MYOB GROUP LIMITED   ABN 61 153 094 958

APPENDIX 4E – PRELIMINARY FINAL REPORT GIVEN TO ASX UNDER LISTING RULE 4.3A FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2018

Item	Contents
1	Details of the reporting period
2	Results for announcement to the market
3	Net tangible assets per security
4	Operating performance
5	Other information

1. DETAILS OF THE REPORTING PERIOD

Reporting period: 12-month period ended 31 December 2018

Previous corresponding period: 12-month period ended 31 December 2017

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Up/down	% change	2018 $'000	2017 $'000
Revenue from ordinary activities	Up	6.90%	445,237	416,483
Profit from ordinary activities after tax for the period attributable to members	Up	5.14%	63,797	60,680
Total comprehensive income for the period attributable to members	Up	14.10%	66,580	58,353

Dividends per security	Cents per security	Franked amount per security (cents)
Final 2017 dividend per security (paid 5 April 2018)	5.75	Nil
Interim 2018 dividend per security (paid 18 October 2018)	5.75	Nil

Under the scheme implementation agreement currently in place with KKR, MYOB cannot declare and pay any dividend without KKR's prior written consent. On the basis of this restriction, the MYOB Board have not declared a final dividend for the financial year ended 31 December 2018.

3. NET TANGIBLE ASSETS PER SECURITY

	% change	31 December 2018 cents per security	31 December 2017 cents per security
Net tangible assets per security	(13.33)	(0.78)	(0.69)

Net tangible assets are defined as the net assets of MYOB Group Limited less intangible assets. A large proportion of the Group's assets are intangible in nature, predominantly goodwill. These assets are excluded from the calculation of net tangible assets per security which results in the negative outcome shown above.

4. OPERATING PERFORMANCE

The Group has reported a profit after income tax attributable to owners of MYOB Group Limited of $63.8 million for the year ended 30 December 2018 (30 December 2017: $60.7 million). Statutory earnings before income tax, net finance expenses, depreciation and amortisation was $181.0 million for the year ended 30 December 2018 (30 December 2017: $182.2 million).

The increase in operating revenue reported for the period of 6.9 per cent to $445.2 million was attributable to subscriber and Average Revenue per Paying User growth in the underlying business.

There was no change in the state of affairs of the Group during the year ended 31 December 2018.

5. OTHER INFORMATION

MYOB acquired intellectual property through the acquisition of the following entities during the year:

- On 20 February 2018 MYOB Group acquired 100% of MyAdvisor Pty Ltd for $2.5 million

- On 27 February 2018 MYOB Group acquired 100% of CompanyIQ Pty Ltd for $2.2 million

- On 12 December 2018 MYOB Group increased its existing ownership from 39.55% to 50.1% of Kounta Holdings Pty Limited for cash consideration of $4.2 million. This increase resulted in Kounta Holdings Pty Limited moving from an equity accounted investment to a partially owned subsidiary in MYOB's portfolio.

Refer to the attached full-year financial statements on page 27 (Note 12).

Liquidation / deregistration (including liquidations through amalgamation) dates of non-operating entities during the period:

- Ace Payroll Intermediary Limited – 18 May 2018
- Ace Payroll Plus Limited – 18 May 2018
- Banklink Limited – 18 May 2018

- Greentree FRL Limited – 18 May 2018
- Greentree Modules Limited – 18 May 2018
- Greentree Hei Matau Holdings Limited – 18 May 2018
- Information Management Services Limited – 18 May 2018
- PayGlobal Limited – 18 May 2018
- MYOB Asia Sdn Bhd – 8 June 2018

Details of associates and joint venture entities: The Group holds a 30% interest in OnDeck. Refer attached full-year financial statements on page 33 (Note 16).

Details of any dividend or distribution reinvestment plans in operation: N/A

Any other information required pursuant to ASX Listing Rule 4.3A not contained in this Appendix 4E is found in the attached full-year Financial Statements, ASX announcement and investor presentation lodged with this document.

MYOB Group Limited

ABN 61 153 094 958

Financial Statements

For the period ended 31 December 2018

CONTENTS

BASIS OF PREPARATION

MYOB Group Limited is a for-profit entity for the purpose of preparing financial statements.

These financial statements:

- are general purpose financial statements;
- are for the consolidated entity consisting of MYOB Group Limited and its subsidiaries;
- have been prepared in accordance with Australian Accounting Standards (AASBs) and Interpretations issued by the Australian Accounting Standards Board, and the *Corporations Act 2001;*
- comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- have been prepared on a going concern basis using historical costs. At 31 December 2018, the Consolidated Balance Sheet reflected an excess of current liabilities over current assets of $27.7 million. The shortfall is driven by the recognition of unearned revenue $52.7 million as a current liability. The directors are not aware of any uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern;
- are presented in Australian dollars with all values rounded to the nearest thousand dollars, or in certain cases, the nearest dollar, in accordance with the Australian Securities and Investments Commission Corporations Instrument 2016/191; and
- apply significant accounting policies consistently to all periods presented, unless otherwise stated.

Consolidated Statement of Comprehensive Income

For the period ended 31 December 2018

	NOTE	2018 $'000	2017 $'000
Revenue			
Service revenue		422,084	395,466
Revenue from sale of goods		17,726	18,819
Other income		5,427	2,198
Total revenue	1	**445,237**	416,483
Expenses			
Staff related expenses		(154,863)	(140,728)
General office and administration		(40,955)	(32,886)
Direct materials		(18,887)	(18,536)
Royalties		(2,954)	(3,409)
Reseller commissions		(15,999)	(13,986)
Marketing expenses		(21,936)	(17,021)
Other expenses	2	(8,647)	(7,734)
Depreciation and amortisation		(89,701)	(80,746)
Net finance costs		(15,468)	(13,602)
Total expenses		**(369,410)**	(328,648)
Gain on revaluation of previously held equity accounted investment*	12	12,009	-
Share of losses from equity accounted investments	16	(2,652)	(2,353)
Profit before income tax		**85,184**	85,482
Income tax expense	8	(21,399)	(24,802)
Profit after income tax		**63,785**	60,680
Profit after income tax attributable to owners of MYOB Group Limited		**63,797**	60,680
(Loss) after income tax attributable to non-controlling interests		**(12)**	-
Other comprehensive income			
Items that may be classified to income or loss:			
Foreign currency translation		2,783	(2,327)
Other comprehensive income/(loss) for the period, net of tax		**2,783**	(2,327)
Total comprehensive income for the period attributable to owners of MYOB Group Limited		**66,580**	58,353
Total comprehensive (loss) for the period attributable to non-controlling interests		**(12)**	-

* Additional investment during the year resulted in the investment converting to a subsidiary (refer note 12)

	NOTE	2018 Cents	2017 Cents
Earnings per share attributable to ordinary equity holders of MYOB Group Limited			
Basic earnings per share	3	**10.81**	10.12
Diluted earnings per share	3	**10.81**	10.12

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet
As at 31 December 2018

	NOTE	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		34,914	54,779
Trade and other receivables		25,091	18,531
Inventories		-	83
Funds held on behalf of customers		17,787	12,720
Other current assets		21,157	14,248
Total current assets		**98,949**	100,361
Non-current assets			
Receivables		1,322	1,670
Equity accounted investments	16	4,283	7,545
Other investments	7	8,210	8,210
Property, plant and equipment	6	35,661	25,468
Intangible assets	6	1,277,054	1,256,613
Total non-current assets		**1,326,530**	1,299,506
Total assets		**1,425,479**	1,399,867
LIABILITIES			
Current liabilities			
Trade and other payables		41,047	23,958
Funds held on behalf of customers		17,787	12,720
Borrowings	10	-	502
Unearned revenue		52,722	49,982
Provisions		15,077	13,585
Total current liabilities		**126,633**	100,747
Non-current liabilities			
Borrowings	10	450,540	432,484
Provisions		8,187	6,030
Deferred tax liabilities	8	19,122	16,185
Total non-current liabilities		**477,849**	454,699
Total liabilities		**604,482**	555,446
Net assets		**820,997**	844,421
EQUITY			
Contributed equity	9	1,098,445	1,141,611
Retained earnings		(308,403)	(304,841)
Non-controlling interest		19,699	-
Reserves		11,256	7,651
Total equity		**820,997**	844,421

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the period ended 31 December 2018

	Issued capital $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Un-distributed profit reserve $'000	Retained earnings $'000	Non-controlling interest $’000	**Total equity $'000**
Balance at 1 January 2018	**1,141,611**	**5,544**	**2,107**	**-**	**(304,841)**	**-**	**844,421**
Profit after income tax attributable to owners of MYOB Group Limited	-	-	-	-	63,797	-	63,797
(Loss) after income tax attributable to non-controlling interest	-	-	-	-	-	(12)	(12)
Other comprehensive income, net of tax	-	2,783	-	-	-	-	2,783
Total comprehensive income/(loss) for the period	-	2,783	-	-	63,797	(12)	66,568
Transactions with owners in their capacity as owners:							
Unified Incentive Plan (UIP) / Long Term Incentive Plan (LTIP)	-	-	1,775	-	-	-	1,775
Transfer of cost due to unvested LTI shares	-	-	(953)	-	952	-	(1)
Conversion of forfeited Treasury shares	1,660	-	-	-	-	-	1,660
Share buyback	(44,826)	-	-	-	-	-	(44,826)
Dividends	-	-	-	-	(68,311)	-	(68,311)
Non-controlling interest on acquisition (refer note 12)	-	-	-	-	-	19,711	19,711
Balance at 31 December 2018	**1,098,445**	**8,327**	**2,929**	**-**	**(308,403)**	**19,699**	**820,997**
Balance at 1 January 2017	1,141,423	7,871	1,457	60,000	(356,212)	-	854,539
Profit after income tax attributable to owner of MYOB Group Limited	-	-	-	-	60,680	-	60,680
Other comprehensive (loss), net of tax	-	(2,327)	-	-	-	-	(2,327)
Total comprehensive income/(loss) for the period	-	(2,327)	-	-	60,680	-	58,353
Transactions with owners in their capacity as owners:							
Long Term Incentive Plan (LTIP)	-	-	650	-	-	-	650
Conversion of forfeited Treasury shares	3,456	-	-	-	-	-	3,456
Share buyback	(3,268)	-	-	-	-	-	(3,268)
Profit reserve	-	-	-	(60,000)	60,000	-	-
Dividends	-	-	-	-	(69,303)	-	(69,303)
Other	-	-	-	-	(6)	-	(6)
Balance at 31 December 2017	1,141,611	5,544	2,107	-	(304,841)	-	844,421

Foreign currency translation reserve

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

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of providing shares to participants of employee share schemes.

Undistributed profit reserve

This reserve is used to hold quarantined profits of relevant entities of the Group to support future Group dividend payments during a period that the Group as a whole was not in a sufficient profit-making position.

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

Consolidated Statement of Cash Flows
For the period ended 31 December 2018

	NOTE	2018 $000	2017 $000
Cash flows from operating activities			
Receipts from customers		487,187	455,646
Payments to suppliers and employees		(309,688)	(275,203)
Interest paid		(14,169)	(13,582)
Income tax paid	8	(4,561)	(3,807)
Interest received		545	865
Net cash flows from operating activities		**159,314**	163,919
Cash flows from investing activities			
Acquired software costs	6	(1,400)	(1,300)
Acquired intangible assets	6	(345)	(1,603)
Investment in equity accounted investments	16	(3,000)	(3,000)
Purchase of property, plant and equipment		(18,053)	(12,944)
Capitalised new product development	6	(52,155)	(35,288)
Purchase of business acquisition, net of cash acquired	12	(8,482)	(47,545)
Net cash flows used in investing activities		**(83,435)**	(101,680)
Cash flows from financing activities			
Proceeds from on-market sale of forfeited Treasury shares	9	1,660	3,456
Debt refinancing transaction costs		(1,980)	-
Proceeds from borrowing		33,000	-
Repayment of borrowings		(15,311)	-
Repayment of finance lease liabilities		(502)	(410)
Share buyback by parent entity	9	(44,826)	(3,268)
Dividends paid by parent entity	4	(68,311)	(69,303)
Net cash flows used in financing activities		**(96,270)**	(69,525)
Net increase/(decrease) in cash and cash equivalents		**(20,391)**	(7,286)
Cash and cash equivalents at beginning of period		54,779	61,434
Effect of exchange rate changes on cash and cash equivalents		526	631
Cash and cash equivalents at end of period		**34,914**	54,779

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

Notes to the financial statements
For the period ended 31 December 2018

PERFORMANCE

1 SEGMENT INFORMATION

Management has determined the Group's operating segments based on the reports reviewed by the Board (the Chief Operating Decision Maker). The Board analyses the Group's activities by operating segments which are organised and managed separately according to the nature of the customers they service with each segment offering different products and serving different markets. The Board reviews each of the operating segments down to contribution level for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profit or loss (segment result), which in certain respects, is presented differently from operating profit or loss in the Consolidated Financial Statements. There are no significant transactions between segments.

The operating segments and their respective types of products and services are disclosed below:

Principal activities	
Clients & Partners	Provides business management software to small and medium enterprises (SMEs) and accounting professionals in practice
Enterprise Solutions	Provides enterprise resource planning and human resource management software and services to medium and large enterprises
Operations & Service	Provides support, training and services to SMEs and accounting professionals in practice
Corporate (incl. R&D)	Provides internal support and shared services to MYOB's client-facing teams, including product research and development functions, in addition to holding the equity accounted investments

Notes to the financial statements

For the period ended 31 December 2018

1 SEGMENT INFORMATION (CONTINUED)

Period ended 31 December 2018	Clients & Partners $'000	Enterprise Solutions $'000	Operations & Service $'000	Corporate (incl. R&D) $'000	Total $'000
Revenue					
SME revenue	278,127	-	-	-	278,127
Practice revenue	86,175	-	-	-	86,175
Enterprise revenue	-	67,826	-	-	67,826
Payments revenue	10,682	-	-	-	10,682
NZ R&D grant revenue	-	-	-	2,427	2,427
	374,984	**67,826**	**-**	**2,427**	**445,237**
Other profit and loss disclosures					
Direct materials, royalties and reseller commissions	21,007	16,445	388	-	37,840
Staff related	50,145	14,904	32,086	57,728	154,863
Marketing	8,792	587	226	12,331	21,936
General office and administration	9,513	1,581	3,669	26,192	40,955
Other expenses	-	-	-	8,647	8,647
Contribution	**285,527**	**34,309**	**(36,369)**	**(102,471)**	**180,996**
Gain on revaluation of previously held equity accounted investment					12,009
Share of losses from equity accounted investments					(2,652)
Depreciation and amortisation					(89,701)
Net finance costs					(15,468)
Profit before income tax					**85,184**

Period ended 31 December 2017	Clients & Partners $'000	Enterprise Solutions $'000	Operations & Service $'000	Corporate (incl. R&D) $'000	Total $'000
Revenue					
SME revenue	257,559	-	-	-	257,559
Practice revenue	85,848	-	-	-	85,848
Enterprise revenue	-	64,594	-	-	64,594
Payments revenue	6,284	-	-	-	6,284
NZ R&D grant revenue	-	-	-	2,198	2,198
	349,691	64,594	-	2,198	416,483
Other profit and loss disclosures					
Direct materials, royalties and reseller commissions	21,255	14,217	459	-	35,931
Staff related	40,975	13,952	27,579	58,222	140,728
Marketing	8,053	688	138	8,142	17,021
General office and administration	7,576	1,444	3,066	20,800	32,886
Other expenses	-	-	-	7,734	7,734
Contribution	271,832	34,293	(31,242)	(92,700)	182,183
Share of losses from equity accounted investments					(2,353)
Depreciation and amortisation					(80,746)
Net finance costs					(13,602)
Profit before income tax					85,482

Notes to the financial statements

For the period ended 31 December 2018

1 SEGMENT INFORMATION (CONTINUED)

Geographical information

	Revenue		Non-current assets	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Australia	**370,574**	341,601	**1,229,714**	1,205,318
New Zealand	**74,663**	74,882	**96,816**	94,188
Total	**445,237**	416,483	**1,326,530**	1,299,506

There are no transactions with a single customer that exceeded 10% of the Group's total revenue. Non-current assets are not reported on a segment basis as they are integrated across the business.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

The Group recognises revenue predominantly from the sale of software and subscription services, professional services and transaction services.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Software and subscription services revenue primarily consists of fees that give business customers and small to medium enterprises (including professional accounting practitioners) access to accounting software and integrated business solution applications, which also include related customer support and maintenance. These revenues are recognised over time as they are delivered and consumed concurrently over the contractual term, beginning on the date the service is made available to the customer. Software and subscription contracts typically have a term of twelve months duration and are subject to substantive penalties for early termination by the customer. Customers are generally invoiced monthly or annually in advance for software and subscription contracts.

Professional service fees include optimisation and deployment services and customised product training.

Transaction services incorporate payment gateway services, tokenisation and merchant service transactions processed on behalf of business customers. Transaction services fees are charged to business customers based on the volume of activity processed through the payment solutions platform during the month.

Other Income

Other income comprises New Zealand research and development grants and other income earned from third parties.

Revenue Recognition:

To determine whether to recognise revenue, the Group follows a 5-step process:

(1) Identifying the contract with a customer
(2) Identifying the performance obligations within the customer contract
(3) Determining the transaction price
(4) Allocating the transaction price to the performance obligations
(5) Recognising revenue when/as performance obligation(s) are satisfied.

Gross versus net presentation

When the Group sells goods or services as a principal, income and payments to suppliers are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned.

SEGMENT INFORMATION - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group earns net revenues from fees charged to its customers based on the volume of transaction activity processed through the Payment Solutions platform. Net transaction revenues resulting from a payment processing transaction are recognised once the transaction is complete. Revenue is also generated from gateway services fees, fraud management, tokenisation solutions and merchant service facilities generated from PayBy products and other services that are provided to business customers and merchant counterparts. Net revenues from these services are recognised in the period when the services are performed.

The Group operates a 'Partner Connected Accounting Program' whereby participating accounting advisors can elect to receive benefits in the form of commission payments, invoice rebates or purchase accounting software products on wholesale terms in exchange for successful product referrals. The Group records a corresponding expense for the commission or fee paid, in addition to the revenue earned from the sale of software licenses and maintenance and support services. Gross revenues from these transactions are recognised in the period when the transaction has occurred.

Unearned Revenue

Maintenance and subscription revenue paid in advance is recognised over the life of the contract. Revenue not yet recognised in the Consolidated Statement of Comprehensive Income under this policy is classified as unearned revenue in the Consolidated Balance Sheet.

Goods and Services Tax (GST)

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

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

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

This section explains the impact of the adoption of AASB 15 Revenue from Contracts with Customers ('AASB 15') on the Group's financial statements.

(a) Impact on the financial statements

There is no material impact to the financial statements in the current or prior reporting periods as a result of the adoption of AASB 15.

(b) Impact of adoption

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers replaces AASB 111 Construction Contracts (not relevant to the Group) and AASB 118 Revenue. It makes several changes to the previous guidance on the criteria to which revenue is recognised. By applying the five-step approach specified in the standard, the recognition of revenue is directly aligned with the delivery of performance obligations specified within the contracts with customers.

The Group has performed an assessment of its contracts with customers in accordance with AASB 15 and has determined the following impacts and changes to its accounting policies as a result of adoption.

Software and subscription services revenue

In applying AASB 15 to contracts with customers, the Group has determined that there are no material rights offered by way of options for additional goods or services to be provided at a discount within the contractual terms. Where the Group provides discounts or rebates to customers, these are factored into the transaction price and are recognised on a systematic basis in line with the revenue stream to which they relates. This includes consideration of the 90 day Money Back Guarantee period offered on MYOB's AccountRight, Essentials and Kounta software subscription products for new customers. The impact of this on the transaction price has been assessed and is not material.

The Group continues to transition its product offerings from the provision of perpetual software licenses to a subscription-based model. Software licenses that are provided have been assessed as being 'right to access' licenses on the basis that the Group provides ongoing support and maintenance to all customers. As such, revenue for this performance obligation is recognised over the duration of the contract. Most revenue earned by the Group is recognised over the

SEGMENT INFORMATION - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

contract duration, however a portion of licenses is recognised at the commencement of the contract. The impact of the change in the timing of revenue recognition determined for this subset of software licenses was assessed and is not material year on year. All other performance obligations have been assessed as being satisfied over time based on the duration of the contract.

Customer contracts with multiple performance obligations

Customer contracts for software licenses featuring integrated business solution applications may include additional charges for professional services such as installation, deployment and customised product training. Services of this nature are individually accounted for as a separate performance obligation, as the Group concludes that they can be readily performed by another service provider. Customer contracts for transaction services are also treated as a separate performance obligation as business transactions are processed on behalf of the customer for a determined fee.

In all cases, the total transaction price for a customer contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

In applying AASB 15, it was identified that some new software license revenue is currently being recognised at the point of sale rather than over the duration of the contract. MYOB have accessed that the impact of the change in potential revenue recognition for these contracts will not be material and as such have not adjusted for these items.

Revenue recognition related to maintenance and support services, professional services, training and transaction services is being recognised when the performance obligations are satisfied.

Costs of obtaining a customer contract

AASB 15 requires that incremental costs associated with acquiring a customer contract, such as sales commissions, are recognised as an asset and amortised over a period that corresponds with the period of benefit.

An assessment of commissions paid by the Group was performed in connection with the sale of accounting software products. The contracts for SME and Partner Solutions products have a duration of 12 months or less. Applying the practical expedient in paragraph 94 of AASB 15 for these contracts based on their duration of 12 months or less, the Group continues to recognise the incremental costs of obtaining these contracts as an expense when incurred.

Commissions paid on sales of Enterprise Solution products that have a contractual duration of greater than 12 months or include elements that are directly attributable to securing a customer relationship, continue to be capitalised and amortised over the period of expected benefit.

There are no other costs incurred that are considered to be incremental.

Unsatisfied performance obligations

The Group continues to recognise its ‘contract liabilities’ under AASB 15 in respect of any unsatisfied performance obligations. These liabilities are disclosed as ‘Unearned revenue’ in the Consolidated Balance Sheet. The Group does not hold contract assets due to the invoicing and payment terms generally being in advance of the service provision.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. Payments from customers are generally collected in advance of provision of services.

Notes to the financial statements
For the period ended 31 December 2018

2 OTHER EXPENSES

	2018 $'000	2017 $'000
Acquisition transaction and integration costs	5,018	5,244
Business transformation one-off costs	3,506	1,213
Other	123	1,277
Total other expenses	**8,647**	7,734

3 EARNINGS PER SHARE

	2018	2017
Profit after income tax attributable to owners of MYOB Group Limited ($'000)	63,797	60,680
WANOS [1] used in the calculation of basic EPS (shares)	590,279,532	599,515,038
WANOS [1] used in the calculation of diluted EPS (shares) [2]	590,279,532	599,515,038
Basic EPS (cents per share)	**10.81**	10.12
Diluted EPS (cents per share)	**10.81**	10.12

[1] Weighted average number of ordinary shares.
[2] Treasury shares were assessed as not being dilutive at reporting date.

Calculation of earnings per share

Basic earnings per share
Basic earnings per share is calculated as profit after income tax attributable to owners of MYOB Group Limited, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share
Diluted earnings per share is calculated as profit after income tax attributable to owners of MYOB Group Limited, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

4 DIVIDENDS

	Payment date	Amount per share	Total dividend $'000
Financial Year 2017			
2016 Final dividend	5 April 2017	5.75 cents	34,658
2017 Interim dividend	19 October 2017	5.75 cents	34,645
Total dividends paid for the year ended 31 December 2017			69,303
Financial Year 2018			
2017 Final dividend	5 April 2018	5.75 cents	34,522
2018 Interim dividend	18 October 2018	5.75 cents	33,789
Total dividends paid for the year ended 31 December 2018			**68,311**

Under the scheme implementation agreement currently in place with KKR, MYOB cannot declare and pay any dividend without KKR's prior written consent. On the basis of this restriction, the MYOB Board have not declared a final dividend for the financial year ended 31 December 2018.

Notes to the financial statements

For the period ended 31 December 2018

5 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of profit for the year to net cash inflow from operating activities

	2018 $'000	2017 $'000
Profit after income tax	**63,785**	60,680
Adjustments for:		
Non-cash items		
Depreciation and amortisation	89,701	80,746
Share of losses from equity accounted investments	2,652	2,353
Change in accrued expenses	754	2,179
Effect of exchange rate changes on items disclosed as operating activities	(84)	580
Share-based payments expense	1,775	650
Amortisation of debt facility	1,109	398
(Gain) on revaluation of previously held equity accounted investment	(12,009)	-
Loss on disposal of property, plant and equipment	188	-
Change in operating assets and liabilities:		
(Increase) in receivables and other assets	(13,672)	(10,592)
Decrease in inventories	83	111
Decrease in deferred tax assets	153	10,595
Increase in payables and unearned revenue	6,394	3,796
Increase/(decrease) in income taxes payable	13,887	(534)
Increase in provisions	1,800	2,023
Increase in deferred tax liabilities	2,798	10,934
Net cash flows from operating activities	**159,314**	163,919

Reconciliation of liabilities arising from financing activities

		Cash movements	Non-cash movements			
2018	**Opening balance $'000**	Cash flows from activities $'000	Interest $'000	Amortisation $'000	Foreign exchange movements $'000	**Closing balance $'000**
Finance lease liabilities	(502)	516	(14)	-	-	-
Unsecured borrowings	(432,484)	(15,707)	-	(1,109)	(1,240)	(450,540)
	(432,986)	**(15,191)**	**(14)**	**(1,109)**	**(1,240)**	**(450,540)**

		Cash movements	Non-cash movements			
2017	**Opening balance $'000**	Cash flows from activities $'000	Interest $'000	Amortisation $'000	Foreign exchange movements $'000	**Closing balance $'000**
Finance lease liabilities	(912)	475	(65)	-	-	(502)
Unsecured borrowings	(434,308)	-	-	(398)	2,222	(432,484)
	(435,220)	475	(65)	(398)	2,222	(432,986)

Notes to the financial statements
For the period ended 31 December 2018

ASSETS AND LIABILITIES

6 INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT

Intangible assets

2018	Brands $'000	Customer relationships $'000	Commercialised software $'000	Goodwill $'000	Internally generated software $'000	Acquired IP $'000	Total $'000
At 1 January 2018, net of accumulated amortisation	**114,872**	**83,249**	**66,896**	**912,360**	**77,807**	**1,429**	**1,256,613**
Additions	-	-	-	-	52,155	-	52,155
Acquired	-	-	-	-	1,400	345	1,745
Additions through business combinations	-	-	-	35,918	2,483	4,608	43,009
Amortisation	(1,876)	(19,053)	(35,172)	-	(23,561)	(829)	(80,491)
Net foreign currency movements arising from foreign operations	-	566	-	3,443	15	(1)	4,023
At 31 December 2018, net of accumulated amortisation	**112,996**	**64,762**	**31,724**	**951,721**	**110,299**	**5,552**	**1,277,054**
At 1 January 2018							
Cost (gross carrying amount)	128,118	222,859	267,368	912,360	105,509	1,603	1,637,817
Accumulated amortisation and impairment	(13,246)	(139,610)	(200,472)	-	(27,702)	(174)	(381,204)
Net carrying amount	**114,872**	**83,249**	**66,896**	**912,360**	**77,807**	**1,429**	**1,256,613**
At 31 December 2018							
Cost (gross carrying amount)	128,118	224,328	267,368	951,721	165,611	6,556	1,743,702
Accumulated amortisation and impairment	(15,122)	(159,566)	(235,644)	-	(55,312)	(1,004)	(466,648)
Net carrying amount	**112,996**	**64,762**	**31,724**	**951,721**	**110,299**	**5,552**	**1,277,054**

Notes to the financial statements

For the period ended 31 December 2018

6 INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2017	Brands $'000	Customer relationships $'000	Commercialised software $'000	Goodwill $'000	Internally generated software $'000	Acquired IP $'000	Total $'000
At 1 January 2017, net of accumulated amortisation	117,820	86,959	94,804	889,061	56,742	-	1,245,386
Additions	-	-	-	-	35,288	-	35,288
Acquired	-	-	-	-	1,300	1,603	2,903
Additions through business combinations	200	17,400	7,300	27,461	-	-	52,361
Amortisation	(3,148)	(19,989)	(35,117)	-	(15,524)	(174)	(73,952)
Net foreign currency movements arising from foreign operations	-	(1,121)	(91)	(4,162)	1	-	(5,373)
At 31 December 2017, net of accumulated amortisation	114,872	83,249	66,896	912,360	77,807	1,429	1,256,613
At 1 January 2017							
Cost (gross carrying amount)	127,918	207,502	260,159	889,061	68,922	-	1,553,562
Accumulated amortisation and impairment	(10,098)	(120,543)	(165,355)	-	(12,180)	-	(308,176)
Net carrying amount	117,820	86,959	94,804	889,061	56,742	-	1,245,386
At 31 December 2017							
Cost (gross carrying amount)	128,118	222,859	267,368	912,360	105,509	1,603	1,637,817
Accumulated amortisation and impairment	(13,246)	(139,610)	(200,472)	-	(27,702)	(174)	(381,204)
Net carrying amount	114,872	83,249	66,896	912,360	77,807	1,429	1,256,613

Property, plant and equipment

Property, plant and equipment of $35.7 million (2017: $25.5 million) includes plant and equipment and leasehold improvements. During the period, the Group purchased property, plant and equipment of $18.1 million (Internal systems development $6.5 million, Leasehold improvements $4.2 million, Capital works in progress $3.0 million, Computer equipment $2.5 million and other $1.9 million), net of depreciation expense of $9.2 million. It was also impacted by new make good assets and exchange rate differences.

Impairment tests for goodwill, intangible assets and property, plant and equipment

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

Recoverable amount is the greater of 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 (CGU's)). Non-financial assets, other than goodwill, that have recognised an impairment in the past are reviewed for possible reversal of the impairment at the end of each reporting period.

6 INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

A CGU level summary of the allocation is presented below:

2018	**Clients & Partners $'000**	**Enterprise Solutions $'000**	**Payment Solutions $'000**	**Total $'000**
Brands	99,551	13,445	-	112,996
Customer relationships	41,146	9,316	14,300	64,762
Commercialised software	23,922	3,057	4,745	31,724
Goodwill [(1)]	829,737	113,673	8,311	951,721
Internally generated software	103,837	12,014	-	115,851
Total intangible assets	**1,098,193**	**151,505**	**27,356**	**1,277,054**

2017	Clients & Partners $'000	Enterprise Solutions $'000	Payment Solutions $'000	Total $'000
Brands	100,961	13,741	170	114,872
Customer relationships	55,799	11,350	16,100	83,249
Commercialised software	56,098	4,593	6,205	66,896
Goodwill	771,425	113,474	27,461	912,360
Internally generated software	65,577	13,659	-	79,236
Total intangible assets	1,049,860	156,817	49,936	1,256,613

[(1)] The Group finalised its allocation of $27.5 million of Goodwill acquired through the acquisition of Paycorp Holdings Pty Limited in 2017 with consideration to the cash generating units expected to benefit from the synergies and future economic benefits of the acquisition. This resulted in an allocation of $19.2 million to Clients and Partners and $8.3 million to Payments Solutions.

The recoverable amount of a CGU is determined on its value-in-use. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions for value-in-use calculations

	2018	2017
Nominal discount rate (pre-tax)	12.70%	13.14%
Terminal growth rate	2.50%	2.50%

Nominal discount rate (pre-tax) is the Group's Weighted Average Cost of Capital. Terminal growth rate is the expected industry growth rate.

Key assumptions for value-in-use calculations

Management used historical amounts (allocation methodology at the time was around 2015 revenue plan percentage splits per CGU) for existing intangible assets that were not easily identifiable.

6 INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The recoverable amount of the intangible assets across all three Cash Generating Units exceeds their carrying values at 31 December 2018. A decrease of 15% in cash flow forecasts would result in an impairment of the Payment Solutions CGU at 31 December 2018 but would not impact the Clients & Partners and Enterprise Solutions segments.

SIGNIFICANT ACCOUNTING POLICIES

Goodwill

Goodwill on acquisition is initially measured at the excess of the consideration transferred in a business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Goodwill is not amortised, instead it is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For each acquisition, any goodwill acquired is allocated to each of the cash-generating units.

Intangible assets

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Where amortisation is charged on assets with finite lives, this expense is taken to the profit or loss.

If the business identifies intangible assets where circumstances have changed, and their estimated useful life has deviated from the original term, then the business will adopt alternative amortisation methodology to accurately reflect the life of the asset.

Research and development costs

Research costs are expensed as incurred.

Following the initial recognition of the development expenditure, the cost model is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Useful life of assets

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

	Commercialised software	Internally generated software	Customer relationships	Acquired IP	Brands (1)
Method used (2)	5 to 8 years – straight line	5 years – straight line	9.25 to 17 years – diminishing value	5 to 8 years – straight line	3 to 5 years – straight line
Internally generated / Acquired	Acquired	Internally generated	Acquired	Acquired	Acquired
Impairment test / Recoverable amount testing	----------Tested annually only if there is an indication of impairment ----------				Tested annually

(1) The MYOB brand ($112.5 million) is considered to have an indefinite useful life, as the longevity of the brand is not considered to be dissimilar to the Group's business. The Group continues to make the required investment to preserve key brand characteristics, including market position and reputation. However, the acquired brands of BankLink, PayGlobal, ACE, IMS, Greentree and Paycorp (original cost $15.6 million) are being amortised over their perceived useful life of three to five years.

(2) The useful life of finite intangible assets is judgemental and reviewed annually by management.

Notes to the financial statements

For the period ended 31 December 2018

6 INTANGIBLE ASSETS & PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Useful life of assets (continued)

Property, plant and equipment is stated at cost less accumulated depreciation using the depreciation table below:

Class of assets	Depreciation period
Plant and equipment	3 – 5 years
Leasehold improvements	3 – 8 years (1)

(1) or duration of lease, whichever is shorter.

Gains or losses on disposal

Gains or losses arising from the sale of an asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Comprehensive Income when the asset is sold.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Carrying value of goodwill and indefinite lived intangible assets

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated.

Useful life of intangible assets

The useful life of intangible assets are assessed to be either finite or indefinite. For treatment of finite intangible assets, refer to the useful life of assets table in ‘Significant accounting policies’. Brand names that have indefinite lives are not amortised. Management use judgement in determining whether an individual brand will have a finite life or an indefinite life. In making this determination, management make use of information on the long-term strategy for the brand, the level of growth or decline of the markets that the brand operates in, the history of the market and the brand’s position within that market. If a brand is assessed to have a finite life, management will use judgement in determining the useful life of the brand and will consider the period over which expected cash flows will continue to be derived in making that decision.

Capitalisation of internally generated software

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Group commences amortising internally generated software projects at the earlier of 1st January or 1st July subsequent to the date of any component of the project being sold into the market.

7 OTHER INVESTMENTS

	2018 $'000	2017 $'000
ProjectX, International Limited	8,210	8,210
	8,210	8,210

The Group holds 68.08% of the Class B-1 preference shares on issue and 6.35% (2017: 8.07%) of all shares on issue (ProjectX, International Ltd issued additional ordinary shares during 2018 which MYOB did not acquire any).

SIGNIFICANT ACCOUNTING POLICIES

Investments held by the Group are measured against the accounting standard criteria around control and then of materiality and influence to determine the appropriate accounting treatment at each reporting date. Where the Group has determined that it does not have control or significant influence, the investment will be accounted for as a financial asset held at fair value through other comprehensive income (FVOCI). The Group has elected to account for the investment on this basis due to exposures in foreign exchange.

Conversely, where the Group has determined that it does have control or significant influence, the investment is treated as an equity accounted investment in accordance with AASB 128 *Investments in Associates & Joint Ventures* (refer to Note 16 'Equity accounted investments').

This section explains the additional impact of the adoption of AASB 9 Financial Instruments ('AASB 9') on the Group's financial statements.

(a) Impact on the financial statements

There are no material impacts to the financial statements in the current or prior reporting periods as a result of the adoption of AASB 9.

(b) Impact of adoption

AASB 9 *Financial Instruments* replaces AASB 139 '*Financial Instruments: Recognition and Measurement*'. It makes a number of changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

Impairment of financial assets

In adopting AASB 9, the Group revised its impairment methodology in relation to its trade receivables and has now applied a simplified model of recognising lifetime expected credit losses immediately upon recognition. These items do not have a significant financing component and have maturities of less than 12 months. Historical impairments in relation to trade receivables have not been material.

The impact of the change in impairment methodology did not result in a material change to the Group's net trade receivables in the current or prior reporting periods.

Borrowings

The adoption of AASB 9 did not impact the Group's borrowings as the current debt arrangements are not hedged and do not include any derivative financial instruments.

Notes to the financial statements

For the period ended 31 December 2018

8 TAXATION

Tax consolidated group

MYOB Group Limited and its wholly owned Australian resident subsidiaries are members of an Australian income tax consolidated group. MYOB Group Limited is the head company.

The entities in the tax consolidated group have entered into a tax sharing and funding agreement which limits the joint and several liability of each member entity and appropriate compensation is provided for current tax payable or receivable in the group.

Income tax expense

	2018 $'000	2017 $'000
Current tax	18,298	3,396
Deferred tax	3,499	21,649
Adjustment of tax for the prior period	(398)	(243)
	21,399	24,802

Numerical reconciliation of income tax expense to prima facie tax payable

	2018 $'000	2017 $'000
Profit for the year before income tax expense	**85,184**	85,482
Prima facie tax	25,555	25,645
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income		
Entertainment	416	269
Research and development rebate [1]	(1,360)	(1,391)
Gain on revaluation on previously held equity accounted investment	(3,603)	-
Write off DTA on previously held equity accounted investment	306	-
Sundry items	604	654
	(3,637)	(468)
Difference in overseas tax rate	(121)	(132)
Adjustment for current tax of prior periods	(398)	(243)
Income tax expense	**21,399**	24,802
Deferred tax expense	(3,499)	(21,649)
Income tax paid during the year	(4,561)	(3,807)
Items recognised directly to equity	-	2,421
Other adjustments	2,671	645
Income tax payable [2]	**16,010**	2,412

[1] Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward.

[2] Income tax payable in 2017 only relates to New Zealand tax consolidated group.

8 TAXATION (CONTINUED)

Effective tax rate

	2018	2017
Australian consolidated group	25%	29%
Consolidated group	25%	29%

The above effective tax rates (ETRs) have been calculated as income tax expense divided by accounting profit for the Australian consolidated group and the consolidated group.

Australian consolidated group
The effective tax rate for the year ended 31 December 2018 is lower than the Australian company tax rate of 30% predominantly due to the non assessability of the gain on revaluation on previously held equity accounted investment combined with the research and development rebate. The effective tax rate excluding the impact of these items is 30.9%.

Consolidated group
The effective tax rate for the Group for the year ended 31 December 2018 is lower than the Australian company tax rate due to the lower ETR for the Australian group as detailed above combined with the ETR for the New Zealand group which was 2% higher than the New Zealand company tax rate of 28%.

Deferred tax assets and liabilities

	2018 $'000	2017 $'000
Deferred tax balances comprise temporary differences attributable to items:		
Tax losses (carried forward)	-	7,009
Business capital costs	3,001	5,751
Employee benefits	5,023	4,448
Net intangible assets	(36,390)	(40,570)
Other liabilities	6,916	5,402
Other assets	2,328	1,775
Net deferred tax (liability)	**(19,122)**	(16,185)

SIGNIFICANT ACCOUNTING POLICIES

Current and deferred taxes

The income tax for the period is determined on existing tax laws or substantively enacted tax laws at the end of the reporting period. For deferred income tax, consideration is also given to whether these laws are expected to be enacted at the time the deferred asset or liability is realised.

Deferred tax assets and liabilities are recognised for all temporary differences, other than for:
- Initial recognition of goodwill;
- Initial recognition of an asset or liability in a transaction that is not a business combination and at that time the transaction affects neither accounting profit nor taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries where the timing of the reversal can be controlled and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to do so and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Capital losses of $1.928 million have not been recognised as a deferred tax asset as management has not deemed it as probable (2017 $1.928 million).

8 TAXATION (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses according to management's consideration that it is probable that sufficient taxable temporary differences are expected to reverse in a future period or future taxable profits will be available to utilise those temporary differences with reference to tax requirements. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Adoption of Voluntary Tax Transparency Code

MYOB is signatory to the Board of Taxation's Corporate Tax Transparency Code Register. This reflects MYOB's commitment to the Voluntary Tax Transparency Code ("TTC"). As MYOB is classified as a medium business under the Code, Part A tax disclosures as required has been included in this report.

CAPITAL STRUCTURE, FINANCING AND RISK MANAGEMENT

9 CONTRIBUTED EQUITY

Ordinary shares

Ordinary shares are classified as equity and are fully paid, have no par value, carry one vote per share (either in person or by proxy) and have the right to dividends. Incremental costs, directly attributable to the issue of new shares or the exercise of options, are recognised as a deduction from equity, net of any related income tax benefit.

Treasury shares

Treasury shares are ordinary shares that are still retained by the Group until such time as they become available to participants of the Long Term Incentive Plan (LTIP). On 1 February 2017, 7,060,400 ordinary shares at $3.4587 per share were issued as new equity of MYOB Group Limited, to be used to satisfy share-based payment obligations upon vesting and are held in trust as treasury shares.

Treasury shares are recognised at cost and deducted from equity, net of any income tax effects. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares. When LTIP participants leave the plan, the forfeited treasury shares are sold on-market. Any difference between the cost of acquisition and the consideration when reissued is recognised in the share-based payments reserve.

Repurchase of share capital

Where the Group purchases its own equity instruments, as a result of a share buyback, those instruments are deducted from equity and the re-purchased shares are cancelled. The amount of consideration paid, including directly attributable costs, is recognised as a deduction from contributed equity, net of any related income tax effects. On 24 August 2017, the Group announced its intention to undertake an on-market share buyback of up to five per cent of its issued capital over a twelve-month period, with the maximum being approximately 30,322,081 ordinary shares. The buyback commenced on 8 September 2017 and was concluded on 10 August 2018.

	2018		2017	
	Number of shares ('000)	**$'000**	Number of shares ('000)	$'000
Ordinary shares				
Balance at beginning of financial period	**599,491**	**1,141,611**	599,381	1,141,423
Issue of shares under employee long-term incentive plans	-	-	7,060	-
Add: Treasury shares	6,040	-	-	-
Conversion from on-market sale of forfeited Treasury shares	-	1,660	-	3,456
Share buyback	(14,729)	(44,826)	(910)	(3,268)
Balance at end of financial period (including Treasury shares)	590,802	1,098,445	605,531	1,141,611
Less: Treasury shares	(5,539)	-	(6,040)	-
Balance at end of financial period (excluding Treasury shares)	**585,263**	**1,098,445**	599,491	1,141,611

	2018 Number of shares ('000)
Treasury shares	
Balance at beginning of financial period	**6,040**
Disposal of forfeited Treasury shares	(501)
Balance at end of financial period	**5,539**

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. As the market is constantly changing, management may return capital to shareholders, issue new shares or sell assets to reduce debt.

10 BORROWINGS

	2018 $'000	2017 $'000
Current - Secured		
Finance leases	-	502
	-	502
Non-current – Unsecured		
Bank loans	452,626	433,332
Unamortised borrowing costs	(2,086)	(848)
	450,540	432,484
Total borrowings	**450,540**	432,986

The Group's $452.6 million (2017: $433.3 million) bank debt is provided by a syndicate of five banks each holding between 15% and 25%.

On 15 June 2018, the Group refinanced its existing bank debt and working capital facility with the same syndicate of banks. The loan facility consists of two commitments of $257.0 million and $228.5 million which become due in June 2021 and June 2023 respectively. Refinancing transaction costs have been capitalised in the Consolidated Balance Sheet and will be amortised through the Consolidated Statement of Comprehensive Income over the life of the facility.

The Group has $22.7 million (31 December 2017: $46.1 million and also a $180 million bridging facility was available pending the acquisition of Reckon, which did not progress) undrawn of its committed facility that may be drawn upon at any time as well as $10.2 million of outstanding bank guarantees.

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

Finance costs	2018 $'000	2017 $'000
Interest expense	14,905	13,948
Borrowing costs	1,109	572
Total finance costs	**16,014**	14,520

SIGNIFICANT ACCOUNTING POLICIES

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Borrowings are classified as non-current liabilities when the Group has an unconditional right to defer settlement for at least twelve months from reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

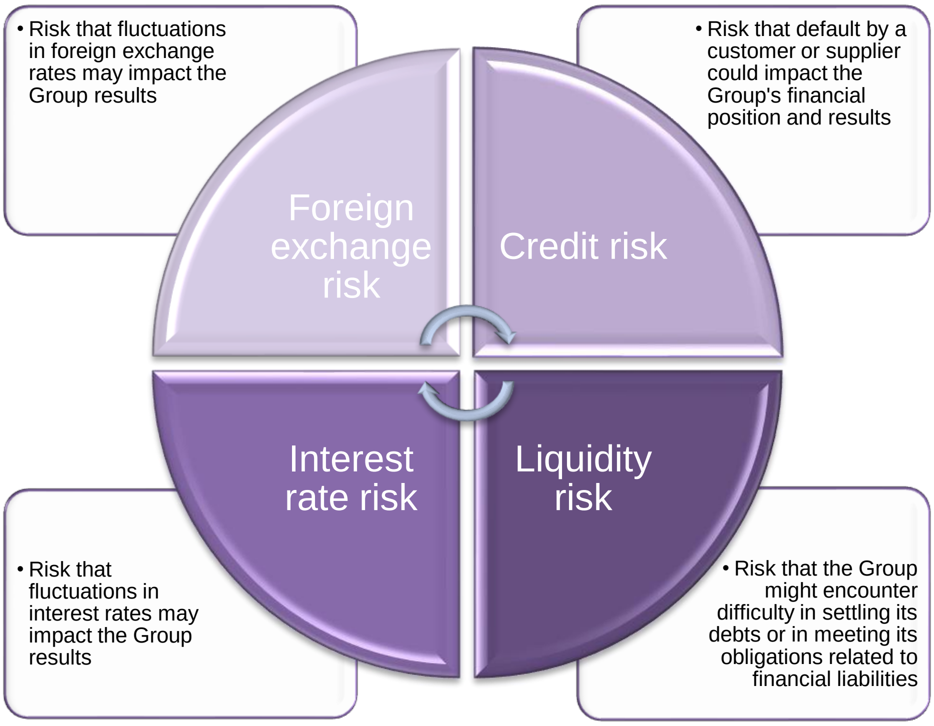
Borrowings are removed from the Consolidated Balance Sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred, or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Derivative financial instruments and hedging

The Group does not use derivative financial instruments to hedge its risks associated with interest rate fluctuations. This decision is within the scope of the existing company risk profile.

11 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, aging analysis for credit risk and economic trend and major competitor performance analysis to determine market risk.



Foreign exchange risk

The Australian dollar (AUD) is the functional currency of the Group and as a result, currency exposures arise from transactions and balances in currencies other than the Australian dollar. The Group is exposed to the New Zealand dollar (NZD) through its inter-company loan transactions.

At reporting date, the Group's exposure to foreign currencies were as follows:

	New Zealand dollars (NZD)	
	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	11,865	14,604
Trade and other receivables	7,643	7,308
Financial liabilities		
Trade and other payables	(6,100)	(4,120)
Borrowings	(28,952)	(40,949)
Net exposure	**(15,544)**	(23,157)

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

Material sensitivities to foreign exchange movements

The Group is primarily exposed to changes in NZD/AUD exchange rates. The sensitivity of the Group profit after tax to changes in the foreign exchange rates arises mainly from the New Zealand operating result as well as long-term borrowings held in New Zealand dollars. Utilising a range of +5% to -5%, a sensitivity analysis showed that the impact to the Group profit after tax would be less than $0.3 million with no significant impact on equity. The Group's exposure to other foreign exchange movements is not material.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value. The Group's borrowings at variable rate were denominated in Australian dollars and New Zealand dollars.

As at the end of the reporting period, the Group had the following variable rate borrowings:

	2018		2017	
	Balance $'000	**Weighted average interest rate %**	Balance $'000	Weighted average interest rate %
Unsecured bank loans	452,626	3.43	433,332	3.17

Sensitivity to interest rate movements

The weighted average interest rate for the period ended 31 December 2018 was 3.43% (2017: 3.17%). If the weighted average interest rate had been 10% higher or 10% lower, interest expense would increase/decrease by $0.5 million.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities and committed bank loans. The Group minimises liquidity risk by maintaining a sufficient level of cash and equivalents as well as ensuring the Group has access to the use of credit facilities as required.

Financing arrangements

The Group had access to the following borrowing facilities at the end of the reporting period:

	Drawn		Undrawn		Total	
	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000	**Year ended 31 December 2018 $'000**	Year ended 31 December 2017 $'000	**Year ended 31 December 2018 $'000**	Year ended 31 December 2017 $'000
Floating rate						
Expiring within one year	-	-	-	180,000	-	180,000
Expiring beyond one year	452,626	433,332	22,708	46,132	475,334	479,464
	452,626	433,332	**22,708**	226,132	**475,334**	659,464

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The $462.8 million currently drawn is comprised by $452.6 million of borrowings and $10.2 million of letters of credit provided to landlords of certain properties leased by the Group. The Group has $22.7 million (31 December 2017: $46.1 million and also a $180 million bridging facility was available pending the acquisition of Reckon, which did not progress) undrawn of its committed facility that may be drawn upon at any time.

Under the Group's senior facility agreement there is a requirement to report half-yearly to the banking syndicate on a number of key ratios to ensure that the business is monitoring and managing cash, liquidity, borrowings and interest expense. The Group is in compliance with any covenants in relation to its financing arrangements.

Maturity analysis of financial liabilities

The table below presents the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Maturing in:				
	6 months or less	6 months to 1 year	1 to 5 years	Contractual total	Carrying amount
	$'000	$'000	$'000	$'000	$'000
2018					
Trade and other payables	41,047	-	-	41,047	41,047
Funds held on behalf of customers	17,787	-	-	17,787	17,787
Finance leases	-	-	-	-	-
Secured bank loan	7,688	7,813	505,715	521,216	452,626
Total financial liabilities	**66,522**	**7,813**	**505,715**	**580,050**	**511,460**
2017					
Trade and other payables	23,958	-	-	23,958	23,958
Funds held on behalf of customers	12,720	-	-	12,720	12,720
Finance leases	286	246	-	532	502
Secured bank loan	6,950	6,878	452,922	466,750	433,332
Total financial liabilities	43,914	7,124	452,922	503,960	470,512

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is limited.

There are no significant concentrations of credit risk within the Group. The Group minimises concentrations of credit risks in relation to trade accounts receivable by undertaking transactions with a large number of customers. The majority of customers are concentrated in Australia and New Zealand.

Notes to the financial statements

For the period ended 31 December 2018

GROUP STRUCTURE

12 BUSINESS COMBINATIONS

Kounta Holdings Pty Limited

On 12 December 2018 MYOB Acquisition Pty Limited (a subsidiary of MYOB Group Limited) acquired 1,091,357 ordinary shares of Kounta Holdings Pty Limited for cash consideration of $4.2 million which increased its existing ownership from 39.55% to 50.1%. This increase resulted in the Group gaining control of Kounta Holdings Pty Limited.

This acquisition is a strategic investment for the Group as it solidifies MYOB's position in the retail POS, mobile payments and ecommerce space. The MYOB Kounta partnership is integral to the vision of making cloud accounting easy for every business.

The acquired business contributed revenue of $0.75 million and a Net loss after tax "NLAT" of ($0.02 million) to the Group for the period since acquisition to 31 December 2018. If the acquisition had occurred on 1 January 2018, the contributed revenue for the year ending 31 December 2018 would have been $7.9 million and a NLAT ($1.3 million). There were no material acquisition related costs incurred due to the existing ownership holding.

Details of the aggregated purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Fair value of 39.55% equity interest	15,619
Cash consideration	4,167
Total purchase consideration	**19,786**

The fair value of assets and liabilities recognised as a result of the acquisitions are as follows [1]:

	$'000
Cash and cash equivalents	385
Receivables	2,489
Property plant and equipment	289
Capitalised research and development	2,483
Payables	(1,051)
Employee provisions	(427)
Unearned revenue	(483)
Net identifiable assets acquired	**3,685**
Less: non-controlling interest	(19,711)
Goodwill	35,812
Net assets acquired	**19,786**

Gain on revaluation of previously held equity accounted investment:

	$'000
Fair value of 39.55% equity interest	15,619
Investment (net of equity accounted losses) at time of additional investment / conversion to partially owned subsidiary	(3,610)
Gain on revaluation of previously held equity accounted investment	**12,009**

[1] All fair values are provisional pending a full purchase price allocation exercise being completed and finalised within 12 months of acquisition.

12 BUSINESS COMBINATIONS (CONTINUED)

MyAdvisor Pty Ltd and CompanyIQ Pty Ltd

MYOB acquired intellectual property through the acquisition of the following entities during the year:

- On 20 February 2018 MYOB Group acquired 100% of MyAdvisor Pty Ltd for $2.5 million
- On 27 February 2018 MYOB Group acquired 100% of CompanyIQ Pty Ltd for $2.2 million

Details of the aggregated purchase consideration, the net assets acquired, and goodwill are as follows:

	$'000
Cash	4,447
Settlement of loan with acquiree	256
Total purchase consideration	**4,703**

The fair value assets and liabilities recognised as a result of the acquisitions are as follows:

	$'000
Cash and cash equivalents	3
Payables	(15)
Net identifiable liabilities acquired	**(12)**
Goodwill	107
Intellectual property – Commercialised software	4,608
Net assets acquired	**4,703**

SIGNIFICANT ACCOUNTING POLICIES

Business combinations

The Group follows accounting standards and guidelines to classify investments appropriately. If an investment meets the criteria around control, then it accounts for the investment as a subsidiary. Business combinations (acquisitions of subsidiaries) are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer. Acquisition-related costs are expensed as incurred and included in other expenses.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration will be recognised in the profit or loss.

Notes to the financial statements

For the period ended 31 December 2018

13 SUBSIDIARIES

The Consolidated Financial Statements include the financial statements of MYOB Group Limited and the subsidiaries listed in the following table.

Entity		Country of incorporation	Equity interest held by the consolidated entity 2018 %	2017 %
Ace Payroll Intermediary Limited	&	New Zealand	-	100
Ace Payroll Plus Limited	&	New Zealand	-	100
ACN 086 760 303 Pty Ltd	^	Australia	100	100
Banklink Limited	&	New Zealand	-	100
Banklink Pty Limited		Australia	100	100
Blitz Payments Pty Ltd		Australia	100	100
Business Interface Services Pty Ltd		Australia	100	100
Cayman Holdings Limited	^	Caymans	100	100
Greentree FRL Limited	&	New Zealand	-	100
Greentree Hei Matau Holdings Limited	&	New Zealand	-	100
Greentree International AU Pty Limited		Australia	100	100
Greentree International New Zealand Limited		New Zealand	100	100
Greentree Modules Limited	&	New Zealand	-	100
Greentree Services Pty Limited		Australia	100	100
Information Management Services Limited	&	New Zealand	-	100
Media Transfer Services Limited		New Zealand	100	100
MYOB Acquisition Pty Ltd	*	Australia	100	100
MYOB Asia Sdn Bhd	~	Malaysia	-	100
MYOB Australia Pty Ltd	*	Australia	100	100
MYOB Finance Australia Limited	^	Australia	100	100
MYOB Finance NZ Limited		New Zealand	100	100
MYOB Finance Pty Ltd	^	Australia	100	100
MYOB Group Limited	#	Australia	-	-
MYOB Holdings Pty Ltd	*	Australia	100	100
MYOB New Zealand Group Limited		New Zealand	100	100
MYOB NZ ESS Limited		New Zealand	100	100
MYOB NZ Limited		New Zealand	100	100
MYOB Technology Pty Ltd	*	Australia	100	100
Paycorp Australia Pty Ltd		Australia	100	100
Paycorp Holdings Pty Ltd		Australia	100	100
Paycorp NZ Limited		New Zealand	100	100
Paycorp Payment Solutions Pty Ltd		Australia	100	100
PayGlobal Limited	&	New Zealand	-	100
PayGlobal Pty Ltd		Australia	100	100
Solution 6 Pty Ltd	^	Australia	100	100
Kounta Pty Ltd	+	Australia	50.1	-
MyAdvisor Pty Ltd		Australia	100	-

* An ASIC-approved Deed of Cross Guarantee has been entered into by MYOB Group Limited (the parent entity) and these entities. Refer to Note 15 'Deed of Cross Guarantee' for further details.

\# Parent entity

^ Entity in the process of liquidation

\+ Entity acquired during the financial period

~ Entity liquidated during the financial period

& Amalgamation into MYOB NZ

14 PARENT ENTITY INFORMATION

The parent entity within the Group is MYOB Group Limited. The financial information for the parent entity has been prepared on the same basis as the Consolidated Financial Statements.

Summarised financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Balance Sheet	2018 $'000	2017 $'000
Current assets	1	1
Non-current assets	1,129,359	1,186,045
Total assets	**1,129,360**	1,186,046
Current liabilities	14,870	2
Total liabilities	**14,870**	2
Net assets	**1,114,490**	1,186,044
Equity		
Contributed equity	1,098,445	1,141,611
Reserves	2,929	1,457
Retained earnings	13,116	42,976
Total equity	**1,114,490**	1,186,044
Profit for the year	**37,500**	60,104
Total comprehensive income	**37,500**	60,104

Contingent liabilities of the parent entity

There are no contingent liabilities or contingent assets as at 31 December 2018. From time to time, the Company is a party to litigation, claims and other contingencies which arise in the ordinary course of business. The Company records a contingent liability when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated in accordance with applicable accounting standards.

Notes to the financial statements
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15 DEED OF CROSS GUARANTEE

The subsidiaries identified with the following symbol '*' in Note 13 'Subsidiaries' are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the Deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

These subsidiaries and MYOB Group Limited together referred to as the 'Closed Group', originally entered into the Deed on 29 June 2015. The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group.

The Consolidated Statement of Comprehensive Income of the entities which are members of the Closed Group is as follows:

	2018 $'000	2017 $'000
Consolidated Statement of Comprehensive Income		
Profit before income tax	69,505	78,566
Income tax expense	(19,417)	(23,089)
Profit after income tax	**50,088**	55,477
Accumulated losses at the beginning of the financial period	(305,994)	(352,016)
Profit for the period	50,088	55,477
Transfer between reserves	-	60,000
Pre-acquisition earnings adjustments	953	(152)
Dividends paid	(68,311)	(69,303)
Accumulated losses at the end of the financial period	**(323,264)**	(305,994)

The Consolidated Balance Sheet of the entities which are members of the Closed Group is as follows:

	2018 $'000	2017 $'000
Consolidated Balance Sheet		
Current assets		
Cash and cash equivalents	15,470	33,003
Trade and other receivables	32,011	38,828
Inventories	-	86
Funds held on behalf of customers	11,616	8,130
Other current assets	18,427	12,310
Total current assets	**77,524**	92,357
Non-current assets		
Equity accounted investments	4,283	7,545
Other investments	136,908	126,700
Property, plant and equipment	29,998	21,776
Intangible assets	1,087,000	1,104,941
Total non-current assets	**1,258,189**	1,260,962
Total assets	**1,335,713**	1,353,319
Current liabilities		
Trade and other payables	48,762	45,261
Funds held on behalf of customers	11,616	8,130
Borrowings	-	313
Unearned revenue	38,942	37,545
Provisions	12,805	11,834
Total current liabilities	**112,125**	103,083

15 DEED OF CROSS GUARANTEE (CONTINUED)

Non-current liabilities		
Borrowings	423,093	395,212
Provisions	20,259	5,723
Deferred tax liabilities	7,202	15,819
Total non-current liabilities	**450,554**	416,754
Total liabilities	**562,679**	519,837
Net assets	**773,034**	833,482
Equity		
Contributed equity	1,098,445	1,141,611
Retained earnings	(323,264)	(305,994)
Reserves	(2,147)	(2,135)
Total equity	**773,034**	833,482

At 31 December 2018, the Consolidated Balance Sheet reflected an excess of current liabilities over current assets of $34.6 million. The directors are not aware of any uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

16 EQUITY ACCOUNTED INVESTMENTS

The Group's ownership interest in equity accounted investments are listed below.

Associate	Principal activity	Country of incorporation	Reporting date	2018 %	2017 %
OnDeck Capital Australia Pty Ltd	Provider of finance to small business	Australia	31 December	**30.0**	30.0

The ownership interest at the Group's and the associates' reporting dates are the same.

Movement in carrying amount of investments in associates

	2018 $'000	2017 $'000
At the beginning of the financial period	**7,545**	6,898
Increase in investment in associates [(1)]	3,000	3,000
Conversion of equity accounted investment to partially owned subsidiary (refer note 12)	(3,610)	-
Share of losses from equity accounted investments	(2,652)	(2,353)
At the end of the financial period	**4,283**	7,545

No dividends were received from associates during the period.

[(1)] On 5 April 2018, the Group made a $3.0 million cash contribution to OnDeck Capital Australia Pty Ltd (OnDeck). All shareholders in OnDeck contributed proportionally in accordance with the terms outlined in the shareholder agreement and as such the Group's shareholding remained at 30 per cent.

SIGNIFICANT ACCOUNTING POLICIES

Equity accounted investments

The Group's investments in its associates, being entities in which the Group has significant influence and are neither subsidiaries nor jointly controlled assets, are accounted for using the equity method. Under this method, the investment in associates is carried in the Consolidated Balance Sheet at cost plus the Group's post-acquisition share of the associates' net profit/loss.

Where the Group has determined that it does not have either control or significant influence, the investment is disclosed as a financial asset held at fair value through other comprehensive income (FVOCI) (refer to Note 7 'Other Investments').

EMPLOYEE REMUNERATION

17 SHARE-BASED PAYMENTS

Benefits are provided to employees (including the Chief Executive officer "CEO" and Senior Executives) of the Group in the form of share-based payments, whereby employees render services in exchange for equity/rights over shares.

The Group has three forms of share-based payments:

Performance Share Scheme (LTI)

During MYOB Group's Initial Public Offering on 7 May 2015, all previously issued 48,111,176 Management 'A' shares were converted to 3,547,710 ordinary shares and 21,286,246 performance shares. Performance shares do not carry any voting rights or entitle the holder to any dividends or any returns on a reduction of capital or upon winding up of the Company.

The number of shares into which performance shares may convert varies upon the share price over a 20-business day consecutive volume weighted average price (VWAP) ending on the relevant testing dates being 30 September 2016, 30 September 2017 and 30 September 2018.

Performance shares held under the LTI did not convert to ordinary shares during FY17 or FY18 as the share price did not meet the prescribed hurdle set for the second and third testing dates of 30 September 2017 and 30 September 2018. This resulted in a $1 million transfer from share-based payment reserves to retained earnings.

This scheme is now closed.

Long Term Incentive Plan (LTIP)

On 1 February 2017, 7,060,400 ordinary shares at $3.4587 per share were issued as new equity of MYOB Group Limited to participants of the LTIP. These ordinary shares, that are retained by the Group until such time as they become available to participants of the LTIP (following the achievement of prescribed performance metrics), are classified as treasury shares per AASB 132 *Financial Instruments: Presentation.* Under this accounting standard, treasury shares are deducted from contributed equity (refer Note 9 'Contributed equity').

Unified Incentive Plan (UIP)

On 1 January 2018 MYOB introduced a unified incentive plan (UIP) to link reward more directly to the value drivers of the business. The UIP unifies the short term and long term incentive arrangements into one scheme. Performance against a single set of annual performance metrics determines both the cash award and the equity available to participants. The quantum of equity available at the performance thresholds is set early in the performance year, increasing the value through the period.

Equity is deferred for a three-year period through this time further reinforcing the alignment with shareholder interests. This deferral supports the building of long term shareholdings amongst the participants. The deferral window also provides the opportunity to identify and address risks or issues that may emerge after the performance period. The Board retains the discretion to claw back deferred equity during the deferral period.

The UIP is not a loan-funded arrangement, significantly reducing the administration complexity of the scheme, whilst also enhancing ease of understanding.

Movements in employee equity plans during the financial period were:

	Number of shares ('000)	
	LTI	**LTIP**
Outstanding at the beginning of the financial period	4,297	6,040
Forfeited or cancelled during the financial period	(4,297)	(501)
Outstanding at the end of the financial period	**-**	**5,539**

17 SHARE-BASED PAYMENTS (CONTINUED)

The expenses arising from share-based payments are as follows:

	2018 $'000	2017 $'000
Long Term Incentive Plan (LTIP)	650	650
2018 Unified Incentive Plan (UIP)	1,125	-
	1,775	650

SIGNIFICANT ACCOUNTING POLICIES

The LTI, LTIP and UIP are accounted for as share-based payments under AASB 2 *Share-based Payment* as any distribution would be partly based upon the equity value of MYOB Group Limited. The share-based payment expense in relation to these schemes is recognised in MYOB Australia Pty Ltd, a subsidiary of MYOB Group Limited, on a pro-rata basis over the expected vesting period. The arrangement is treated as an equity settled expense.

This treatment for the LTI was a continuation of the Management ‘A’ share scheme. That share scheme vested over five years in line with the Management ‘A’ share scheme and concluded in September 2016.

The LTIP scheme will vest as follows: two thirds over two years (Testing was completed at the end of 2018 and resulted in no issues from this portion of this scheme) and one third over three years.

The UIP scheme will vest over 4 years.

The fair value of the shares for all employee-based share schemes are calculated by an external valuer with reference to the expected future return from the plan. It includes estimates around the expected future exit date and the estimated enterprise value of the Group from which the distribution would be calculated.

18 KEY MANAGEMENT PERSONNEL

	2018 $'000	2017 $'000
Short-term employee benefits	5,753	4,670
Post-employment benefits	214	247
Long-term benefits	41	90
Share-based payments	1,264	348
Termination benefits	-	517
	7,272	5,872

ITEMS NOT RECOGNISED IN THE FINANCIAL STATEMENTS

19 COMMITMENTS FOR EXPENDITURE

	Lease commitments		**Capital expenditure and other commitments**	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Within one year	8,331	6,884	-	477
Later than one year but not more than five years	22,537	17,331	-	-
More than five years	10,925	2,969	-	-
	41,793	27,184	**-**	477

Non-cancellable operating lease commitments

The Group has operating lease commitments predominantly in relation to commercial property leases with the majority including renewal options. There are no restrictions placed upon the lessee by entering into these leases.

Capital expenditure and other commitments

The Group has no contractual commitments for the payment of office refurbishment and construction works in existence at reporting date.

20 EVENTS OCCURRING AFTER REPORTING DATE

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial years.

OTHER INFORMATION

21 RELATED PARTY TRANSACTIONS

The Group's related parties are predominantly its associates and key management personnel of the Group. Disclosures relating to key management personnel are set out in Note 18 'Key management personnel'. All transactions were entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

Transactions with related parties

	Associates	
	2018 $'000	2017 $'000
Sale of goods and services	453	184
Purchase of goods and services	126	174
	579	358

Outstanding balances with related parties

	Associates	
	2018 $'000	2017 $'000
Trade amounts owing to related parties	-	31
	-	31

22 AUDITOR'S REMUNERATION

During the year the following fees were paid for services provided by the Group's auditors, PricewaterhouseCoopers (PwC) Australia, and its related practices:

	PwC Australia		Related practices of PwC Australia		Total	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Assurance services						
Audit and review of financial reports	566	427	65	53	631	480
Total assurance services	**566**	427	**65**	53	**631**	480
Non-assurance services						
Acquisition related	8	395	-	-	8	395
Project related	-	3	-	8	-	11
Tax advisory	23	55	-	-	23	55
Total non-assurance services	**31**	453	**-**	8	**31**	461
Total remuneration	**597**	880	**65**	61	**662**	941

23 OTHER SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The Consolidated Financial Statements comprise the financial statements of MYOB Group Limited and its subsidiaries (the Group) as at 31 December each year. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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.

In preparing the Consolidated Financial Statements, all intercompany balances and transactions, including unrealised profits arising from intra-group transactions, income/expenses and profits/losses from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless the transaction provides evidence of the impairment of the asset. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the Consolidated Financial Statements include the results for the part of the reporting period during which the Group had control.

The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period, except for the adoption of new and amended standards as set out below.

Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates.

It also requires management to exercise its judgement in the process of applying the Group'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 the relevant note to the financial statements.

Changes in accounting policies

A number of new or amended standards became applicable for the current reporting period and the Group has changed its accounting policies and made retrospective adjustments as a result of adopting the following standards:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 7 and note 1 respectively. As previously disclosed, the Group has applied the full retrospective approach upon transition to AASB 15.

23 OTHER SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended Accounting Standards and Interpretations

Accounting standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2018 reporting period and have not yet been applied in these financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

Summary	Application date of standard	Application date for Group
AASB 16 *Leases*	1 January 2019	1 January 2019
AASB 16 will affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals. The only exceptions are short term low value leases. The Group will therefore be required to recognise an asset and a financial liability for the majority of its property leases. In addition, the operating lease rental associated with these leases will no longer be recognised in the income statement, instead being replaced by depreciation of the lease asset and interest expense on the lease liability. This is not expected to materially change the profit after tax over the duration of most leases, but will change Group EBITDA, NPAT and NPATA (which is the measure utilised by the Chief Operating Decision Maker to measure profitability and reward financial performance). The Group is intending to report under the new leasing standard for the full year ending 31 December 2019 (interim financial report 30 June 2019). There are a number of transition options available upon adopting the new standard – the 'retrospective approach' and the 'modified retrospective approach'. The Group has not yet determined which transition approach to apply. To date, work has focused on the identification of the provisions of the standard which will most impact the Group and conducting a detailed review of its existing contracts and corresponding financial reporting impacts. As at the reporting date, the Group has non-cancellable operating lease commitments of $41.8 million, see Note 19 'Commitments for expenditure'.		

There are no other new accounting standards issued but not yet effective.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes as set out on pages 1 to 38, are in accordance with the *Corporations Act 2001* including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

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

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and

(c) at the date of the declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 13 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 15.

The 'Basis of preparation' on the contents page confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Justin Milne
Chair

Tim Reed
Executive Director and Chief Executive Officer

Sydney
21 February 2019

Independent auditor's report

To the members of MYOB Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of MYOB Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit, we used Group overall materiality of $4.8m which is based on approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortisation (EBITDA).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose EBITDA because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark in the industry.
- We selected 2.5% based on our professional judgement noting that it is within the range of commonly acceptable earnings related thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group operates across Australia and New Zealand. Acting under our instructions, component auditors performed an audit of the financial information of MYOB New Zealand as it is financially significant to the Group. The remaining audit procedures were performed by PwC Australia.

Key audit matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:
  - Carrying value of goodwill and indefinite lived intangible assets
  - Capitalisation of internally generated software
  - Useful life of intangible assets
  - Revenue recognition
- These are further described in the *Key audit matters* section of our report.

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. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	*How our audit addressed the key audit matter*
Carrying value of goodwill and indefinite lived intangible assets *(Refer to note 6 in the financial report)* The Group recognises $1,277m of intangible assets comprised of goodwill, brands, commercialised software, internally generated software, acquired IP and customer relationships. These assets are assessed for impairment for each cash generating unit (CGU) through the use of discounted cash flow models (the models). The assessment of whether an impairment charge was necessary was a key audit matter as these balances are the largest asset on the balance sheet and the assessment involved significant judgement by the Group including forecasting the following key assumptions: · Future cash flows for the next five years · Nominal discount rate (pre tax) · Terminal growth rate	We performed a number of procedures including the following: · Evaluated whether the assessment of CGUs remained consistent with our understanding of the Group's operations and internal Group reporting. · Evaluated the methodology applied by the Group in allocating corporate assets and costs across CGUs. · Considered whether the methodology in the models was consistent with the basis required by Australian Accounting Standards. · Compared the cash flow forecasts for 2019 in the models to those in the latest Board approved budgets. · Evaluated the Group's ability to forecast future results for impairment models by comparing budgets with reported actual results for the previous year. · Assessed whether the growth rate assumptions in the models' forecasts were consistent with our understanding by comparing the growth rate assumptions with historical performance and our understanding of the drivers of performance such as historic customer retention rates. · Evaluated the appropriateness of the nominal discount rate by assessing the reasonableness of the relevant inputs to the calculation with the assistance of PwC valuations specialists. · Evaluated the appropriateness of the terminal growth rate by comparison to the long term average growth rates of the countries the Group operates in, being Australia and New Zealand. · Evaluated the finalisation of the allocation of goodwill from the Paycorp acquisition to the CGUs which are expected by the Group to benefit from the synergies of the acquisition. · Evaluated the adequacy of the disclosures made in note 6 of the financial report, including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.

Key audit matter	*How our audit addressed the key audit matter*
Capitalisation of internally generated software *(Refer to note 6 in the financial report)* During the year, the Group capitalised internal software development project costs of $52m. These projects were predominantly in relation to the development of the MYOB Platform. The costs mainly comprised of payroll. The Group's accounting policy is described in note 6 in the financial report. The capitalisation of internally generated software costs was a key audit matter due to the size of the internal costs capitalised and the judgement involved for the Group in assessing whether the criteria set out in the Australian Accounting Standards required for capitalisation of such costs had been met, particularly: • The technical feasibility of the project • The likelihood of the project delivering sufficient future economic benefits. The Group's judgements also included whether capitalised costs were of a developmental rather than research or maintenance nature (which would result in the costs being expensed rather than capitalised) and whether costs, including payroll costs, were directly attributable to relevant projects.	We performed a number of procedures including the following: · Obtained an understanding of the organisational process for development of the MYOB Platform and in turn the financial controls for the recording of capitalised internally generated software. · Assessed controls in place to review classification changes of development projects. · On a sample basis, agreed payroll and other capitalised costs to supporting documentation and assessed the determination of these as capital or not. · Assessed key metrics that support the future income stream of a selection of the projects including assessing the number of users who have migrated to newly released products to examine whether the initial assumptions applied in determining project feasibility continue to hold true.
Useful life of intangible assets *(Refer to note 6 in the financial report)* On at least an annual basis, the Group assesses its portfolio of intangibles assets and uses judgement to determine whether the assets have a finite or indefinite useful life. This classification then determines if an intangible asset is amortised or unamortised respectively. In making this determination at 31 December 2018, the MYOB brand intangible asset is carried on the balance sheet at $112.5m and is the only indefinite lived intangible assets aside from goodwill and as such is not amortised. Other acquired brands have a useful life of between 3-5 years based on the judgements regarding the strategies of these brands and the period over which expected cash flows will continue to be derived from these brands.	We performed a number of procedures including the following: · Assessed the Group's intentions to continue to use the MYOB brand name across new and existing products to support its indefinite lived determination. · Considered the useful life of capitalised software through our understanding of the Group's anticipated migration rates from existing to newly released products. · Evaluated the Group's assessment that the useful lives of intangible assets are appropriate at year end. This included performing a "look back" analysis that compared the actual churn rates to the assumed churn rate that formed the determination of the useful life of customer relationships at acquisition. · Tested amortisation expense for finite life intangible assets and found the expense to be calculated consistently with the Group's stated amortisation rates.

Key audit matter	How our audit addressed the key audit matter
Additionally, the Group carries intangible assets with finite lives of $212m in relation to: · Internally Generated Software · Commercialised Software · Acquired IP, and · Customer Relationships. The Group continues to invest in on-going development of new and existing products which are available to new and existing customers. As such a focus is also required on the useful lives of this existing capitalised software and customer relationships intangibles to assess their estimated useful lives with reference to any deviations to considerations made at the time of their previous assessment. The assessment of useful lives of intangible assets was a key audit matter due to the judgement involved by the Group and the potential impact on the profit from the amortisation expense.	
Revenue recognition *(Refer to note 1 in the financial report)* During the year, the Group adopted a new revenue recognition policy due to the mandatory implementation of a new accounting standard AASB 15. Revenue recognition was a key audit matter due to: · the significance of revenue to understanding the financial results for users of the financial report. · the extent of deferred revenue held by the Group and the assessment of its systematic release in line with relevant revenue recognition principles. · the complexity involved in applying the new AASB 15 requirements given the extent of revenue streams, payment methods and variations in terms and conditions associated with MYOB's product mix and the continual evolution of the business model in response to market demands. · the significance of potential differences between the new and old accounting standards for the Group and the software industry sector via the further clarity provided in AASB 15 on the treatment of licences as either "right to access" or "right to use" which determines if the appropriate accounting treatment is to defer or immediately recognise revenue respectively. · the complexity associated with the varied nature of bespoke contracts in forming new commercial arrangements.	We performed a number of procedures including the following: · Developed an understanding of and evaluated the operating effectiveness of relevant key revenue internal controls, including deferred revenue calculation and release controls. · On a sample basis, recalculated the deferred portion of customer agreements and compared this to the amount deferred on the balance sheet. · Assessed associated reconciliations including accounts receivable and deferred revenue for unusual reconciling items. · Assessed the value of credit notes raised over the year and for a select period post year-end. · Developed a risk based approach to perform journal entry testing on a sample basis to determine the appropriateness of manual postings to revenue. · Assessed whether the Group's new accounting policies were in accordance with the requirements of AASB 15 through consideration of accounting papers on key areas of judgement prepared by the Group. · Considered the appropriateness of accounting impact quantifications applied by the Group including whether key judgements such as the treatment of licence revenue and contract costs, were consistent with the interpretation of AASB 15. · For a sample of contracts across the MYOB's revenue streams we:

Key audit matter	How our audit addressed the key audit matter
	• Developed an understanding of the key terms of the arrangement including parties, term dates, background of agreement, performance obligations and payments to be made. • Considered the Group's identification of performance obligations and allocation of selling prices to the performance obligations. • On a sample basis, tested the appropriateness of revenue recognition of invoices issued to customers by assessing their contract with MYOB, the extent to which performance obligations per the contract had been met, and agreeing these invoices to cash received from customers or year-end accounts receivable as appropriate. • Evaluated the adequacy of the disclosures made in note 1 in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon. We expect the other information to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial report, our responsibility is to read the other information when it becomes available 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.

When we read the other information not yet received, 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 to take.

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 have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nadia Carlin

Nadia Carlin
Partner

Melbourne
21 February 2019