4m deferred payment (payable as \$0.2m within 15 days of 1 February 2019 and \$0.2m within 15 days of 1 February 2020). Additionally, there are 2 tranches of conditional consideration with a maximum of \$0.2m per tranche should revenue performance targets be achieved payable within the same timelines as the contingent consideration.

Goodwill has arisen from these synergies and the opportunities for cross-selling in the market.

Notes to the financial statements

30 June 2018

Note 15. Business combinations and acquisitions of business assets (continued)

Acquisitions in FY2018 (continued)

Pivot Software

On 13 March 2018 ELMO acquired 100% of the share capital and voting rights of Pivot Remesys Group (Pivot Software), a leading provider of remuneration software in Australia and New Zealand.

The agreed consideration for the purchase of Pivot Software was \$11.4m total consideration (including loan repayments). Excluding \$3.55m loan repayments, this consisted of \$4.0m cash paid and \$1.65m shares issued during the financial year. Contingent consideration amounting to \$1.8m cash and \$0.4m shares is expected to be settled during the financial year ending 30 June 2019 subject to key customer retention.

ELMO aims to accelerate the growth in the remuneration management SaaS software sector through its strong brand and advanced distribution network. Following the acquisition of Pivot Software, ELMO is able to provide its customers with a solution to manage salary increases, bonuses and complex LTI/STI issues. ELMO plans to offer its existing customer base a dedicated remuneration module which offers high quality reporting as part of a single integrated platform to automate HR and payroll functions. Goodwill has arisen through this acquisition based on these benefits gained.

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

	Revenue \$'000	Loss after tax \$'000
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 QMC, Sky Payroll and Pivot Software) would have been:

- Revenue: \$31.8m
- Loss before tax: \$1.9m

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

Note 16. Current liabilities – employee benefits

	Consolidated	
	2018 \$'000	2017 \$'000
Employee benefits	1,010	654

Amounts not expected to be settled within the next 12 months

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 17. Current liabilities – Deferred revenue

	Consolidated	
	2018 \$'000	2017 \$'000
Deferred revenue	13,782	9,072

Notes to the financial statements

30 June 2018

Note 18. Non-current liabilities – deferred tax

Year ended 30 June 2018	As at 1 July 2017 \$'000	Recognised in profit or loss (Note 6) \$'000	Recognised in equity (Note 6) \$'000	Acquired in business combinations \$'000	As at 30 June 2018 \$'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
Acquired on business combination:					
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
Provision for 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)

Year ended 30 June 2017	As at 1 July 2016 \$'000	Recognised in profit or loss (Note 6) \$'000	Acquired in business combinations \$'000	As at 30 June 2017 \$'000
Provision for doubtful debts	58	77	–	135
Prepayments	9	(9)	–	–
Property, plant and equipment	37	(3)	–	34
Intangibles	(885)	(175)	–	(1,060)
Blackhole expenses	27	731	–	758
Customer list	–	13	(123)	(110)
Superannuation payables	54	17	–	71
Accruals	122	(82)	–	40
Provision for employee benefits	170	61	–	231
(Deferred tax liabilities)/deferred tax assets	(408)	630	(123)	99

Note 19. Non-current liabilities – employee benefits

	Consolidated	
	2018 \$'000	2017 \$'000
Employee benefits	128	115

Note 20. Financial risk management

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.

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of the customer's outstanding balances less any provision for impairment of those assets, as disclosed in the Consolidated statement of financial position. These predominantly relate to trade receivables for which the credit risks are considered on an ongoing basis based on customer knowledge and prior experience.

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.

Market risk: Currency risk

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. At the current time therefore the risk due to foreign exchange movements is determined to be immaterial; however, this risk will continue to be assessed in future years in relation to the proportion of overseas activity.

Notes to the financial statements

30 June 2018

Note 21. Equity – share capital and reserves

Ordinary shares issued and fully paid	Shares	\$'000
At 1 July 2016	40	350
Shares subdivision	910	–
Issue of F class shares and conversion to ordinary shares	40	1,200
Balance pre-share split and IPO	990	1,550
Share split under IPO	41,648,834	–
Shares issued to the public on IPO	12,500,000	25,000
Less capitalised IPO costs	–	(1,485)
Gift shares issued	22,750	45
At 30 June 2017	54,171,584	25,110
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

Ordinary shares

Issue of ordinary shares

During the year ended 30 June 2018, ordinary shares were issued as a result of the following acquisitions (2017: nil):

		Number	Issue price	\$'000
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
		465,827		2,150

See note 15 for further detail regarding acquisitions during the year.

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.

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 consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

Nature and purpose of reserves

Reserves

	Consolidated	
	2018 \$'000	2017 \$'000
Foreign exchange translation reserve	(47)	(47)
Share options reserve	205	–
	158	(47)

Notes to the financial statements

30 June 2018

Note 22. Equity – accumulated losses

	Consolidated	
	2018 \$'000	2017 \$'000
Accumulated losses at the beginning of the financial year	(1,298)	(378)
Loss after income tax benefit for the year	(2,988)	(920)
Accumulated losses at the end of the financial year	(4,286)	(1,298)

Note 23. Equity – dividends

There were no dividends paid or proposed for the year ended 30 June 2018 (2017 \$nil).

Note 24. Key management personnel disclosures

Compensation

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

	Consolidated	
	2018 \$'000	2017 \$'000
Short-term employee benefits	2,727	1,997
Post-employment benefits	136	104
Share-based payment	138	–
	3,001	2,101

Note 25. 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	
	2018 \$	2017 \$
<i>Audit services – Deloitte Touche Tohmatsu</i>		
Audit of the financial statements	103,000	148,000
Other due diligence services – Deloitte Touche Tohmatsu	330,000	325,000
	433,000	473,000
<i>Audit services – UHY Haines Norton</i>		
Audit of the financial statements	–	75,000
<i>Other services – UHY Haines Norton</i>		
Assistance in preparation of financial statements, tax return and other consultancy services	34,265	96,000
	34,265	171,000
During the financials year the following fees are payable for services provided by Mann & Associates PAC, the accountants and auditors of the ELMO Talent Management Software Pte Limited:		
<i>Audit services – unrelated firms</i>		
Audit of the financial statements for ELMO Talent Management Software Pte Limited	4,800	3,000
<i>Other services</i>		
Accountancy fees for ELMO Talent Management Software Pte Limited	7,400	9,000
	12,200	12,000

Notes to the financial statements

30 June 2018

Note 26. Commitments

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Lease commitments – operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	3,035	530
One to five years	11,027	571
	14,062	1,101

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.

Note 27. Related party transactions

Parent entity

ELMO Software Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Loans to/from related parties

The Company had a loan payable of \$24,564 with one of its shareholders in the 2018 and 2017 financial 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 28. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2018 \$'000	2017 \$'000
Loss after income tax benefit	(1,361)	(927)
Total comprehensive loss	(1,361)	(927)

Statement of financial position

	Parent	
	2018 \$'000	2017 \$'000
Total current assets	61,417	30,317
Total assets	97,426	37,911
Total current liabilities	24,181	13,412
Total liabilities	26,968	13,527
Equity		
Issued capital	72,340	25,110
Reserves	205	–
Accumulated losses	(2,087)	(726)
Total equity	70,458	24,384

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

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.

Notes to the financial statements

30 June 2018

Note 29. 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	
		2018 %	2017 %
ELMO Accredited Pty Limited	Australia	100.00%	100.00%
ELMO Talent Management Software Pty Limited	Australia	100.00%	100.00%
International Colleges Pty Limited	Australia	100.00%	100.00%
Studywell College Pty Limited	Australia	100.00%	100.00%
Techni Works Pty Limited	Australia	100.00%	100.00%
Techniworks Action Learning Pty Limited	Australia	100.00%	100.00%
Quinntessential Marketing Consulting Pty Limited	Australia	100.00%	–
ELMO Talent Management Software Pte Limited	Singapore	100.00%	100.00%
ELMO Software Limited	New Zealand	100.00%	100.00%
ELMO New Zealand Holdings Limited	New Zealand	100.00%	–
Pivot Remesys Group Holdings Limited	New Zealand	100.00%	–
Pivot Remesys IP Limited	New Zealand	100.00%	–
Pivot Remesys Limited	New Zealand	100.00%	–
Pivot Remesys Pty Limited	Australia	100.00%	–

Note 30. Events after the reporting period

There is no other matter or circumstance has arisen since 30 June 2018 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 31. Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
	2018 \$'000	2017 \$'000
Loss after income tax benefit for the year	(2,988)	(920)
Adjustments for:		
Amortisation and depreciation	4,438	2,412
Bad debt expense	787	101
Foreign exchange gain	–	(47)
IPO costs	–	1,635
Loss on disposal of assets	158	–
Rental expenses	460	–
Share based payment	205	–
Other expenses	(354)	(11)
Interest received	(265)	(31)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(3,415)	(1,442)
Increase in other assets	(727)	(128)
Increase in intangibles	–	(424)
Decrease in income tax refundable	396	33
Increase in deferred tax liabilities	(231)	(507)
Increase in trade and other payables	2,236	577
Increase in employee benefits	369	201
Increase in deferred revenue	3,049	2,106
Net cash from operating activities	4,118	3,555

Notes to the financial statements

30 June 2018

Note 32. Earnings per share

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Earnings per share for profit from continuing operations</i>		
Loss after income tax	(2,988)	(747)
	Cents	Cents
Basic earnings per share	(5.29)	(1.79)
Diluted earnings per share	(5.29)	(1.79)
	Consolidated	
	2018 \$'000	2017 \$'000
<i>Earnings per share for profit from discontinued operations</i>		
Loss after income tax	–	(173)
	Cents	Cents
Basic earnings per share	–	(0.41)
Diluted earnings per share	–	(0.41)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	56,517,696	41,699,592
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	–	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	56,517,696	41,699,592

The weighted average number of ordinary shares used in calculating the earnings per share for 2017 has been amended to reflect the share split as detailed in note 21.

Note 33. Share-based payment arrangement

Description of share-based payment arrangement

As at 30 June 2018 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.

	No. of options granted in FY18	No. of options outstanding as at 30 June 2018
Options granted to key management personnel under SEEP		
On 17 October 2017	398,712	398,712
On 7 December 2017	119,019	119,019
Options granted to personnel under HPEP		
On 17 October 2017	202,902	202,902
On 11 December 2017	8,735	8,735
On 9 March 2018	22,260	22,260
On 12 June 2018	8,820	8,820

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 2018 none of the options have vested and are not exercisable.

An expense of \$204,889 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 2018 (2017: \$nil).

Notes to the financial statements

30 June 2018

Note 33. Share-based payment arrangement (continued)

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.

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 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	\$2.50	\$2.50	\$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.

Directors' declaration

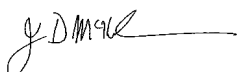
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



James McKerlie
Chairman



Danny Lessem
Director

29 August 2018
Sydney

Independent auditor's report

to the members of ELMO Software Limited

Deloitte.

Deloitte Touche Tohmatsu
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Grosvenor Place
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Sydney, NSW, 2000
Australia

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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 2018, 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 2018 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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Key Audit Matters	How the scope of our audit responded to the Key Audit Matter
<p>Revenue Recognition – rendering of services (\$26.5m)</p> <p><i>Refer to the description of accounting principles and Note 3.</i></p> <p>For the year ended 30 June 2018, \$26.5 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 complying with applicable accounting standards relevant to revenue recognition. This judgment along with the manual nature of the calculations, 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 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; • 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 2018 using the invoice amortisation schedule, noting any exceptions. <p>We also assessed the appropriateness of the disclosures in Note 3 to the financial statements.</p>
<p>Business combinations</p> <p><i>Refer to Note 15.</i></p> <p>During the financial year ended 30 June 2018, the Group acquired the following:</p> <ul style="list-style-type: none"> • on 15 November 2017, the assets of Quintessential Marketing Consulting under the terms of a sale and purchase agreement for a total consideration of \$12.1 million, • on 1 February 2018, the assets of Sky Payroll for a total consideration of \$1.8 million, and • on 13 March 2018, 100% of the voting rights of Pivot Remesys Group (Pivot Software), for a total consideration of \$7.9 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; • Engaging our valuation specialists to evaluate the methodology and assumptions utilised to identify and determine the fair value of separately identified intangible assets. This primarily represented consideration of the reasonableness of: <ul style="list-style-type: none"> ➢ Attrition rates, Contributory Asset Charges and Earnings Before Interest Tax margins of existing customer contracts; and ➢ Discount rates underlying the valuation of the separately identifiable customer relationship intangible.

Independent auditor's report

to the members of ELMO Software Limited

Deloitte.

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 a number of 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 the useful economic life of the customer relationship intangible acquired; and • Confirming the estimation of the contingent consideration was in accordance with the sale and purchase agreement terms and conditions, including challenging the key assumptions such as revenue growth rates used in the forecasts. <p>We also assessed the appropriateness of the disclosures in Note 15 to the financial statements.</p>
<p>Goodwill impairment</p> <p>As disclosed in Note 13 the Group has \$21.4 million of Goodwill as at 30 June 2018.</p> <p>The Group performed an impairment assessment 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"> • Assessing the valuation methodology applied was consistent with the basis required by the relevant accounting standards; • 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: <ul style="list-style-type: none"> ➢ Challenging the key assumptions adopted by management in their Fair Value less cost to sell valuation approach. <p>We also assessed the appropriateness of the disclosures in Note 13 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.

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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.

Independent auditor's report

to the members of ELMO Software Limited

Deloitte.

- 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 43 to 53 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Elmo Software Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner, Chartered Accountants
Sydney, 29 August 2018

Shareholder information

As at 5 October 2018

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

1. In accordance with the 3rd edition ASX Corporate Governance Council's Principles and Recommendations, the 2018 Corporate Governance Statement, as approved by the Board, is available on the Company's website at: <http://investors.elmotalent.com.au/Investors/?page=Corporate-Governance>. The Corporate Governance Statement sets out the extent to which ELMO Software Limited has followed the ASX Corporate Governance Council's 29 Recommendations during the 2018 financial year.

2. Substantial shareholders

The number of securities held by substantial shareholders and their associates (as disclosed to the ASX) are set out below:

Name	Number	%*	Date lodged
JLAB Investments (No. 2) Pty Limited	15,986,422	25.4	05/04/2018
Lessem Trading Pty Ltd	11,989,816	19.05	04/04/2018
Bessie Garber and Manuel Garber as trustees of the Garber Family Trust	11,989,816	19.05	04/04/2018
Immersion Capital Master Fund Ltd	8,922,201	14.17	03/04/2018

*% of issued capital as at the date the notice was lodged

3. Number of security holders and securities on issue

ELMO Software Limited has issued the following securities: 63,201,187 fully paid ordinary shares held by 2,523 shareholders.

4. Voting rights

Ordinary shares

In accordance with the ELMO Software Limited Constitution and subject to any rights or restrictions attached to any class of shares, at a meeting of members:

- on a show of hands, each shareholder has 1 vote; and
- on a poll, each fully paid share held by a shareholder has 1 vote.

5. Distribution of security holders

(a) Quoted and unquoted securities

Category	Fully paid Ordinary shares (quoted and unquoted)		
	Holders	Shares	%
1 - 1,000	1,694	783,137	1.24%
1,001 - 5,000	668	1,529,597	2.42%
5,001 - 10,000	67	470,270	0.74%
10,001 - 100,000	78	2,061,935	3.26%
100,001 and over	16	58,356,248	92.33%
Total	2,523	63,201,187	100%

Shareholder information

As at 5 October 2018

(b) Quoted securities

Category	Fully paid Ordinary shares (quoted)		
	Holders	Shares	%
1 - 1,000	1,694	783,137	3.38%
1,001 - 5,000	670	1,537,374	6.64%
5,001 - 10,000	67	470,270	2.03%
10,001 - 100,000	80	2,182,185	9.43%
100,001 and over	17	18,166,480	78.51%
Total	2,528	23,139,436	100

6. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is nil (0) based on ELMO Software Limited's closing share price of \$6.33, on 5 October 2018.

7. Twenty largest shareholders of quoted and unquoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

Rank	Name	05 Oct 2018	%IC
1	JLAB INVESTMENTS (NO.2) PTY LTD	15,989,199	25.30
2	MANUEL GARBER & BESSIE GARBER	11,989,816	18.97
2	LESSEM TRADING PTY LTD	11,989,816	18.97
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	10,257,063	16.23
4	NATIONAL NOMINEES LIMITED	3,124,705	4.94
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,890,501	2.99
6	GORDON STARKEY	510,945	0.81
7	MR DARRYL JUSTIN GARBER	450,695	0.71
8	XIN SUN	425,695	0.67
9	TREVOR LONSTEIN	420,695	0.67
10	WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	350,000	0.55
11	TRUEBELL CAPITAL PTY LTD	280,537	0.44
12	CHRISTOPHER JAMES YOUNGMAN & PAUL ROGER HARTLAND & PHILLIPA JOANNE YOUNGMAN	245,897	0.39
13	BNP PARIBAS NOMINEES PTY LTD	169,460	0.27
14	THE AUSSIE MALL PTY LTD	141,643	0.22
15	BOND STREET CUSTODIANS LTD	119,581	0.19
16	MR ROBERT LESSEM	96,884	0.15
17	LAUMARK PTY LTD	80,902	0.13
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	79,903	0.13
19	ENFEL INVESTMENTS PTY LIMITED	76,878	0.12
20	NEWECONOMY COM AU NOMINEES PTY LIMITED	67,640	0.11
	Total	58,758,455	92.97
	Balance of register	4,442,732	7.03
	Grand total	63,201,187	100.00

8. Name of the Company Secretary: Anna Sandham.

9. The details of the Company's registered office are:

Address: Level 12, 680 George Street, Sydney NSW 2000.

Telephone: 02 8280 7355

The details of the Company's principal administrative office are:

Address: Level 27, 580 George Street, Sydney NSW 2000

10. The address and telephone number of the office at which a register of securities is kept:

Link Market Services Limited

Address: Level 12, 680 George Street, Sydney NSW 2000

Telephone: 02 8280 7288

11. ELMO Software Limited securities are not quoted on any other stock exchanges other than the ASX.

12. The number and class of restricted securities or securities subject to voluntary escrow that are on issue and the date that the escrow period ends are set out below:

Class of Securities	No. of shares	Escrow period
Fully paid ordinary shares	774,995	24 months from the date of quotation (ie until 29 June 2019)
Fully paid ordinary shares	812,088	24 months from the date of quotation (i.e. until 29 June 2019)

13. Unquoted securities

Details of the unquoted securities on issue are as follows:

a) ASX restricted securities

Category	Fully paid Ordinary shares (quoted)		
	Holders	Shares	%
1 - 1,000	–	–	–
1,001 - 5,000	–	–	–
5,001 - 10,000	–	–	–
10,001 - 100,000	–	–	–
100,001 and over	4	40,061,751	100%
Total	4	40,061,751	100%

Details of those holders who hold more than 20% or more of the equity securities in the ASX restricted securities class are as follows:

Name of holder	Number held
JLAB Investments (No.2) Pty Limited	15,811,423
Lessem Trading Pty Ltd	11,989,816
Manuel Garber and Bessie Garber	11,989,816

Shareholder information

As at 5 October 2018

a) ASX restricted securities

Category	Options (unquoted)		
	Holders	Shares	%
1 – 1,000	–	–	–
1,001 – 5,000	–	–	–
5,001 – 10,000	2	17,555	2.31%
10,001 – 100,000	15	225,162	29.61%
100,001 and over	5	517,731	68.08%
Total	22	760,448	100%

14. Review of operations and activities

A review of ELMO Software Limited's operations during the period is provided within the Directors' Report of the Annual Report.

15. On market buy-back

There is no current on market buy-back.

16. Statement regarding use of cash and assets.

During the period between 1 July 2017 and 30 June 2018, ELMO Software Limited has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in the prospectus dated 6 June 2017.

17. Details of investments

N/A - ELMO Software Limited is not an investment company.

18. The following is a summary of any issues of securities approved for the purposes of Item 7 of section 611 of the Corporations Act which have not yet been completed.

N/A

19. No securities were purchased on-market during the reporting period.

Risk Management

Risk Management:

The Group's operations and financial results are subject to a number of risks. Some of these risks are not directly under ELMO's control. The key risks affecting ELMO, and the steps taken to mitigate these risks are described below, in no particular order. These risks are a summary only of some of the risks that ELMO considers to be key to its business, and the summary is not, and it does not purport to be, an exhaustive list of all of the risks associated with the Group or an investment in ELMO shares. There is no guarantee or assurance that the risks will not change or that other risks or matters that may adversely impact ELMO's business, the industry in which it operates or an investment in ELMO shares, will not emerge. Should this arise, ELMO is under no obligation to update its summary of key risks and investors are urged to exercise caution before investing in ELMO shares.

Failure to retain existing customers and attract new customers	<p>The success of ELMO's business relies on its ability to attract new customers and to retain and increase revenue from existing customers.</p> <p>ELMO's customers have no obligation to renew their service offering when their contract term ends and ELMO cannot guarantee that all or any of its customers will renew their current service offering after the completion of their contract term. ELMO also cannot guarantee that it will successfully increase revenue from its existing customers through the ability to cross-sell other modules to the same customers.</p> <p>If customers do not continue to use ELMO's platform and do not increase their usage over time, and if new customers do not choose to use ELMO's platform, the growth in ELMO's revenue may slow, or decline, which will have an adverse impact on ELMO's operating and financial performance.</p>
Ability to attract and retain key personnel	<p>A perceived critical component of the success of the Company is the ongoing retention of key personnel, specifically, founder and CEO, Danny Lessem, and members of the senior management, sales and product research and development teams.</p> <p>There is a risk ELMO may not be able to attract and retain key personnel or be able to find effective replacements for those key personnel in a timely manner. The loss of such personnel, or any delay in their replacement, could have a significant negative impact on management's ability to operate the business and achieve financial performance targets and strategic growth objectives.</p>
Reliance on ELMO's software solutions and failure to adequately maintain and develop it	<p>ELMO's business model depends on ELMO's ability to continue to ensure that ELMO's customers are satisfied with the functionality of ELMO's talent management software solutions. The market for talent management software solutions is subject to evolving industry standards, changing regulations as well as ever changing customer needs, requirements and preferences. ELMO's success will depend on its ability to adapt and respond effectively to these changes on a timely basis. There is a risk that ELMO may fail to maintain its software platform adequately or that future updates may introduce errors and performance issues causing customer satisfaction to fall. Any of these factors may result in reduced sales and usage of ELMO's solutions, loss of customers, damage to ELMO's reputation and an inability to attract new customers.</p>
Reliance on up-take of SaaS-based talent management software solutions	<p>ELMO's future revenue and growth depends on the increasing adoption of SaaS-based talent management software solutions. It may be difficult for ELMO to persuade potential customers to change their existing legacy on premise, manual paper-based or point solution and adopt SaaS-based talent management solutions like ELMO's. If ELMO's solutions are not accepted and used by more mid-market organisations or if the market for talent management solutions fails to grow as expected, ELMO's platform could be adversely affected and revenue growth may slow, which could negatively impact ELMO's operating and financial performance.</p>

Risk Management

Failure to effectively manage growth

ELMO has experienced a period of considerable growth in both revenue, employee numbers and customer base. Based on ELMO's projections, ELMO expects further growth in the future which could place significant strain on the current management, operational and finance resources as well as the infrastructure supporting ELMO's platform. Failure to appropriately manage growth could result in failure to retain existing customers and a failure to attract new customers which could adversely affect ELMO's operating and financial performance.

Future expansion by acquisition may be affected by factors beyond ELMO's control (including without limitation, commercial or regulatory changes). There is a risk that the integration requires significantly more financial and management resources, or time to complete, than originally planned. Acquisitions may fail to meet ELMO's strategic and financial objectives, generate the synergies and benefits that ELMO expected, or provide an adequate return on the purchase price and resources invested in them. There is a risk that in any acquisition appropriate warranties or indemnities cannot be obtained or that ELMO's due diligence and analysis may be incomplete or inaccurate. Any of these factors, either individually or in combination, may have an adverse impact on ELMO's operating and financial performance.

Failure to realise benefits from product research and development

Developing software and technology is expensive and often involves an extended period of time to achieve a return on investment. ELMO believes that it must continue to dedicate resources to ELMO's innovation efforts to develop ELMO's software and technology product offering and maintain the Company's competitive position.

ELMO may not however, receive benefits from these investments for several years or may not receive benefits from these investments at all. There is a risk that ELMO may fail to realise benefits from its innovation and product development related costs

Disruption or failure of technology and software systems

ELMO and its customers are dependent on the performance, reliability and availability of ELMO's platform, data centres and communications systems (including servers, the internet, hosting services and the cloud environment in which ELMO provides its solutions).

Any disruption or failure of ELMO's technology and software systems could potentially lead to a loss of customers, legal claims by customers, and an inability to attract new customers, any of which could adversely impact ELMO's operating and financial performance.

Loss or theft of data and failure of data security systems

ELMO's products involve the storage of customers' confidential and proprietary information including information regarding their employees. ELMO's business could be materially impacted by security breaches of customer data either by unauthorised access, theft, destruction, loss of information or misappropriation or release of confidential customer data. There is a risk that any measures taken may not be sufficient to prevent or detect unauthorised access to, or disclosure of, such confidential or proprietary information, and any of these events may cause significant disruption to ELMO's business and operations. This may also expose ELMO to reputational damage, regulatory scrutiny and fines, any of which could materially impact ELMO's operating and financial performance.

Success of sales and marketing strategy

ELMO's future success is partly dependent on the realisation of benefits from investment spent on sales and marketing campaigns and initiatives. Failure to realise intended benefits from sales and marketing investment could negatively impact ELMO's ability to attract new customers and adversely impact ELMO's operating and financial performance.

Revenue recognised throughout term of customer contracts	ELMO invoices customers annually in advance and recognises revenue monthly on a pro-rated basis throughout the term of the contract. As a result, most of the revenue realised in any given period relates to agreements entered into during previous periods. Consequently, a shortfall in demand for ELMO's solutions or losses in the existing customer base may not be reflected in the revenue results of that period but are likely to negatively impact revenue in subsequent periods. Accordingly, the effect of a shortfall in revenue from ELMO's platform may not be fully reflected in the financial performance until future periods.
Competition	The HR & Payroll software industry is rapidly evolving and becoming increasingly competitive. Some of ELMO's existing and potential competitors have significantly more resources than ELMO does. Due to competitive factors, ELMO may compete less effectively which may reduce the Company's market share and ability to develop or secure new business. This would have an adverse impact on ELMO's operating and financial performance.
Funding	ELMO may in the future require further funding with respect to its business, for either ongoing operations or to fund acquisitions. This funding may take the form of debt financing or raising more capital from existing shareholders or new investors. There is no guarantee that any such funding will be available, or available on terms that are acceptable to ELMO. Any capital raising may dilute existing shareholders equity.

Glossary

Term	Meaning
AASB	Australian Accounting Standards Board
ASX	Australian Securities Exchange
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group interpretations
Australian Accounting Standards Board	The AASB is an Australian Government agency under the Australian Securities and Investments Commission Act 2001
Board	The board of directors of the Company
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company	ELMO Software Limited
Corporations Act	Corporations Act 2001
Customer retention in dollar terms	Customer retention in dollar terms measures the ratio of like for like revenue growth of customers who transacted in the current and the preceding year
Customer retention rate	Customer retention is calculated by dividing the number of customers in the reference period who were customers at the end of the prior period by the number of customers at the end of the prior period
Directors	The directors of the Company from time to time
EBITDA	Earnings before interest, income tax, depreciation and amortisation
ELMO	ELMO Software Limited
Free cash flows	EBITDA after the removal of non-cash items in EBITDA such as bad debts and changes in working capital less capitalised software development and commission costs and other capital expenditure
FY	Financial year ending
IPO	Initial Public Offering
KMP	Key management personnel
Prospectus	The prospectus dated 6 June 2017 issued as part of the IPO
Recurring revenue	Recurring revenue is the portion of a company's revenue that is highly likely to continue in the future
SaaS	Software-as-a-Service
Share	A fully paid ordinary share in the Company

Corporate directory

Directors

Barry Lewin
Danny Lessem
Trevor Lonstein
Catherine Hill

Company secretary

Anna Sandham

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 12
400 George 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

<https://investors.elmosoftware.com.au/Investors/?page=Corporate-Governance>

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