



MACQUARIE

Sole Global Coordinator and Underwriter
Joint Lead Manager and Joint Bookrunner



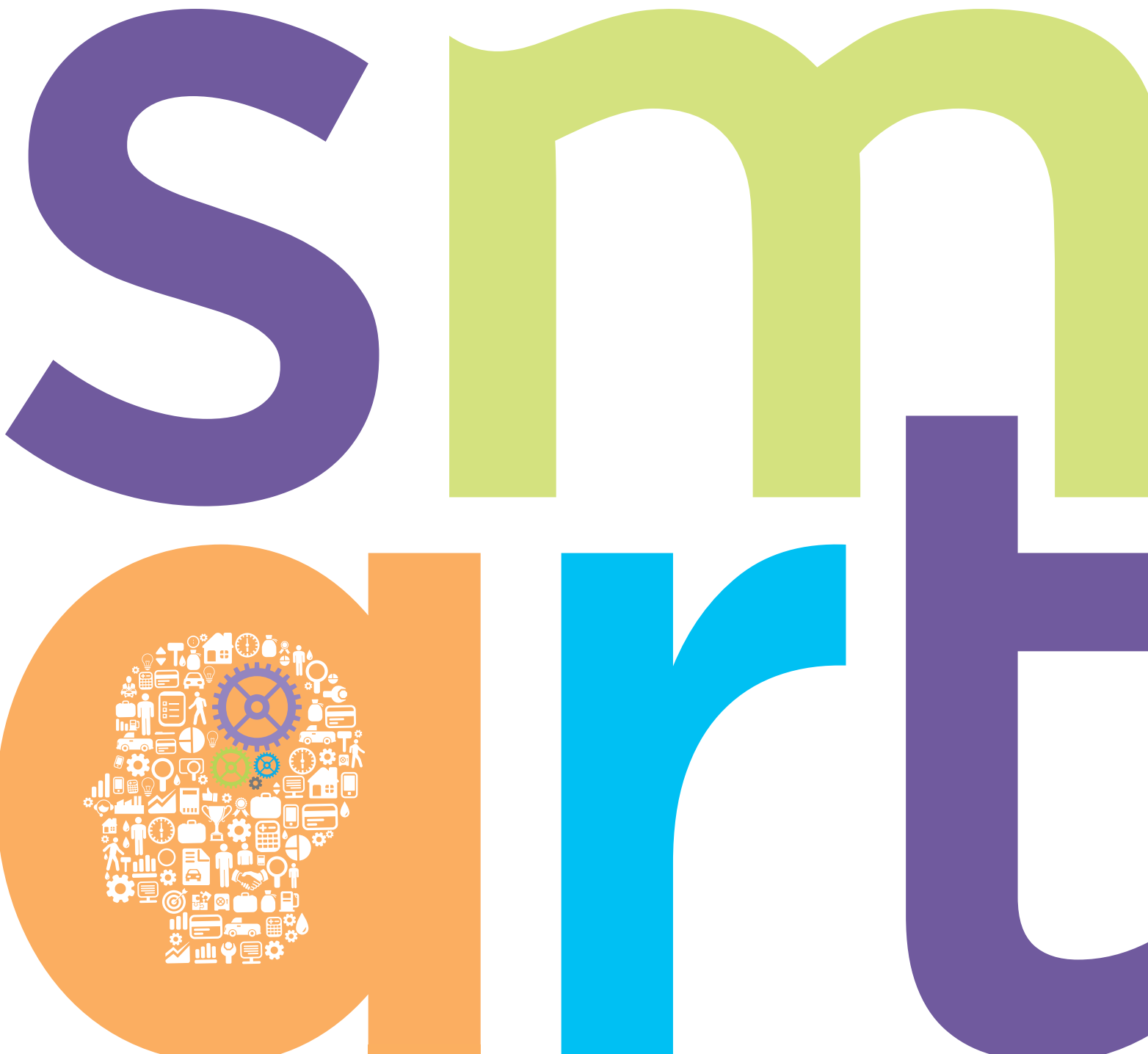
Joint Lead Manager and Joint Bookrunner



Prospectus

Smartgroup Corporation Ltd

(ABN 48 126 266 831)



IMPORTANT NOTICES

Offer

The Offer contained in this Prospectus is an invitation to apply for fully paid ordinary shares in Smartgroup Corporation Ltd (“**Company**”) (“**Shares**”). This Prospectus is issued by the Company and Smartgroup SaleCo Limited (“**SaleCo**”).

Lodgement and Listing

This Prospectus is dated 16 June 2014 and a copy was lodged with the Australian Securities and Investments Commission (“**ASIC**”) on that date.

The Company will apply to ASX Limited (“**ASX**”) within seven days after the Prospectus Date, for admission of the Company to the Official List and for quotation of its Shares on ASX. None of ASIC, ASX or their officers take any responsibility for the contents of this Prospectus or for the merits of the investment to which this Prospectus relates.

As set out in Section 7, it is expected that the Shares will be quoted on ASX initially on a deferred settlement basis.

The Company and SaleCo disclaim all liability, whether in negligence or otherwise, to persons who trade the Shares before receiving their holding statement.

Expiry Date

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Not investment advice

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs.

It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company.

In particular, you should consider the risk factors that could affect the performance of the Company. You should carefully consider these risks in light of your personal circumstances (including financial and tax issues) and seek professional guidance from your stockbroker, solicitor, accountant or other independent professional adviser before deciding whether to invest in the Company.

Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, warrants or guarantees the performance of the Company or the repayment of capital or any return on investment made pursuant to this Prospectus.

This Prospectus includes information regarding past performance of the Company. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. Any information not so contained may not be relied upon as having been authorised by the Company, its Directors, SaleCo, SaleCo Directors, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus.

Financial information presentation

The Historical Financial Information included in this Prospectus has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards issued by the Australian Accounting Standards Board (“**AASB**”), which are consistent with International Financial Reporting Standards (“**IFRS**”) and interpretations issued by the International Accounting Standards Board (“**IASB**”), except where otherwise stated, other than EBITDA, EBITA, EBIT and NPATA.

The Forecast Financial Information included in this Prospectus is unaudited and is based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information is, to the extent possible, consistent with the basis of preparation and presentation of the Historical Financial Information.

The Historical Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information contained in Section 4.

Forward looking statements

This Prospectus contains forward looking statements which are identified by words such as “may”, “could”, “believes”, “estimates”, “expects”, “intends” and other similar words that involve risks and uncertainties. In addition, consistent with customary market practice in offerings in Australia, the Forecast Financial Information has been prepared and included in this Prospectus, in Section 4.

The Company has no intention of updating or revising forward looking statements, or of publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

Past performance, and the Forecast Financial Information provide no indication or guarantee of Smartgroup’s performance in the future. Any forward looking statements are subject to various risk factors that could cause the Company’s actual results to differ materially from the results expressed, implied or anticipated in these statements. The Forecast Financial Information and other forward looking statements should be read in conjunction with, and are qualified by reference to, the risk factors set out in Section 5, the general and specific assumptions set out in Section 4, the sensitivity analysis set out in Section 4 and other information in this Prospectus.

This Prospectus, including the industry overview in Section 2, uses market data, industry forecasts and projections, and management estimates. The Company has obtained portions of this information from market research prepared by third parties. There is no assurance that any of the forecasts or projections contained in the reports, surveys and research of third parties which are referred to in this Prospectus will be achieved and the Company and SaleCo make no representation and expressly disclaim any liability as to the completeness or accuracy of such information or projections. The Company or SaleCo have not independently verified this information. Estimates, forecasts and projections involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

No offering where offering would be illegal

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of the Shares in any jurisdiction outside Australia.

The Offer is not being extended to any investor outside Australia, other than to certain Institutional Investors as part of the Institutional Offer.

The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. For details of selling restrictions that apply to the Shares in certain jurisdictions outside Australia, please refer to Section 7.8.

This Prospectus may not be distributed to, or relied upon by, persons in the United States or who are US Persons. The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States, and may not be offered or sold in the United States, or to or for the account or benefit of a US Person, except in a transaction exempt from the registration requirements of the US Securities Act and applicable United States state securities laws.

Exposure Period

The Corporations Act prohibits the Company and SaleCo from processing Applications in the seven day period after the date of this Prospectus (“**Exposure Period**”). The Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

Obtaining a copy of this Prospectus

A paper copy of this Prospectus is available free of charge to any person in Australia by calling the Smartgroup Offer Information Line on 1800 237 687 (within Australia) or +61 1800 237 687 (outside Australia) from 8.30am until 5.30pm Sydney time Monday to Friday (Business Days only).

This Prospectus is also available to Australian resident investors in electronic form at www.smartgroup.com.au. The Offer constituted by this Prospectus in electronic form is available only to Australian residents accessing the website from Australia. It is not available to persons in any other jurisdiction (including the United States). Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus.

Applications

Applications may only be made during the Offer Period on the appropriate Application Form attached to, or accompanying, this Prospectus in its paper copy form, or in its electronic form which must be downloaded in its entirety from www.smartgroup.com.au.

Applicants under the Priority Offer or Employee Offer must apply electronically at www.smartgroup.com.au.

By making an Application, you represent and warrant that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, this Prospectus in its paper copy form or the complete and unaltered electronic version of this Prospectus.

No cooling-off rights

Cooling-off rights do not apply to an investment in Shares issued under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

Defined terms and abbreviations

Defined terms and abbreviations used in this Prospectus are explained in the Glossary. Unless otherwise stated or implied, references to times in this Prospectus are to Sydney time. Unless otherwise stated or implied, references to dates or years are calendar year references. All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and sums and components in charts, graphics and tables contained in this Prospectus are due to rounding. All numbers of Shares that are referred to as being received or subscribed for in this Prospectus (other than in Section 6.3.2.3) have been rounded to the nearest 0.1 million Shares.

Photographs and diagrams

Photographs and diagrams in this Prospectus do not depict assets owned or used by the Company unless otherwise indicated, and are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Privacy

By completing an Application Form, you are providing personal information to the Company and SaleCo through the Share Registry, which is contracted by the Company to manage Applications. The Company, SaleCo and the Share Registry on their behalf, collect, hold and use that personal information to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

Once you become a Shareholder, the Corporations Act requires information about you (including your name, address and details of the Shares you hold) to be included in the Company’s Shareholder register. The information must continue to be included in the Company’s Shareholder register if you cease to be a Shareholder. If you do not provide all the information requested, your Application Form may not be able to be processed.

The Company, SaleCo and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the Privacy Act 1988 (Cth):

- the Share Registry for ongoing administration of the Company’s Shareholder register;
- the Joint Lead Managers in order to assess your Application;
- printers and other companies for the purpose of preparation and distribution of documents and for handling mail;
- market research companies for the purpose of analysing the Company’s Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by or on behalf of the Company. You can request access to your personal information or obtain further information about the Company’s privacy practices by contacting the Share Registry. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. The Company aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Share Registry if any of the details you have provided change. In accordance with the requirements of the Corporations Act, information on the Company’s Shareholder register will be accessible by members of the public.

Offer management

The Offer is underwritten by Macquarie Capital (Australia) Limited, and managed by Macquarie Capital (Australia) Limited and CIMB Capital Markets (Australia) Ltd.

This Prospectus is important and should be read in its entirety

Contents

Important Notices	IFC
Important Information	2
Chairman's Letter	4
1. Investment Overview	5
2. Industry Overview	22
3. Smartgroup Overview	38
4. Financial Information	58
5. Risks	86
6. Key People, Interests and Benefits	96
7. Details of the Offer	109
8. Independent Limited Assurance Report on Financial Information	127
9. Additional Information	138
A. Glossary	146
B. Significant Accounting Policies	154
Application Form	161

Important Information

Key dates

Prospectus lodgement date	16 June 2014
Broker Firm Offer, Priority Offer and Employee Offer opens	24 June 2014
Broker Firm Offer, Priority Offer and Employee Offer closes	30 June 2014
Settlement of the Offer	1 July 2014
Issue and transfer of Shares under the Offer	2 July 2014
Commencement of trading of the Shares on ASX on a deferred settlement basis	2 July 2014
Despatch of holding statements	3 July 2014
Commencement of trading of the Shares on ASX on a normal settlement basis	4 July 2014

Note: This timetable is indicative only and may change. Unless otherwise indicated, all times are stated in Sydney time. The Company and SaleCo in agreement with the Joint Lead Managers, reserve the right to vary any and all of the above dates and times without notice including, subject to ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Closing Date, or to accept late Applications, either generally or in particular cases. The Company and SaleCo reserve the right to cancel or withdraw the Offer before Completion, in each case without notifying any recipient of this Prospectus or Applicants. If the Offer is cancelled or withdrawn before the issue or transfer of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens.

The quotation and commencement of trading of the Shares are subject to confirmation from ASX.

Key Offer Statistics

Key Offer statistics

Offer Price	\$1.60 per share
Total value of Shares offered under this Prospectus	\$112.7 million
Total New Shares to be issued under the Offer ¹	23.5 million
Total Existing Shares to be sold under the Offer ²	47.0 million
Total number of Shares offered under the Offer	70.5 million
Total Shares to be held by the Existing Shareholder on Completion of the Offer	30.4 million
Total Shares on issue immediately after Completion of the Offer	101.5 million
Indicative market capitalisation ³	\$162.3 million
Pro forma net debt (as at 31 December 2013)	\$14.8 million
Enterprise value ⁴	\$177.1 million
Enterprise value to CY2014 Pro Forma consolidated forecast EBITA ratio ⁵	7.8x
Offer Price to CY2014 Pro Forma consolidated forecast NPATA ratio ⁶	9.8x
Estimated CY2014 Pro Forma dividend yield (based on dividend payout policy) ⁷	6.6%

How to invest

Applications for Shares under the Broker Firm Offer can only be made by completing and lodging the Application Form attached to or accompanying this Prospectus.

Applicants under the Priority Offer and Employee Offer must apply electronically at www.smartgroup.com.au.

Instructions on how to apply for Shares are set out in Sections 1.8 and 7 of this Prospectus.

1. Excludes the Existing Shares to be transferred by the Existing Shareholder to Gentilly Holdings 2 Pty Limited (the trustee of a discretionary family trust associated with the Chairman, Michael Carapet) as described in Section 6.3.2.3 but includes the Shares to be issued to management of Smartgroup described in Section 6.3.2.4.
2. Includes Existing Shares to be transferred by the Existing Shareholder to Gentilly Holdings 2 Pty Limited as described in Section 6.3.2.3, but excludes the New Shares to be issued to management of Smartgroup described in Section 6.3.2.4.
3. Calculated as the total number of Shares on issue immediately after Completion of the Offer multiplied by the Offer Price.
4. Enterprise value calculated as the indicative market capitalisation of \$162.3 million (calculated using the Offer Price), plus Pro Forma adjusted net debt of \$14.8 million as at 31 December 2013 as set out in Section 4.
5. This ratio is commonly referred to as an EV/EBITA ratio. The EV/EBITA ratio for Smartgroup is calculated as the enterprise value divided by CY2014 Pro Forma consolidated forecast EBITA of \$22.6 million (refer to Section 4.3 for more details).
6. This ratio is referred to as the price to earnings or PE ratio. The PE ratio for Smartgroup is calculated as the Offer Price of \$1.60 per Share divided by CY2014 Pro Forma consolidated forecast NPATA per share, based on NPATA of \$16.5 million (refer to Section 4.3 for more details).
7. The implied CY2014 forecast dividend yield is calculated as the implied dividend per Share (assuming the midpoint of the current target dividend payout ratio range of 60% to 70% of CY2014 Pro Forma NPATA) divided by the Offer Price. When determining the dividend to be paid in relation to the six months ending 31 December 2014, the Board intends to determine the appropriate dividend payout ratio and apply it to the statutory NPATA for that period. For more information on the Company's dividend policy, refer to Section 4.12. NPATA refers to net profit after tax, adjusted to exclude the non-cash tax effected amortisation of intangibles. See Section 4.2.4 and the Glossary for further details on NPATA.

Chairman's Letter

Smartgroup Corporation Ltd

Dear Investor,

On behalf of the Board, it is my pleasure to invite you to become a shareholder in Smartgroup Corporation Ltd ("Company").

Smartgroup is considered one of Australia's largest providers of salary packaging administration and novated leasing services to employees of State and Federal Government departments, Public Benevolent Institutes and corporate employers, and also provides fleet management services.

Smartgroup initially commenced business in 1999 and has successfully expanded its market position and suite of products and services through growth and strategic acquisitions. Smartgroup now has 343 employees (as at 1 April 2014) and is supported by a range of information technology systems, enabling Smartgroup to deliver a consistently high level of customer service.

Smartgroup is led by an experienced management team that has delivered strong growth. Pro Forma revenue grew at an annual compound rate of 11.2% between CY2011 and CY2013 and Pro Forma consolidated EBITA grew at an annual compound rate of 11.3% per annum over the same period.

As at 1 April 2014, Smartgroup had over 130 Employer Clients, over 110,000 outsourced salary packages, in excess of 30,000 motor vehicle novated leases under management, and over 13,000 full fleet managed vehicles across Australia.

Smartgroup's strategies to expand its business are focused on (i) growing its Employer Client base through its high tender win rate and strong Employer Client referrals, (ii) increasing uptake through Employee Customer education and (iii) marketing and cross selling multiple products to Employee Customers.

On Completion of the Offer, New Shareholders are expected to hold 66.8% of the Shares. Smart Packages (an indirect subsidiary of Usaha Tegas, a private investment holding company based in Malaysia), and Management Shareholders are expected to hold 30% and 1.8% of the Shares respectively. The Company has a majority of independent Directors.

This Prospectus contains detailed information about the Offer, the industry in which Smartgroup operates, and Smartgroup's financial and operating performance and outlook. Smartgroup's business is subject to a range of company-specific and general risks including changes in laws facilitating salary packaging and novated leasing, concentration of clients and loss of clients. Some of these risks as well as other risks of investing in Smartgroup are described in Sections 1.4 and 5. I encourage you to read this Prospectus carefully in its entirety before making your investment decision.

On behalf of my fellow Directors, I look forward to welcoming you as a Shareholder.

Yours sincerely



Michael Carapiet
Chairman

1

Investment Overview

1. Investment Overview

1.1 Introduction

Topic	Summary	For more information			
Who is Smartgroup?	Smartgroup, collectively Smartgroup Corporation Ltd and its subsidiaries, consists of a group of businesses offering salary packaging (comprising salary packaging administration and novated leasing) and fleet management services to employers and their employees in Australia.				
	For the year ended 31 December 2013, the salary packaging business unit comprised 92% of Smartgroup's total revenue, while fleet management comprised 8% of its total revenue.				
	The business was established in 1999 and has 343 employees (as at 1 April 2014) with major operations in Sydney and Melbourne, as well as offices in Brisbane, Perth and Canberra.				
	Segments	Salary packaging (92% of CY2013 revenue)			Fleet management (8% of CY2013 revenue)
	Major services	Salary packaging administration		Novated leasing	Fleet management services
		 saving money, made easy	 salary packaging software just got easier	 Solutions	 for smartmoney
Key brands	Manages outsourced salary packaging administration of over 110,000 employees (Employee Customers) for their employers (Employer Clients)	Specialist salary packaging software licensed to Employer Clients to manage salary packaging in house	Provider of marketing and administrative services for Employee Benefit Cards on behalf of an Australian bank	Transactional services for motor vehicle novated leases, finance and other associated vehicle products under a salary packaging arrangement	Fleet management services provided through a web-based fleet management system and a comprehensive suite of vehicle management services
Other brands				 Tailored Automotive Insurance Distributor of insurance products	
Note: Figures as at 1 April 2014 unless otherwise stated.					
Why is the Offer being conducted?	The Offer is being conducted to provide Smartgroup with: + A liquid market for the Shares and an opportunity for the Existing Shareholder to realise part of its investment in Smartgroup; + Funds to reduce Smartgroup's debt, redeem the Redeemable Preference Shares held by the Existing Shareholder and pay costs incurred in connection with the Offer; and + Additional financial flexibility and access to capital markets to pursue Smartgroup's growth strategy.				Section 3 contains a company overview of Smartgroup
					Section 7 contains details of the Offer. Section 3.5 outlines Smartgroup's growth strategy

1. Investment Overview

1.2 Key features of Smartgroup's business model

Topic	Summary	For more information
How does Smartgroup generate its revenue?	Smartgroup primarily generates revenue through: + Administration fees: • For salary packaging, paid by Employer Clients through amounts deducted from their employees' pre-tax salary, typically fortnightly or monthly; • For fleet management, paid by Employer Clients in respect of fleet management services; and + Commissions/rebates and fees: payable to Smartgroup (typically from financiers, car dealers, and insurance companies) in relation to products sold to Employee Customers.	Section 3 contains details on Smartgroup and its business operations
What are Smartgroup's key customer segments?	Smartgroup provides salary packaging services to a range of employee types including employees of: + State and Federal Government departments; + Public Benevolent Institutes including public hospitals, private not-for-profit hospitals, charities, aged care organisations and medical research institutes; and + Corporates. The majority of Smartgroup's revenue is generated from employees of Government departments and Public Benevolent Institutes.	Sections 2.1.1 and 3.2.1.1 contain details on Smartgroup's key customer segments
How does Smartgroup deliver its services?	Smartgroup delivers its services through a combination of scalable information technology systems and a highly engaged and skilled workforce.	Sections 3.2.1.1, 3.5 and 3.6 contain details on Smartgroup's delivery systems
What are Smartgroup's key growth strategies?	Smartgroup's strategies to generate growth from targeting new and existing clients, include: + Maintaining tender win rate and increasing Employer Client referrals – Smartsalary has a high tender win rate, having won 45% of public tender opportunities in outsourced salary packaging for which it has tendered and that have been awarded between 2007² and 2013 (see Sections 3.2.1.1 and 3.5.1), underpinned by client referrals from existing Employer Clients;	Section 3.5 contains details on Smartgroup's growth strategy

² Data available from 1 September 2007 onwards. Data relates to public tenders for outsourced salary packaging from 1 September 2007 to 31 December 2013, and does not include tenders where the result is outstanding or where the tender was withdrawn.

1. Investment Overview

1.2 Key features of Smartgroup's business model

Topic	Summary	For more information
What are Smartgroup's key growth strategies? <i>continued</i>	+ Increasing uptake within its Employee Customer base – Smartgroup has successfully driven increased salary packaging and novated leasing uptake within its existing Employer Client portfolio, as further outlined in Section 3.5.2. Smartgroup will continue to seek growth in its Employee Customer base, leveraging its service offering across salary packaging, novated leasing and fleet management, through a combination of strategic acquisitions and product expansion, as outlined in Section 3.5.5; + Cross selling its products and services – Smartgroup has increased its sales of a range of value added products and services into its Employee Customer base, and will continue with cross-selling efforts, as further outlined in Section 3.5.3; + Increasing efficiency – Smartgroup expects to be able to leverage its scalable systems, continuous improvements in processes and an asset-light model to drive enhanced efficiency and margins (see Section 3.5.4); and + Undertaking mergers and acquisitions – Smartgroup has a track record of identifying value accretive opportunities and acquiring smaller industry players as well as complementary service or product providers, demonstrated by its successful integration of six acquisitions in the past five years. Management will continue to evaluate acquisition opportunities that build scale, expand operating margins or expand Smartgroup's capability or product offering. Smartgroup expects to use its natural strengths and capabilities to expand the business (see Section 3.5.5).	Section 3.5 contains details on Smartgroup's growth strategy
How does Smartgroup expect to fund its operations?	Smartgroup's operations will be primarily funded through cash flow generated from operations, as well as from debt facilities. After Completion of the Offer, Smartgroup will have total debt facilities in place that include a revolving term facility (expiring in 2017), a working capital facility (expiring in 2017) as well as additional facilities for general corporate purposes, with limited covenants. As at 31 December 2013, Smartgroup's net debt position, Pro Forma for the impact of the Offer, was \$14.8 million (as set out in Section 4).	Section 4 contains details on Smartgroup's debt facilities

1. Investment Overview

1.3 Key strengths

Topic	Summary	For more information
Leading player with established scale and capability	Smartgroup is considered one of the largest players in the Australian outsourced salary packaging market and has an established customer base of more than 130 Employer Clients and had over 110,000 outsourced salary packages as at 1 April 2014. Smartgroup has the scale, capability and service track record to cater for large Government departments, Public Benevolent Institutes and corporate clients. Management believes Smartgroup has a market share of approximately 20% of the outsourced salary packaging market. Smartgroup delivers its services through multiple methods, offering flexibility to clients who have the ability to choose between a fully outsourced salary packaging or fleet management solution or an in-house alternative through use of Smartgroup's software solution offering, and in the case of salary packaging, Employee Benefit Cards.	Sections 3.2, 2.1.3 and 3.5 contain further information
Industry leader in customer service, employee engagement and innovation	Smartgroup has a service oriented culture which has achieved industry recognition. The strength of Smartgroup's customer service and employee engagement is demonstrated through metrics such as Smartgroup's: + high Net Promoter Score³ as rated by its Employee Customers; + National and State customer service excellence awards received from the Customer Service Institute of Australia (CSIA)⁴; + accreditation as a Best Employer by Aon Hewitt in both 2013 and 2014; and + ranking by BRW Magazine as one of Australia's 50 most innovative companies in 2013.	Section 3.7 contains further information
High client retention and strength of client relationships	Smartgroup's core capabilities, diverse product offerings, and multiple delivery channels for its services have allowed it to attract and retain clients. Smartgroup has a high tender win rate, having won 45% of public tenders for outsourced salary packaging from 1 September 2007 to 31 December 2013 for which it has tendered, and that have been awarded⁵. The high tender win rate continues to be a factor in Smartgroup's success, with two clients signing with Smartsalary in CY2013 and a further three new clients signing on and expected to transition packages in CY2014.	Sections 3.2.1.1 and 3.5.1 contain further details

³ Net Promoter Score is a management tool used to gauge the loyalty of a firm's customer relationships. It serves as an alternative to traditional customer satisfaction research.

⁴ Smartsalary was awarded the NSW State Award for Service Excellence in the Medium Business Category in 2011, 2012 and 2013, and the National award in this category in 2012.

⁵ Data available from 1 September 2007 onwards. Data relates to public tenders for outsourced salary packaging from 1 September 2007 to 31 December 2013 and does not include tenders where the result is outstanding or where the tender was withdrawn.

1. Investment Overview

1.3 Key strengths

Topic	Summary	For more information
High client retention and strength of client relationships <i>continued</i>	Smartgroup has a track record of high client retention and successful contract renewals. Since inception, only one salary packaging Employer Client with greater than 1,000 Employee Customers' salary packages under management (and that contributes >1% of annual revenue), has left Smartgroup. Smartgroup has maintained long term relationships with its Employer Clients with a high level of contract renewal and retention. Approximately 80% of Smartsalary's top 20 Employer Clients have been customers of Smartgroup for over five years ⁵ . Smartgroup's largest Employer Client by revenue, for example, has been with Smartgroup since 1999.	Sections 3.2.1.1 and 3.5.1 contain further details
Established and scalable technology platform	Smartgroup has developed a range of technology platforms that, combined with their licensed customer relationship management software, enable efficient processing, and a high degree of Employee Customer self-service. Smartgroup's technology platform has been developed to be scalable and agile, making it easy to adapt and target its various products and services to Employer Clients' needs. Given Smartgroup's historical investment in its technological capability, its technology systems should require only incremental improvements over time, which Smartgroup proposes to continue to make in order to maintain the established and scalable technology systems.	Section 3.6 contains further information
Strong growth prospects	The growth strategy outlined in Section 1.2 has helped Smartgroup to deliver compound annual revenue growth of 11.2% (between CY2011 and CY2013). Smartgroup's revenue is forecast to grow 13.2% in CY2014 based on continued adoption of these strategies and the recovery from the one-off fall in new lease settlements in CY2013 following the Federal Labour Government's announcement of proposed changes to FBT legislation. Smartgroup's growth is also supported by underlying industry drivers, including growth in employment, growth in the healthcare and social assistance sector, growth in demand for motor vehicles, new vehicle sales, growing awareness of salary packaging, and product and service innovation.	Sections 3.5, 4, and 2.1.5.2 contain further information

⁵ Based on data for Smartsalary's top 20 Employer Clients by Smartgroup revenue in CY2013. Relationship length calculated as time between the start of contractual relationship and 1 April 2014.

1. Investment Overview

1.3 Key strengths

Topic	Summary	For more information
Strong cash flow generation	Smartgroup generated a net free cash flow (before financing, tax and after capital expenditure) margin of 33.8% in CY2013, increasing from 29.0% in CY2011. Smartgroup operates through the use of scalable technology systems, with low associated capital expenditure requirements. Historic investment has resulted in increased internal efficiency and an enhanced self-service capability that Smartgroup has been able to provide to Employee Customers. Smartgroup's historic recurring capital expenditure/revenue ratio was 0.3% in CY2013. Unlike a number of its peers, Smartgroup does not acquire vehicles, or own vehicles on its balance sheet, originate vehicle funding, or take on any residual value risk.	Section 3.5.4 contains further details
Experienced management	Smartgroup benefits from the wealth of expertise shared by the management team. All senior members of the management team have been working together since at least 2009, with more than 40 years combined experience among the five members of the executive management team. Deven Billimoria, Smartgroup's Chief Executive Officer and the Company's Managing Director, has been with Smartgroup since 2000 and was awarded the Australian Human Resources Institute's Lynda Gratton CEO of the Year Award in 2013 which recognises CEO values and integrity, business leadership, and people management skills.	Section 6.2 contains further information

1.4 Key risks

Topic	Summary	For more information
Changes in laws enabling salary packaging and novated leasing	The provision of products and services within salary packaging administration and novated leasing is underpinned by the associated benefits permitted under taxation laws. There can be no guarantee that regulatory changes will not be proposed in the future which may have a material adverse impact on Smartgroup's business, operations and financial performance. Such changes have been proposed in the past (see Section 2.1.5 for an overview of various regulatory proposals) and could occur in the future. Adverse changes to these laws (or the administration of these laws) may impact any of the salary packaging benefits offered by Smartgroup and could render any of Smartgroup's business less profitable or redundant, which could have a material adverse effect on its business, operations and financial performance, and the price of the Shares. Such change was witnessed during the period from 16 July 2013 to 6 September 2013, as further detailed in Sections 2.1.5.2 and 3.2.2.	Section 5.2.1

1. Investment Overview

1.4 Key risks

Topic	Summary	For more information
Concentration of Employer Clients	Smartsalary's top 5 Employer Clients⁶ represented approximately 51% of Smartgroup's revenue for the year ended CY2013. The largest Employer Client represented approximately 22% of revenue for the same year. Smartgroup's business, operations and financial performance (including revenue and profits) would be materially adversely affected if one or more of Smartsalary's top 5 Employer Clients⁷ terminated their contracts or did not renew their contracts at the end of the contract term.	Section 5.2.2
Loss of Employer Clients	Many of Smartgroup's contracts with Employer Clients include a right for the Employer Clients to terminate their contracts without cause. In addition, many Employer Clients' contracts permit the Employer Clients to terminate their contracts on a change of control of Smartgroup (or the relevant Smartgroup contracting entity). A change in control of Smartgroup will occur as a result of Completion of the Offer. There is no guarantee that these Employer Clients will not exercise any rights they have to terminate their contracts prior to the end of their relevant contract term. Smartgroup's business, operations and financial performance (including revenue and profits) would be materially adversely affected if a number of Employer Clients (or any one of Smartsalary's top 5 Employer Clients⁸) elected to exercise such a right of termination within a short period of time. Most of Smartgroup's contracts with Employer Clients are for a limited term (typically three to five years)⁹, and are then subject to renewal or tender processes. The contract for Smartgroup's 5th largest Employer Client is due to be renewed in CY2014. Smartgroup has been advised that it is the preferred tenderer with agreed terms on pricing and tenure. There are no other contracts, post the Prospectus Date, within the top 5 Employer Clients¹⁰ that are up for renewal in the year ending CY2014¹¹. Within Smartsalary's top 5 Employer Clients¹², two Employer Client contracts, representing approximately 33.8% of Smartgroup's CY2013 revenue, are up for renewal in the year ending CY2015. In particular, the contract with the largest Employer Client by CY2013 revenue will be up for renewal in June 2015¹³.	Section 5.2.3

⁶ Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

⁷ Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

⁸ Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

⁹ Note even where expressed to be a contract for a term, these Employer Client contracts generally include a right for the Employer Clients to terminate their contracts without cause, and on short notice.

¹⁰ Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

¹¹ Contract term assumed to include the exercise of all available contract extensions. The exercise of contract extensions is generally at the discretion of the relevant Employer Client.

¹² Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

¹³ Contract term assumed to include the exercise of all available contract extensions. The exercise of contract extensions is generally at the discretion of the relevant Employer Client.

1. Investment Overview

1.4 Key risks

Topic	Summary	For more information
Loss of Employer Clients <i>continued</i>	There can be no guarantee that Smartgroup will be successful in tender or renewal processes, or that Smartgroup will be able to renew contracts on similar or more favourable terms. An inability to retain a number of Employer Clients (or one of Smartsalary's top 5 Employer Clients ¹⁴) contracts on expiry or to renew Employer Client contracts on similar or more favourable terms could have a material adverse effect on Smartgroup's business, operations and financial performance.	Section 5.2.3
Increased competition	There has been increased competition in the salary packaging and novated leasing industry in recent years, which may be reflected, for example in lower pricing on tenders. Competition may also increase from the merger between existing competitors or the entry of new competitors. Smartgroup's competitive position in the market may deteriorate as a result of any of these factors or by failure of Smartgroup to meet changes in market conditions, customer demands or technology advancements. Any such deterioration in Smartgroup's competitive position could materially adversely affect Smartgroup's business, operations and financial performance.	Section 5.2.4
Loss of key personnel	Smartgroup operates with a small management team, all of whom have been with Smartgroup for more than four years and have extensive experience in Smartgroup's business and the industry in which it operates (see Section 6.2). In particular, Smartgroup's Chief Executive Officer and Managing Director, who has been with Smartgroup for almost 14 years, has a long association with the business and good relationships with key Employer Clients and suppliers. The loss of key personnel (in particular, the Chief Executive Officer and the Company's Managing Director), may materially adversely affect Smartgroup's future business, operations and financial performance and position in the short to medium term.	Section 5.2.5

¹⁴ Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

1. Investment Overview

1.4 Key risks

Topic	Summary	For more information
Disruption, failure or breach of information technology systems	Smartgroup depends on the performance, reliability and availability of its software, technology platforms and communications systems (and certain third party systems) to provide its services to Employer Clients and Employee Customers. Any systemic failure or sustained interruption (whether by damage, equipment faults, misuse by employees, external malicious interventions or otherwise) could impair Smartgroup's operations and customer service levels, severely damage Smartgroup's reputation and ability to generate new business, and necessitate increased expenditure on technology. Smartgroup's operational processes or disaster recovery plans may not adequately address every potential event and its insurance policies may not cover loss or damage that Smartgroup suffers as a result of a system failure. One or more of these factors could have a material adverse effect on Smartgroup's business, operations and financial performance. Further, there is also a risk that cyber attacks may lead to a compromise or breach of a technology platform used by Smartgroup to protect confidential information received from Employer Clients and Employee Customers. It is possible that the measures taken by Smartgroup will not be sufficient to detect or prevent unauthorised access to, or disclosure of, confidential information. Any successful cyber attack could result in loss of information integrity, breaches of Smartgroup's obligations under applicable laws or client agreements and website and system outages, each of which may potentially have an adverse impact on Smartgroup's reputation, ability to attract new clients and business, operations and financial performance.	Sections 5.2.6 and 5.2.7
Loss of key suppliers	Smartgroup maintains a number of important relationships with suppliers and service providers including suppliers of customer relationship management software, insurance, novated lease finance, Employee Benefit Cards, fuel and telephony. In respect of some of these suppliers, Smartgroup has no formal contract in place or the relevant contract may be terminated without cause, and on short notice, and/or on change of control of Smartgroup (or the relevant Smartgroup contracting entity). There is a risk that one or more of these suppliers may terminate its contract, not renew at the end of the contract term or otherwise cease to deal with Smartgroup (which may occur on short notice), substantially reduce the products or services it supplies, substantially alter the terms on which it is willing to offer products or services to Smartgroup, exit one or more of the markets in which Smartgroup uses its products or services, or collapse.	Section 5.2.8

1. Investment Overview

1.4 Key risks

Topic	Summary	For more information
Loss of key suppliers <i>continued</i>	The business may be disrupted, which could impact Smartgroup's ability to win and retain contracts and could ultimately materially adversely affect Smartgroup's business, operations and financial performance (including revenue and profits), if one or more key suppliers ceased to supply products or services to Smartgroup.	Section 5.2.8
Smartgroup may lose access to lease funder arrangements or access to finance or funders may change the terms of finance provided	Smartgroup depends on third-party financial institutions to provide funding for its Employee Customers who enter into novated leases. Smartgroup has arrangements with a limited number of financial institutions, which are not presently governed by any formal contract documentation. Specifically, a significant majority of Employee Customers' funding is provided by one major financial institution. Third-party funders may cease to provide funding, or materially limit the amount of funding that they provide, to Employee Customers, or change the terms on which such funding is currently provided without cause, and on short notice. Any loss of access, or material limitation to the terms of funding for Employee Customers could materially adversely affect Smartgroup's ability to win new contracts or retain existing contracts, which could affect Smartgroup's business, operations and financial performance.	Section 5.2.9

For additional risks refer to Section 5.

1. Investment Overview

1.5 Key financial information

Topic	Summary	For more information																																								
What is Smartgroup's Pro Forma historical and forecast financial performance?	A selected summary of Smartgroup's Pro Forma historical and forecast financial information is set out below. Investors should read this information in conjunction with Section 4 for full details on Smartgroup's Pro Forma historical and forecast financial information, statutory forecast information (which will differ significantly from the Pro Forma forecast financial information) and the assumptions underlying this information, as well as the key risks set out in Section 5. Pro Forma financials (\$ million, December year end) <table><tr><th></th><th colspan="3">Historical</th><th>Forecast</th></tr><tr><th></th><th>CY2011</th><th>CY2012</th><th>CY2013</th><th>CY2014</th></tr><tr><td>Revenue</td><td>49.7</td><td>59.5</td><td>61.5</td><td>69.6</td></tr><tr><td>EBITA</td><td>15.5</td><td>20.1</td><td>19.2</td><td>22.6</td></tr><tr><td>PBT</td><td>1.7</td><td>6.7</td><td>5.8</td><td>9.2</td></tr><tr><td>NPATA</td><td>11.3</td><td>14.7</td><td>13.9</td><td>16.5</td></tr><tr><td>NPAT</td><td>1.2</td><td>4.6</td><td>3.8</td><td>6.4</td></tr><tr><td colspan="4">Earnings per Share (cents per Share)¹⁵</td><td>6.3</td></tr></table> NPATA refers to net profit after tax, adjusted to exclude the non-cash tax effected amortisation of intangibles. It reflects the add-back of amortisation of intangibles net of the associated non-cash tax credit. See Section 4.2.4 and the Glossary for further details.		Historical			Forecast		CY2011	CY2012	CY2013	CY2014	Revenue	49.7	59.5	61.5	69.6	EBITA	15.5	20.1	19.2	22.6	PBT	1.7	6.7	5.8	9.2	NPATA	11.3	14.7	13.9	16.5	NPAT	1.2	4.6	3.8	6.4	Earnings per Share (cents per Share) ¹⁵				6.3	Section 4
	Historical			Forecast																																						
	CY2011	CY2012	CY2013	CY2014																																						
Revenue	49.7	59.5	61.5	69.6																																						
EBITA	15.5	20.1	19.2	22.6																																						
PBT	1.7	6.7	5.8	9.2																																						
NPATA	11.3	14.7	13.9	16.5																																						
NPAT	1.2	4.6	3.8	6.4																																						
Earnings per Share (cents per Share) ¹⁵				6.3																																						
What is the Company's dividend policy?	The Board expects that dividends will be paid in April and September each year, and will be franked to the maximum extent possible. The first dividend following Listing is anticipated to be paid in respect of earnings for the six months ending on 31 December 2014, and is expected to be declared in February 2015 and is expected to be fully franked. As at the Prospectus Date, the Board intends to target a dividend payout ratio in respect of the six months ending 31 December 2014 in the range of 60% to 70% of NPATA for the six months ending 31 December 2014¹⁶. The level of payout ratio is expected to vary between periods, depending on the factors the Board may consider relevant and as outlined in Section 4.12. The Directors do not provide any assurance of the future level of dividends or the extent to which they may be franked, and there may be periods in respect of which dividends are not paid.	Section 4.12																																								

¹⁵ Based on CY2014 Pro Forma NPAT and the total number of Shares on issue on Completion of the Offer of 101.5 million Shares (at the Offer Price of \$1.60).

¹⁶ NPATA refers to net profit after tax, adjusted to exclude the non-cash tax effected amortisation of intangibles. See Section 4.2.4 and the Glossary for further details.

1. Investment Overview

1.6 Directors and Management

Topic	Summary	For more information
Who are the Directors?	+ Michael Carapiet, Chairman and Non-Executive Director + Deven Billimoria, Chief Executive Officer and Managing Director + Gavin Bell, Non-Executive Director + Andrew Bolam, Non-Executive Director + John Prendiville, Non-Executive Director	Section 6.1
Who are the key management of Smartgroup?	+ Deven Billimoria, Chief Executive Officer and Managing Director + Tim Looi, Chief Financial Officer + Dave Adler, Chief Commercial Officer + Michael Ellies, Chief Operating Officer + Houda Lebbos, Chief Human Resources Officer	Section 6.2

1.7 Significant interests of key people and related party transactions

Topic	Summary	For more information																														
Who is the Existing Shareholder and what will be the Existing Shareholder's interest in the Company at the Completion?	<table><tr><th></th><th>Shares pre-Offer (million)</th><th>% pre-Offer</th><th>Shares (sold)/ issued/ acquired (million)</th><th>Shares held immediately post-Offer (million)</th><th>% post-Offer</th></tr><tr><td>Existing Shareholder</td><td>78.0</td><td>100.0%</td><td>(47.6)</td><td>30.4</td><td>30.0%</td></tr><tr><td>New Shareholders</td><td>–</td><td>0.0%</td><td>67.8</td><td>67.8</td><td>66.8%</td></tr><tr><td>Directors and management</td><td>–</td><td>0.0%</td><td>3.2</td><td>3.2</td><td>3.2%</td></tr><tr><td>Total</td><td>78.0</td><td>100.0%</td><td>23.5</td><td>101.5</td><td>100.0%</td></tr></table>		Shares pre-Offer (million)	% pre-Offer	Shares (sold)/ issued/ acquired (million)	Shares held immediately post-Offer (million)	% post-Offer	Existing Shareholder	78.0	100.0%	(47.6)	30.4	30.0%	New Shareholders	–	0.0%	67.8	67.8	66.8%	Directors and management	–	0.0%	3.2	3.2	3.2%	Total	78.0	100.0%	23.5	101.5	100.0%	Section 7
		Shares pre-Offer (million)	% pre-Offer	Shares (sold)/ issued/ acquired (million)	Shares held immediately post-Offer (million)	% post-Offer																										
	Existing Shareholder	78.0	100.0%	(47.6)	30.4	30.0%																										
	New Shareholders	–	0.0%	67.8	67.8	66.8%																										
	Directors and management	–	0.0%	3.2	3.2	3.2%																										
	Total	78.0	100.0%	23.5	101.5	100.0%																										
	Smart Packages, being the Existing Shareholder, is the current owner of the Company. The Existing Shareholder will sell a portion of its Existing Shares to SaleCo pursuant to the Share Sale Deed such that it will retain a holding of 30% of Shares at Completion.																															
The remaining Shares held by the Existing Shareholder at Completion will be subject to voluntary escrow until the day following release of the Company's financial results for CY2014 to ASX. Subject to certain exceptions, the Existing Shareholder may not dispose of its Shares during this period. See Section 7.7 for further detail.																																

1. Investment Overview

1.7 Significant interests of key people and related party transactions

Topic	Summary	For more information										
What significant benefits are payable to the Directors and other persons connected with the Company or the Offer and what significant interests do they hold?	<table><tr><th>Person</th><th>Shares held on Completion (in millions)</th></tr><tr><td>Michael Carapiet (to be held by Gentilly Holdings 2 Pty Limited)</td><td>1.2</td></tr><tr><td>Other Directors</td><td>0.2</td></tr><tr><td>Deven Billimoria (to be held by Apinto Pty Limited)</td><td>1.0</td></tr><tr><td>Other members of the senior management team</td><td>0.8</td></tr></table>	Person	Shares held on Completion (in millions)	Michael Carapiet (to be held by Gentilly Holdings 2 Pty Limited)	1.2	Other Directors	0.2	Deven Billimoria (to be held by Apinto Pty Limited)	1.0	Other members of the senior management team	0.8	Section 6.3
	Person	Shares held on Completion (in millions)										
	Michael Carapiet (to be held by Gentilly Holdings 2 Pty Limited)	1.2										
	Other Directors	0.2										
	Deven Billimoria (to be held by Apinto Pty Limited)	1.0										
	Other members of the senior management team	0.8										
	The Chairman, Michael Carapiet, will receive 0.6 million Existing Shares from the Existing Shareholder upon Completion to be held by Gentilly Holdings 2 Pty Limited (as trustee of the Carapiet Family Trust). Directors' fees for Michael Carapiet's services will be paid to Gentilly Services Pty Ltd.											
	These 0.6 million Shares received from the Existing Shareholder will be subject to voluntary escrow for a period of 12 months from Completion. Subject to certain exceptions, Gentilly Holdings 2 Pty Limited may not dispose of its Shares during this period. The other Shares held by Gentilly Holdings 2 Pty Ltd will not be subject to escrow restrictions.											
	Deven Billimoria will subscribe for 0.6 million Shares as part of remuneration for past performance (as described in Section 6.3.2.4). These Shares will be held by Apinto Pty Limited (as trustee of the Deven Billimoria Family Trust) and will be subject to voluntary escrow to be released in two tranches, being 25% on the day following release of the Company's financial results for CY2014 to ASX and 75% on the day following release of the Company's financial results for CY2015, respectively. Subject to certain exceptions, Apinto Pty Limited may not dispose of its Shares during these periods. The other Shares held by Apinto Pty Limited will not be subject to escrow restrictions.											
	Other members of the senior management team, including Tim Looi, Dave Adler, Michael Ellies and Houda Lebbos, will subscribe for 0.6 million Shares on Completion as part of remuneration for past performance (as described in the table above). These Shares to be issued to Tim Looi, Dave Adler, Michael Ellies and Houda Lebbos (or their respective nominees) will be held in escrow and released in two equal tranches, on the day following release to ASX of the financial results of the Company for CY2014 and CY2015 to ASX respectively. The other Shares subscribed for by senior management under the Employee Offer will not be subject to escrow restrictions.											
The Directors and other members of the senior management team are entitled to remuneration and fees on commercial terms.												
All of the Directors and all of the senior management team intend to participate in the Offer.												
Michael Carapiet and Deven Billimoria intend to apply for \$1.0 million and \$0.6 million worth of Shares respectively (in addition to the Shares subject to escrow restrictions described above).												
Advisers and other service providers are entitled to fees for services provided in connection with the Offer.												

1. Investment Overview

1.8 Overview of the Offer

What is the Offer?	The Offer is an initial public offering of 70.5 million Shares (based on the Offer Price of \$1.60 per Share), comprised in part New Shares issued by the Company and in part Existing Shares offered by SaleCo. The Shares under the Offer will represent 69.4% of the Shares on issue immediately following Completion of the Offer¹⁷. Each Share will rank equally with Shares already on issue. A summary of the rights attaching to the Shares is set out in Section 7.	Section 7
Who are the issuers of this Prospectus?	Smartgroup Corporation Ltd (ACN 126 266 831), a company incorporated in Victoria, Australia and Smartgroup SaleCo Limited (ACN 168 715 562), a company incorporated in Victoria, Australia.	Section 7
Who is SaleCo?	Smartgroup SaleCo Limited is a special purpose vehicle which has been established to enable the Existing Shareholder to sell a portion of its Existing Shares. The Existing Shareholder has executed a Share Sale Deed in favour of SaleCo under which it offers to sell Existing Shares to SaleCo (or its nominee) free from encumbrances and third party rights, and subject to certain conditions. As at the Prospectus Date, the Existing Shareholder has offered to sell a portion of its Existing Shares to SaleCo such that it will retain a holding of 30% of Shares at Completion. The Existing Shares offered by SaleCo will be transferred to Successful Applicants under the Offer at the Offer Price.	Section 9.2
What is the proposed use of funds raised under the Offer?	The funds received under the Offer will be used as follows: + \$37.5 million will be paid to the Company to redeem the Redeemable Preference Shares, reduce net debt, and pay costs associated with the Offer; and + \$75.2 million will be paid to the Existing Shareholder (as consideration for the Existing Shares offered by SaleCo pursuant to the Share Sale Deed).	Sections 7.1.2 and 4.5.1
Will the Shares be listed on ASX?	The Company will within seven days of the Prospectus Date, apply to ASX for admission to the Official List and for quotation of the Shares on ASX under the code SIQ (which may be changed prior to Listing). Completion of the Offer is conditional upon ASX approving this application. If approval is not given within three months after the Prospectus Date (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.	Section 7.10.1

¹⁷ Shareholding levels and percentages are based on the Offer Price.

1. Investment Overview

1.8 Overview of the Offer

How is the Offer structured?	The Offer comprises: + the Broker Firm Offer; + the Priority Offer; + the Employee Offer; and + the Institutional Offer.	Sections 7.3, 7.4, 7.5 and 7.6
Is the Offer subject to conditions?	Yes. Completion of the Offer is conditional upon: + release of security held by ANZ in respect of the Existing Shares under Smartgroup's financing arrangements; and + ASX's approval of the Company's Listing application.	Section 7.2
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Sole Global Coordinator and Underwriter.	Section 9.3
What is the allocation policy?	The allocation of Shares under the Offer between the Broker Firm Offer, the Priority Offer, the Employee Offer and the Institutional Offer was determined by the Sole Global Coordinator and Underwriter, the Company, in consultation with SaleCo and CIMB, having regard to the allocation policies described in Sections 7.3, 7.4, 7.5 and 7.6. The Company, in consultation with the Sole Global Coordinator and Underwriter, has absolute discretion regarding the allocation of Shares to Eligible Employees under the Employer Offer and Successful Applicants under the Priority Offer. For Broker Firm Offer participants, the relevant Brokers will decide as to how they allocate Shares among their retail clients. The allocation of Shares under the Institutional Offer was determined by the Sole Global Coordinator and Underwriter, and the Company in consultation with SaleCo and CIMB.	Sections 7.3, 7.4, 7.5 and 7.6
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Successful Applicants on subscription or acquisition of Shares under the Offer.	Section 9.7.5
What are the tax implications of investing in the Shares?	You may be subject to Australian income tax or withholding tax on any future dividends paid. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 9.7
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or about 3 July 2014. Refunds to Applicants under the Priority Offer and the Employee Offer who make an Application and are scaled back, will be made as soon as possible post Settlement, which is expected to occur on or about 1 July 2014.	Section 7

1. Investment Overview

1.8 Overview of the Offer

What is the minimum and maximum Application size under the Broker Firm Offer, Priority Offer and the Employee Offer?	The minimum Application under the Broker Firm Offer is \$2,000 worth of Shares. There is a minimum Application of \$1,000 worth of Shares under the Employee Offer and a minimum Application of \$2,000 worth of Shares under the Priority Offer. There is no maximum value of Shares that may be applied for under the Offer (subject to the aggregate caps on allocation under the Employee Offer and Priority Offer described in sections 7.4.6 and 7.5.2).	Sections 7.3.1, 7.4.1 and 7.5.1
How can I apply?	+ Eligible investors may apply for Shares by completing a valid Application Form attached to or accompanying this Prospectus. + Applicants under the Priority Offer or Employee Offer should follow the instructions on how to apply in their personalised invitations. + To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.	Sections 7.3, 7.4, 7.5 and 7.6
Can the Offer be withdrawn?	The Offer is subject to the Conditions and the Company and SaleCo reserve the right not to proceed with the Offer at any time before the issue or transfer of Shares to Successful Applicants. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 7.2
Where can I find out more information about this Prospectus or the Offer?	+ Call the Smartgroup Offer Information Line on 1800 237 687 (toll free within Australia) or +61 1800 237 687 (outside Australia) from 8.30am until 5.30pm (Sydney time), Monday to Friday. + If you are unclear in relation to any matter or are uncertain as to whether Smartgroup is a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.	Section 7

A vertical sidebar on the left side of the page featuring a stack of colored shapes: a purple square at the top, followed by an orange square, a large green rectangle, and a grey square at the bottom. Each shape has a white, rounded corner on its right side, giving the impression of overlapping cards or a layered design.

2

Industry Overview

2. Industry Overview

Management estimates that there are currently approximately 550,000 employees that salary package via an outsourced administrator, of the total Australian workforce of approximately 12.3 million²⁰. Uptake of salary packaging services is generally higher as a percentage of total employees within the population of Public Benevolent Institute employees (approximately 1.0 million²¹ total employees) and Government employees (approximately 1.9 million total employees) compared with the corporate workforce of approximately 9.5²² million employees.

2.1.2 Products and process

2.1.2.1 Salary packaging administration

Salary packaging administration is typically provided by an employer through one of three methods:

1. Outsourced to a third party provider;
2. In-house through the use of software licensed to the employer by a third party; or
3. In-house through the use of software owned by the employer.

Employers often outsource salary packaging administration to an external provider to:

- + **Minimise administration costs:** the employer is able to pass on the salary packaging administration process to an external party. This enables the employer to avoid the costs associated with the business personnel, networks, payroll and information technology systems required to administer salary packaging for employees;
- + **Avoid operational inefficiencies:** salary packaging is typically a non-core operation undertaken by a business. Employers can outsource this process, to focus on their core competencies; and
- + **Reduce associated compliance issues:** the salary packaging process is governed by various legislation, including income tax, FBT and superannuation regulation. Outsourcing salary packaging administration can assist an employer to deal with these compliance requirements.

Employees can also benefit from outsourced salary packaging administration through:

- + Access to a broader range of packaging benefits, due to the expertise of outsourced salary packaging providers;
- + Typically higher service levels for processing of new benefits and claims and responding to queries, due to higher staffing levels, specific expertise and contracted service levels; and
- + Access to dedicated systems for reporting and accessing services (e.g. smartphone applications).

Outsourced salary packaging arrangements administered by Smartgroup generally involve employers procuring pre-tax and post-tax funds from their employees' salaries to pay for fees and benefits on behalf of their employees. There are generally no direct administration fees borne by the employer.

Figure 2: Example of an outsourced salary packaging administration process

Stage 1	The salary packaging administrator is contracted by the employer under an agreed pricing and benefits framework.
Stage 2	Once an employee takes up salary packaging, the salary packaging administrator determines how much needs to be deducted from the employee's salary every pay cycle to cover their salary packaging benefit items.
Stage 3	The employer deposits the deducted amount into the employer's salary packaging account, which the salary packaging administrator then uses to make payments for the items which the employee nominates.

²⁰ Labour force is taken as the sum of the employed and unemployed. Source: ABS, October 2013, [http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/634CADD939583BF9CA257C1B000D8805/\\$File/62020_oct%202013.pdf](http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/634CADD939583BF9CA257C1B000D8805/$File/62020_oct%202013.pdf)

²¹ Not-for-profit Sector Tax Concession Working Group, Discussion Paper, November 2012 (page 36) http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2012/Tax%20concessions%20for%20the%20not-for-profit%20sector/Key%20Documents/PDF/TCWG_Discussion_Paper.aspx

²² Difference due to rounding.

2. Industry Overview

Outsourced salary packaging administrators typically enter into three to five year contracts with employers as either a sole provider or as part of a panel of providers²³. Typically, large contracts are awarded through a tender process although there may be no obligation for employers to tender.

As part of the contractual process, the employer will agree with the salary packaging administrator a fee structure, as well as benefits to be offered to that employer's employees.

The salary packaging administrator then individually markets its services and salary packaging products to employees. Salary packaging administrators will typically offer additional salary packaging products to the employee base, such as novated leases or portable electronic devices.

Some employers may choose to manage salary packaging in-house, which involves the employers managing the complexity and administration of the salary packaging activity and FBT calculations on behalf of their employees.

Outsourced salary packaging administrators typically earn income from two sources:

1. **Administration fees:** Paid by the employers through amounts deducted from their employees' pre-tax salary, typically fortnightly or monthly; and
2. **Commissions/rebates:** Suppliers of salary packaging benefits pay commissions/rebates to the administrator for products sold to employees.

2.1.2.2 Novated leasing

In a similar manner to salary packaging administration outlined in Section 2.1.2.1, offering a novated lease can be beneficial for employers in reducing administrative costs, through using an external provider.

A novated lease structure enables employees to lease a vehicle of their choice while enjoying the tax-effective benefit of financing the vehicle and its operating cost from a combination of pre-tax and post-tax salary.

Under a standard novated lease agreement, the vehicle is not held on the employer's balance sheet and the employer's obligation to make lease payments on behalf of the employee is limited to the life of the lease and/or the period of the employees' employment, whichever is the lesser. The employer does not hold any ongoing funding liability for the life of the vehicle.

By using a novated lease, an employee can save on a range of items including:

- + **Purchase price:** Ability to access fleet discounts or other discounts arising from the provider's purchasing power and vehicle dealer network;
- + **GST:** GST savings on the purchase price (although GST may be payable on the residual value at lease expiry);
- + **Ancillary products:** A novated lease provider is generally able to leverage scale in their purchasing power, allowing employees to take advantage of discounted associated products and services such as insurance and maintenance costs; and
- + **Operating costs:** Under a novated lease, employees can pay for operating costs using a combination of pre-tax and post-tax income.

The FBT consequences for employees vary depending on their eligibility for the FBT exemption cap or FBT rebate in accordance with ATO guidelines.

The principle of a novated lease is that the employee leases a vehicle as part of their salary package and transfers their obligations for lease payments to their employer during the period of employment, under the terms of a deed of novation. Novated leases typically last between three to five years.

The employer undertakes the responsibility to pay the employees' lease rental payments during their employment, as well as other items associated with running costs such as fuel, insurance, registration, servicing and tyres.

²³ Note even where expressed to be a contract for a term, these Employer Client contracts generally include a right for the Employer Client to terminate their contract without cause, and on short notice

2. Industry Overview

Figure 3: Example of a novated leasing process

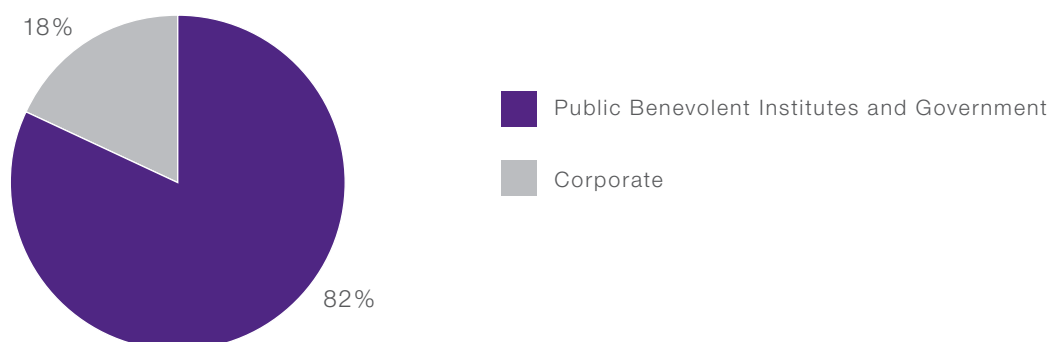
Stage 1	The employer agrees to provide novated leasing and selects a novated leasing provider.
Stage 2	To implement a novated lease, an employee enters into a lease agreement with a financier from whom the employee leases the vehicle. The financier will also provide to the employee a deed of novation, which will need to be executed by both the employee and employer.
Stage 3	For the life of the deed of novation, the novated lease administrator administers the novated lease on behalf of the employee, with lease and other payments related to the leased vehicle paid by the employer on the employee's behalf.
Stage 4	At the end of the lease term, the employee can either buy out the vehicle (pay the residual value), or refinance the vehicle.
Stage 5	If an employee ceases employment during the lease term, the deed of novation ends and the employee will be responsible for the lease. The finance lease between the employee and the financier will remain in place.

Novated leasing administrators typically earn income from:

1. **Administration fees:** paid by the employers through amounts deducted from their employees' pre-tax salary, typically fortnightly or monthly;
2. **Fees/rebates/commissions (upfront):** paid by suppliers relating to sourcing vehicles, financing a vehicle and certain insurance products; and
3. **Fees/rebates/commissions (ongoing):** paid by suppliers relating to roadside assistance, vehicle maintenance and fuel payments.

The largest users of novated leasing are Government departments and Public Benevolent Institutes, which include public hospitals, private not-for-profit hospitals, medical research institutes, aged care organisations and charities, who as at 22 July 2013²⁴ were estimated to comprise 82% of total salary packaging users with novated leases.

Figure 4: Novated leasing users by sector



Source: Australian Salary Packaging Industry Association, FBT Fact Sheet, 22 July 2013

Note: Based on an ASPIA review of the salary packaging data for over 100,000 packages which include novated leases.

²⁴ Australian Salary Packaging Industry Association <http://www.aspia.com.au/ASPIAFactSheet22July.htm>

2. Industry Overview

2.1.3 Competitive landscape

In the salary packaging administration and novated leasing markets, there is no uniform standard or guideline in the reporting of package numbers and services, although the competitive landscape is generally understood by salary packaging market participants.

The largest salary packaging and novated leasing sectors, being Government departments and Public Benevolent Institutes, are led by Smartgroup and McMillan Shakespeare Limited. These larger operators are well positioned to provide services to large clients due to their track record and established systems which are needed to perform salary packaging services on a large scale. The larger operators seek to benefit from:

- + A reputable brand with a strong service track record, as well as sales and marketing capabilities, which are key to winning tenders and increasing uptake within the Employee Customer base;
- + Referrals from existing clients, which facilitate the winning of tenders, extensions and continued tender renewal;
- + Supply chain relationships with suppliers, including dealers, insurers and financiers, to obtain competitive pricing for benefit items;
- + Scalable platforms and information technology systems to service a large number of clients and a wide range of employee customer bases within each client;
- + Salary packaging products and services, processes and reporting capabilities that are compliant with FBT and other regulations; and
- + Reluctance for clients to transition a large number of existing salary packaging employees to a new provider given the transition risks involved.

Smartgroup's focus is within the Government and Public Benevolent Institutes sectors and largely for the provision of salary packaging services. This has similarities with McMillan Shakespeare Limited's Remuneration Services division. Smartgroup's focus has less overlap with fleet management companies.

Figure 5: Competitor product offering – key areas of focus

	Salary packaging administration	Novated leasing	Fleet Managed	Finance/operating lease
Smartgroup¹				
McMillan Shakespeare Limited				
SG Fleet Group Limited²				
	SALARY PACKAGING		FLEET MANAGEMENT	

Source: Management estimate

Note: 1. Smartgroup is also a provider of software and stand alone cards salary packaging solutions, as well as insurance distribution and vehicle buying retail services. 2. SG Fleet Group Limited's salary packaging offering is primarily focused on novated leases.

2. Industry Overview

2.1.3.1 Salary packaging administration

In the outsourced salary packaging market, Smartgroup is considered one of the two largest operators in the Australian market. Management estimates McMillan Shakespeare Limited, another salary packaging company, services approximately 50% of this market segment. Smartgroup is considered the second largest player and is believed to have a share of approximately 20% of the salary packaging administration industry.

There are several other players in the salary packaging administration industry including Advantage Salary Packaging Pty Ltd., EPAC Salary Solutions Pty Ltd (a subsidiary of Royal Automobile Club of Victoria (RACV) Ltd), Paywise Pty Ltd, Selectus Salary Packaging and Remunerator Australia Pty Ltd, as well as companies who are primarily engaged in fleet management or novated leasing. The salary packaging benefits provided by fleet management competitors are typically limited to the provision of novated leases.

Smartgroup management estimates that there are currently approximately 550,000 employee salary packages managed by outsourced salary packaging service providers.

2.1.3.2 Novated leasing

Novated leases are provided primarily by salary packaging and specialist novated leasing companies and to a lesser extent by fleet management companies.

The provision of novated leasing is a natural extension for salary packaging companies, leveraging the same business functions of payment processing, FBT administration, budgeting and customer support. The majority of competitors in salary packaging described above also operate in the novated leasing sector.

The largest competitors to Smartgroup in novated leasing include McMillan Shakespeare Limited, SG Fleet Group Limited and NLC Group. Other competitors include salary packaging administrators (e.g. EPAC Salary Solutions Pty Ltd (a subsidiary of Royal Automobile Club of Victoria (RACV) Ltd), Selectus Salary Packaging and Remunerator Australia Pty Ltd), fleet management providers (e.g. LeasePlan Australia Ltd, FleetPartners Pty Ltd, Custom Fleet Australia, Orix Australia Corporation Ltd, FleetPlus Pty Ltd and Toyota Fleet Management (a division of Toyota Finance Australia Limited)) and specialist novated leasing providers (e.g. Autopia Management Pty Ltd).

2.1.4 Growth drivers

Key industry drivers are expected to support continued demand for salary packaging administration and novated leasing services.

2.1.4.1 Awareness of salary packaging

Outsourced salary packaging is typically sold to employers via tender or responses to prospective employer enquiries, or enquiries from employees eligible to salary package. An awareness of the benefits of salary packaging, through education campaigns by salary packaging providers and publicity, is expected to contribute positively to an increase in employers seeking to provide salary packaging services for their employees.

2.1.4.2 Growth in employment

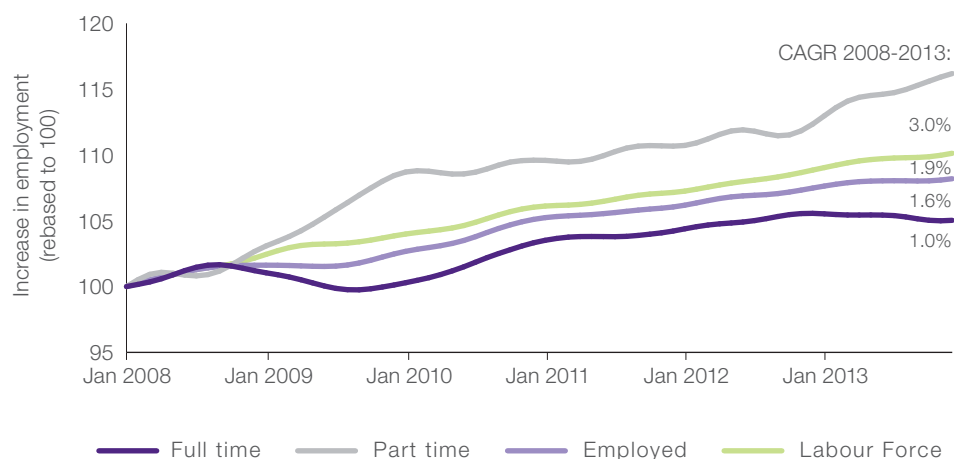
Both salary packaging administration and novated leasing stand to benefit from growth in employment in Australia. Job creation within the broader Australian economy over the medium term is expected to result in employee growth of 7.1%²⁵ from November 2012 to November 2017. The healthcare and social assistance sector is expected to grow an incremental 13.0%²⁶ from November 2012 to November 2017.

²⁵ Australian Government Department of Education, Employment and Workplace Relations <http://www.cdaa.org.au/ContentUpload/Docs/australianjobs2013.pdf> pg 4

²⁶ Australian Government Department of Education, Employment and Workplace Relations <http://www.cdaa.org.au/ContentUpload/Docs/australianjobs2013.pdf> pg 19

2. Industry Overview

Figure 6: Continued labour force growth (rebased to 100)



Source: Australian Bureau of Statistics, Labour Force, Australia, December 2013

Note: Rebased to 100.

This trend is expected to be supported by the continuing growth in the population, which grew by 1.8% in the year ended 30 September 2013²⁷ and the aging Australian demographic. The ensuing increased demand for health services from these trends will assist in supporting growth in health sector employment, and corresponding demand from that sector for salary packaging services.

2.1.4.3 Growth in demand for motor vehicles

The novated leasing industry has scope for growth to be an alternative vehicle financing method. This is expected to be driven by awareness of novated leasing, as well as general population growth²⁸ underpinning the demand for vehicles.

There were a total of 17.2 million vehicles registered in Australia as at January 2013 per the Motor Vehicle Census²⁹. This represents a 2.6% increase in the number of vehicle registrations from 2012³⁰. The compound annual growth rate in motor vehicles registrations for the five year period between 31 January 2008 and 31 January 2013 was 2.4%³¹.

²⁷ ABS, Australian Demographic Statistics <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0>

²⁸ ABS, Australian Demographic Statistics <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0/>

²⁹ Australian Motor Vehicles Census, 31 January 2013, pg 3, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/268932501A477446CA257BB00011A2FF/\\$File/93090_31%20jan%202013.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/268932501A477446CA257BB00011A2FF/$File/93090_31%20jan%202013.pdf)

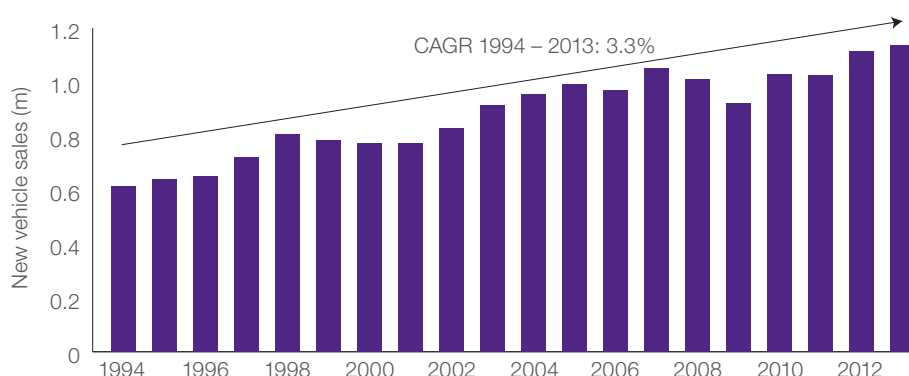
³⁰ Australian Motor Vehicles Census, 31 January 2013, pg 3, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/268932501A477446CA257BB00011A2FF/\\$File/93090_31%20jan%202013.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/268932501A477446CA257BB00011A2FF/$File/93090_31%20jan%202013.pdf)

³¹ Australian Motor Vehicles Census, 31 January 2013, pg 3, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/268932501A477446CA257BB00011A2FF/\\$File/93090_31%20jan%202013.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/268932501A477446CA257BB00011A2FF/$File/93090_31%20jan%202013.pdf)

2. Industry Overview

New vehicle sales continue to increase year on year, growing at a compound annual rate of 3.3% between January 1994 and December 2013, with sales increasing from 615,328 in 1994 to 1.1 million in 2013³²:

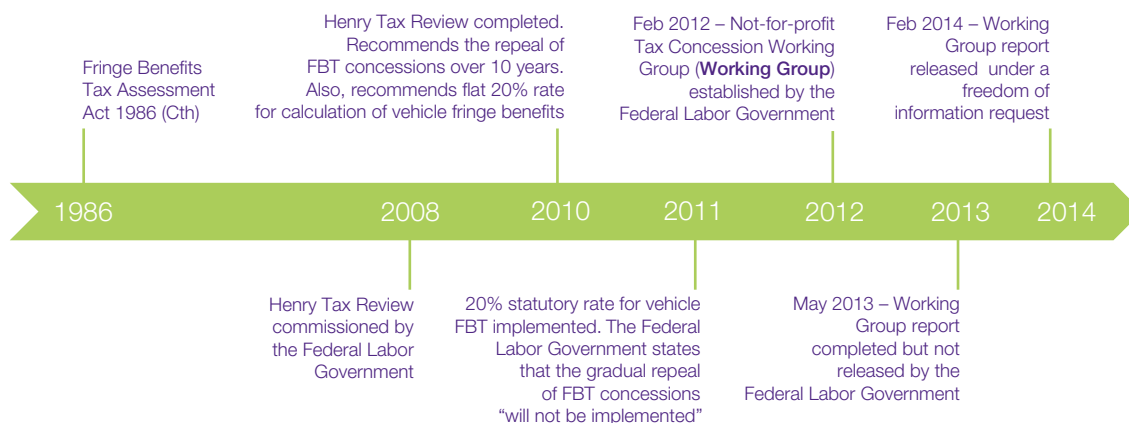
Figure 7: Annual new vehicle sales (million)



Source: Australian Bureau of Statistics, Sales of New Motor Vehicles, Australia, December 2013

2.1.5 Regulation

Figure 8: Overview of Public Benevolent Institutes regulatory history



The provision of tax-free products and services under salary packaging arrangements is achieved by way of legal variation of employee remuneration agreements, is underpinned by principles set out in Australia's tax legislation (i.e. ITAA97, FBTA and GSTA), and has been confirmed in various ATO commentaries, publications, rulings and interpretations.

At its core, salary packaging is built around fringe benefits that have been granted concessional or tax-free status by virtue of the operation of Australia's FBT laws.

The concept of tax concessions for specific types of expenditure, be they deductions for business related costs or concessions for employer-provided benefits, is a longstanding feature of taxation policy. Most of the FBT exemptions underpinning salary packaging have been features of the FBT laws since their introduction in 1986 and have been drafted to apply to specific benefits, certain employers or both.

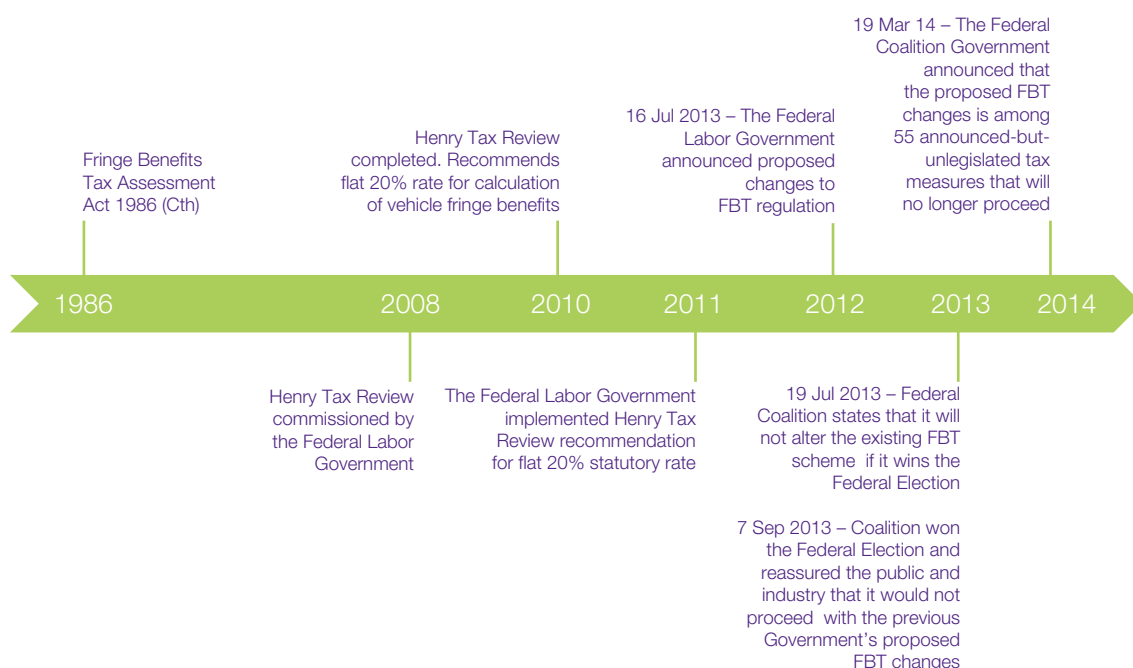
³² Australian Bureau of Statistics <http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/B91FD96F3B826935CA257C7F000D5806?opendocument>

2. Industry Overview

Another key benefit of salary packaging is the employer's ability to claim back GST amounts included in the cost of packaged benefits. Those GST concessions have been confirmed by way of ATO ruling GSTR 2001/13.

2.1.5.1 Novated leasing legislation

Figure 9: Overview of novated leasing regulatory history



The ATO sets out guidelines and rulings that govern novated leases. A novated lease may be taken out for a term of 12 to 60 months. The ATO also sets minimum requirements in relation to the residual values at the end of the lease term.

There are two methods by which the taxable value of a vehicle fringe benefit can be calculated, being:

- + The statutory formula method – The taxable value of the vehicle fringe benefit is a percentage (statutory rate of 20% from 1 April 2014) of the vehicle's value; or
- + The operating cost, or logbook method – The taxable value of the fringe benefit is a percentage of the total cost of operating the vehicle during the FBT year. This percentage is based upon business/private usage of a vehicle via maintenance of a vehicle logbook.

The vehicle fringe benefit rules were amended by the Federal Budget in May 2011 which introduced a flat 20% statutory rate (when using the statutory formula method) no matter what distance is travelled during the FBT year which was to be phased in over four years. The four year transition period for vehicles novated after 10 May 2011 ended on 31 March 2014, with the 20% rate applied to all users irrespective of kilometres driven from 1 April 2014. Vehicle novations that pre-date 10 May 2011 still use a 'sliding scale' of statutory rates depending on kilometres travelled.

Typically with a novated lease, the finance company can claim a GST credit for the GST it paid in the purchase price of the vehicle. As the financier is able to claim this input tax credit, an employee packaging a novated lease, regardless of their employer type, will usually have their lease payments calculated on the purchase price minus the amount of the GST credit.

2. Industry Overview

2.1.5.2 Recent regulatory developments

Henry Tax Review

The Australia's Future Tax System Review, informally known as the Henry Tax Review, was commissioned by the Federal Labor Government in 2008, and published in 2010.

The review was intended to guide tax system reforms over the next 10 to 20 years and was commissioned as one of the specific outcomes from the Australia 2020 Summit. However, to date, many recommendations, including those relating to the exemptions that accrue to the not-for-profit sector, have not been implemented.

In particular, the then Federal Labor Government's response to the Henry Tax Review's recommendation that FBT exemptions to Public Benevolent Institutes be phased out and replaced by annual payments was to decide against making any changes to the existing legislation. It stated in May 2010 that it *"will not implement any changes to the tax system that harm the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs"*³³.

Included in the recommendations that were implemented by the then Federal Labor Government was the change in the statutory rate applying to the calculation of car fringe benefits from one based on the kilometres driven to a flat 20% statutory rate (described in Section 2.1.5.1).

Not-for-profit Tax Concession Working Group

The previous Federal Labor Government established a Not-for-profit Sector Tax Concession Working Group ("**Working Group**") in February 2012 charged with the role of examining the then current range of tax concessions to determine whether there were better ways of delivering Government support to the not-for-profit sector.

The Working Group was formed in order to effect the Federal Labor Government's 2011/2012 Budget promise to "better target" not-for-profit tax concessions. The FBT concessions fell within that brief, given their specific application to not-for-profits. The Working Group released a discussion paper in November 2012 that discussed possible reform options.

The Working Group was asked to identify offsetting savings from benefits provided to the not-for-profit sector for any proposals it recommended that had a budget cost.

The Working Group report was completed in May 2013 under the previous Federal Labor Government, which elected not to release the findings. The findings of the Working Group were also not released by the current Federal Coalition Government until the receipt of a freedom of information request, leading to its release by the Federal Treasury on 21 February 2014.

A number of recommendations were suggested by the Working Group (six of which relate to FBT), including replacing the FBT concessions currently provided to employees of not-for-profit organisations with an alternative support payment to the not-for-profit organisations. This suggestion is similar to a recommendation of the earlier Henry Tax Review which was subsequently rejected by the then Federal Labor Government and has not received any public support from the current Federal Coalition Government. If this recommendation was implemented, it would have a significant material adverse impact on the salary packaging industry.

Other recommendations of the Working Group included the removal of employees' eligibility for multiple caps, and the inclusion of uncapped meal entertainment and entertainment facility leasing benefits in existing caps.

It is unclear whether any of the recommendations will be progressed or adopted by the current Federal Coalition Government.

³³ Treasurer Wayne Swan, 2 May 2010, <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/028.htm&pageID=003&min=wms&Year=&DocType=0>

2. Industry Overview

Proposed changes to novated leasing legislation

On 16 July 2013, the previous Federal Labor Government announced proposed changes to the FBT treatment of cars. The proposed FBT changes, announced without industry consultation, sought to remove the statutory formula method for both salary-sacrificed and employer-provided car fringe benefits. This meant that eligible employees would have to use the operating cost, or logbook, method, which would require them to record their travel and its purpose in order to claim tax concessions. Please see Sections 5.2.1 and 3.2.2 for an analysis of potential impacts if this change occurs.

Response to the proposed FBT changes by the salary packaging, charity and motor vehicle sectors was overwhelmingly negative and high profile during the Federal election campaign between July and September 2013. Contrary to the arguments made at the time of the regulatory changes that around two-thirds of employees that salary package a car earn over \$100,000 per annum, research conducted by the ASPIA suggested that over 70% of users of novated leases earn less than \$100,000³⁴ a year and include nurses, police, teachers and persons employed in the not-for-profit and charity sectors³⁵.

On 19 July 2013, the then Federal Opposition Leader, Tony Abbott, verbally stated that there would be no alterations to the existing FBT scheme under a Federal Coalition Government, and on 22 July 2013, released a statement that *"if elected, [the Coalition] will not proceed with these changes"*³⁶. On 3 September 2013, the Coalition released a public letter of support to the novated leasing and Australian car industry reassuring it that *"A Coalition Government will not proceed with the Labor Government's poorly thought through changes to Fringe Benefits Tax arrangements on cars"*³⁷.

On 6 November 2013, the Federal Treasury released further a media statement reassuring the public and automotive industry that it would not proceed with the previous Federal Labor Government's proposed FBT changes to the car industry, given that the *"Fringe Benefits Tax change... would make it harder for people to have a company or salary sacrificed vehicle"*³⁸. In February 2014, the Treasurer again reiterated his support for the novated leasing industry following the announcement of Toyota's withdrawal from local manufacturing by dismissing the idea of reintroducing the previous Federal Labor Government's proposed changes to FBT.

On 19 March 2014, the Prime Minister reiterated his support for the industry, announcing in his deregulation speech that *"Fifty-five announced-but-unlegislated tax measures will no longer proceed – including the previous Government's \$1.8 billion FBT hit on the car industry, and the cap on self-education expenses that would have hit tradies, nurses and teachers."*³⁹

The announcement of the proposed changes to the FBT legislation had a significant impact on administrators and providers of novated leasing between 16 July 2013 and 6 September 2013, with novated leasing volumes in that period experiencing a material decline. See Sections 3.2.2 and 4.2.2 for further information.

Support provided by novated leasing legislation to the automotive sector

The automotive sector is a significant market within the Australian economy, primarily driven by vehicle-related services. The recently announced departures of Ford (2013), Holden (2013) and Toyota (2014), predominantly impact the local producer manufacturing portion of that sector, which employs only 4%⁴⁰ of total automotive sector employees. Non-manufacturing services, for example those employed by car dealerships or vehicle repair and maintenance businesses, account for 84%⁴¹ of all automotive sector employment.

34 <http://www.aspia.com.au/PressRelease18July.htm>

35 http://www.aspia.com.au/downloads/ASPIA_MediaRelease6November2013.pdf

36 <http://www.liberal.org.au/latest-news/2013/07/22/bowen-must-come-clean-fbt>

37 Excerpts from Tony Abbott's 'Open letter to the Australian car industry, employers and employees', 3 September 2013 <http://www.aspia.com.au/downloads/September%203%20-%20Letter.pdf>

38 Excerpts from Treasurer and Assistant Treasurer's joint media release, 6 November 2013 <http://www.liberal.org.au/latest-news/2013/11/06/restoring-integrity-australian-tax-system>

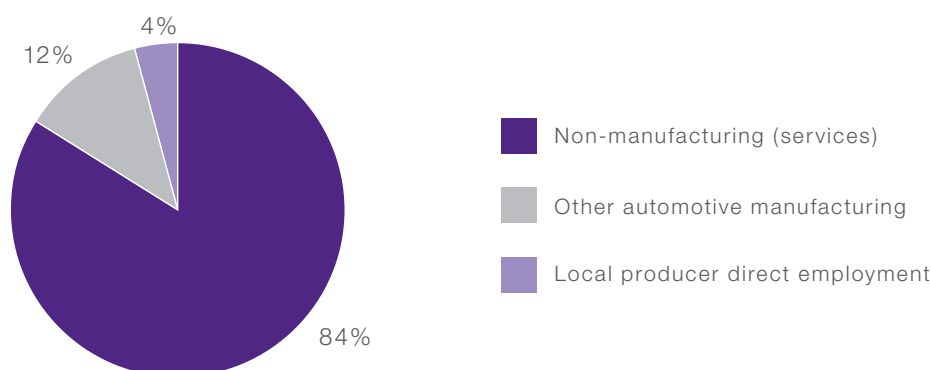
39 <https://www.liberal.org.au/latest-news/2014/03/19/prime-minister-ministerial-statement-deregulation-house-representatives>

40 Australian Productivity Commission Position Paper, January 2014, http://www.pc.gov.au/__data/assets/pdf_file/0006/132981/automotive-position.pdf

41 Australian Productivity Commission Position Paper, January 2014, http://www.pc.gov.au/__data/assets/pdf_file/0006/132981/automotive-position.pdf

2. Industry Overview

Figure 10: Automotive sector employment



Source: Australian Government Department of Industry, Key Automotive Statistics, 2012; Australian Government Department of Industry, Automotive Industry Card, September 2013 Automotive Update; Australian Government Productivity Commission, Australia's Automotive Manufacturing Industry, Productivity Commission Position Paper, January 2014

The Federal Treasury estimated in July 2013 that the Government would gain \$1.8 billion in revenue⁴² (for the periods between 2014 and 2015, and 2016 and 2017) should the car FBT tax concessions be abolished. However, it is possible that this estimate does not take into account the full impact of the changes and that the realised net benefit may be significantly less for a number of reasons. Members of the salary packaging industry are currently exploring the quantitative impact of these reasons, which include:

+ Automotive industry impacts

- Should the FBT concessions be removed, the purchase of salary packaged vehicles would be expected to decline significantly, as demonstrated during the period from 16 July 2013 to the announced reversal of the former Federal Labor Government's proposed FBT legislation. The ASPIA estimated that 21% of new vehicle sales are benefit vehicles. Any reduction in new car sales caused by such a change may impact profitability and employment across the passenger automotive sector and associated industries;

+ Compliance cost impacts

- Removing the FBT concessions for the statutory formula method would force users of the statutory formula method to either cease packaging or move to the operating cost, or logbook, method. The compliance costs associated with the logbook method (in terms of driver time and administration time to process logbooks) are onerous. In addition monitoring of compliance is an additional task required by the administrator and the ATO; and

+ Not-for-profit sector cost impacts

- It has been estimated that there are a significant number of benefit vehicles in the not-for-profit sector⁴³. Many of these vehicles are predominately private use vehicles for which the logbook method might not be beneficial if the FBT concession for the statutory formula method were removed. Given the importance of benefits in this sector as a means of attracting and retaining employees, it is possible that some or all of the cost of the loss of this benefit to those employees would be borne by the not-for-profit organisation rather than the employees. If this were not the case, there could be significant public resistance to the change by employees in this sector.

Australian Government Budget 2014-15

On 13 May 2014, the Federal Government released the Budget for the fiscal year 2014-15. The announced Budget initiatives have been taken into account in preparing the Forecast Financial Information and are not expected to have a material impact on Smartgroup's business.

It is the Coalition's stated intent to complete a White Paper on taxation reform prior to the next federal election.

⁴² <http://www.liberal.org.au/latest-news/2013/07/19/tony-abbott-coalition-will-not-support-labors-fbt-hit-cars>

⁴³ ASPIA FBT Factsheet 22 July 2013 – 550,000 benefit vehicles, with 28% charities and public health.

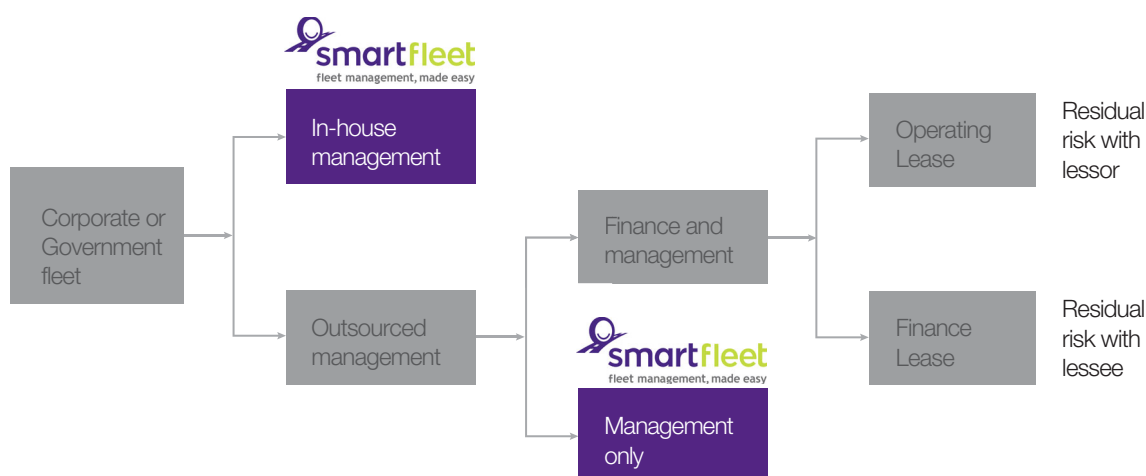
2. Industry Overview

2.2 Fleet management

2.2.1 Overview

Fleet management is the management of employer motor vehicle fleets, with the fleets being owned outright by the client, or financed via a finance lease or an operating lease, or a combination of both.

Figure 11: Types of fleet management



Fleet management solutions can be offered through a variety of platforms:

- + **Outsourced**, where a third party provider will administer all fleet management processes and requirements on behalf of the client;
- + **In-house management via an in-house software solution**, that provides fleet transparency and internal fleet management capabilities; or
- + **Hybrid solutions**, where the client outsources some aspects of fleet management

With outsourced management, a fleet management provider can either provide management only or finance and management. The outsourced provider of management only fleet services is involved in administering all fleet management processes and requirements on their client's behalf, including vehicle procurement, FBT and vehicle reporting, repair and service authorisation, registration renewals and toll and infringement management, in exchange for a fixed monthly fee.

The outsourced provider of finance and managed fleet services may also assume the residual risk liability at the end of the lease in addition to their administrative role, in exchange for a monthly fee and finance brokerage income.

In contrast to the operating lease model, Smartgroup's fleet management business, Smartfleet, operates a management only service that provides services to in-house management and outsourced management only (as shown in the diagram above). Unlike the fleet management industry in general, as at the Prospectus Date, Smartfleet does not provide any finance or operating leases to its employer base and does not have any such residual asset risk on such leases.

2. Industry Overview

2.2.2 Benefits for clients

Fleet management solutions provide a more efficient and cost-effective fleet.

Fleet management is used across all major sectors including Government departments, corporate, health and not-for-profit organisations.

Key benefits for employers in outsourced fleet management include:

- + Reduced operational costs and administration costs;
- + Access to expertise in maintenance, fuel cards, asset management, risk, FBT and management information systems; and
- + Ability to leverage the purchasing power and dealer networks of the fleet management provider.

While revenue models vary depending on the type and extent of service provided, fleet management providers earn income from:

- + **Administration fees:** paid for by the client in relation to the management of the vehicle fleet;
- + **Fees/rebates/commissions (upfront):** paid by the dealer in relation to sourcing of the vehicle; and
- + **Fees/rebates/commissions (ongoing):** paid by the supplier in relation to services/management provided by the fleet manager including roadside assistance, repairs and maintenance, tyres and fuel payments.

In addition, fleet management operators who provide financing are exposed to residual value risk at the cessation of a lease. They typically also earn fees and margins from providing lease finance solutions.

2.2.3 Competitive landscape

While there is no centralised or regulatory body which measures the total size of the fleet management market, the Australian Fleet Lessors Association's member group has an estimated total portfolio of around 550,000 funded and/or managed vehicles⁴⁴. Approximately 30%⁴⁵ are estimated to be non-funded vehicles.

Total leases grew 4% between April 2012 and April 2013, with fleet managed leases growing 12% in the same period⁴⁶, which is in part a reflection of the increased uptake of fleet management services by State and Federal Government departments.

There is a high level of competitor concentration in the broader fleet leasing industry⁴⁷ that encompasses fleet management. This concentration arises from the benefits of economies of scale in the sector. Larger players can spread overhead costs like administration and marketing over a large fleet of vehicles, and have the ability to bid for contracts with large corporations and Government departments.

Smartfleet is an established but relatively small player in the fleet management industry, which in general is dominated by internationally owned full service fleet management companies. The key players include and can be categorised into:

- + **Internationally-owned fleet management companies:** Fleet management companies owned by foreign parent companies are typically focused on the corporate client market. They are typically more able to provide operating leases and finance vehicles on balance sheet by accessing the larger funding capacity of their typically large, multinational foreign parents. The primary Australian fleet management players with international parents include LeasePlan Australia Ltd, Custom Fleet Australia, Orix Corporations Ltd Australia, SG Fleet Group Limited⁴⁸ and Toyota Fleet Management; and

⁴⁴ These consist of operating leases, 222,342 leases; 41,405 finance leases; 75,830 novated leases; and 206,740 fleet managed and other leases. Australian Fleet Lessors Association, April 2013, Monthly 27 May, 2013 <http://www.afla.com.au/downloads/AFLA%20Statistical%20Update%20-%20April%202013.pdf>. Data as at April 2013. Based on AFLA member group. AFLA members include Alphabet Fleet, Custom Fleet, FleetCare, FleetPartners, FleetPlus, Interleasing, LeasePlan, nlc, ORIX, sgfleet

⁴⁵ AFLA statistical update, April 2013

⁴⁶ AFLA statistical update, April 2013

⁴⁷ IBISWorld, Fleet Car Leasing in Australia, January 2013, pg 3-4, 21

⁴⁸ ASX listed sgfleet, remains majority owned by a foreign-based shareholder

2. Industry Overview

- + **Domestic fleet management companies:** This includes FleetPartners Pty Ltd and FleetPlus Pty Ltd. In recent times, salary packaging companies such as McMillan Shakespeare Limited and Smartgroup have entered into fleet management sector through acquisitions.

2.2.4 Growth drivers

Key drivers of growth in fleet management include:

- + **New vehicle sales:** Fleet sales represent approximately 50% of new vehicle registrations in Australia⁴⁹;
- + **Increased uptake:** Management believes that there is potential to benefit from increased outsourcing of fleet ownership and management in Australia given current levels of uptake and the benefits derived from using an outsourced service. Further, outsourcing of ownership and management of a fleet provides the fleet lessor with ease of asset allocation, increased liquidity, flexibility and controlled monthly costs, and has the potential for tax benefits;
- + **Increased Government expenditure:** Any future increase in Government expenditure may also increase demand for Government fleet vehicles, ranging from local council vehicles to State and Federal department car fleets⁵⁰. This may be expected to increase demand for fleet management services provided to Government entities;
- + **Increasing business confidence:** Businesses become more inclined to commence projects requiring car fleets or increase their offering of corporate cars and salary packaging of benefits such as novated leases when business confidence is high. Accordingly, any future increase in business confidence may result in increasing demand for fleet leasing⁵¹; and
- + **Product and service innovation:** For example, the use of pool vehicle bookings may provide further incentives for employers to appoint outsourced fleet managers.

49 VFACTS, New Vehicle Sales report, August 2013

50 IBISWorld, Fleet Car Leasing in Australia, January 2013, pg 5

51 IBISWorld, Fleet Car Leasing in Australia, January 2013, pg 5

3

Smartgroup Overview

3. Smartgroup Overview

3.1 Overview of Smartgroup

Smartgroup has a comprehensive and complementary product suite, operating through a portfolio of brands including Smartsalary, Seqoya, PBI Solutions, Smartleasing, Smartfleet and TAINS – and providing two core solutions: salary packaging and fleet management. Salary packaging contributed 92% of CY2013 revenue and fleet management contributed 8% of CY2013 revenue.

Smartgroup's salary packaging segment comprises salary packaging administration services as well as associated novated leasing services. Smartgroup's fleet management segment comprises outsourced fleet management and associated products.

Figure 12: Segment overview

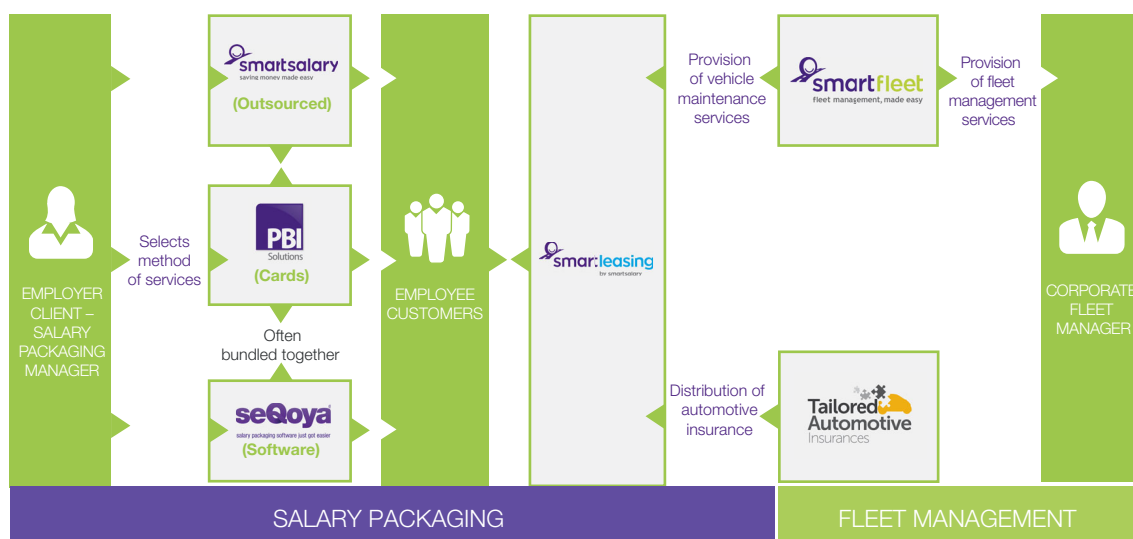
	Key brands	Description	Position
Salary packaging ⁵²	Salary packaging administration	 – Outsourced salary packaging provider to more than 130 Employer Clients and in excess of 110,000 Employee Customers under management – Diverse customer base across health, charities, Public Benevolent Institutes, State and Federal Government departments, and corporate sectors	– Considered the second largest provider of outsourced salary packaging administration
		 – Specialist salary packaging software licensed to organisations across Australia to manage the salary packaging arrangements of employees in-house	
		 – Provider of marketing and administrative services for Employee Benefit Cards (on behalf of an Australian bank) which allow Employee Customers to make purchases typically from pre-tax salary	
	Novated leasing	 – Over 30,000 novated leases under management – Suite of auxiliary products	– Considered the second largest provider of services in the novated leasing industry
Fleet management		– Web-based fleet management system with a suite of vehicle management services – Over 13,000 full fleet managed vehicles across Australia	– Established providers of fleet management
		 – Distributor of a range of insurance products for the novated lease and motor vehicle industry	

Note: As at 1 April 2014. Based on management estimates and considerations of the Australian market as presented in analyst reports.

⁵² Smartgroup also owns Autogenie, a vehicle buying service offering consumers the ability to purchase new vehicles online after receiving dealer quotes. Autogenie is a recent initiative of Smartgroup that is still in its development phase and represented 0.03% of CY2013 revenue.

3. Smartgroup Overview

Figure 13: Comprehensive and complementary product suite

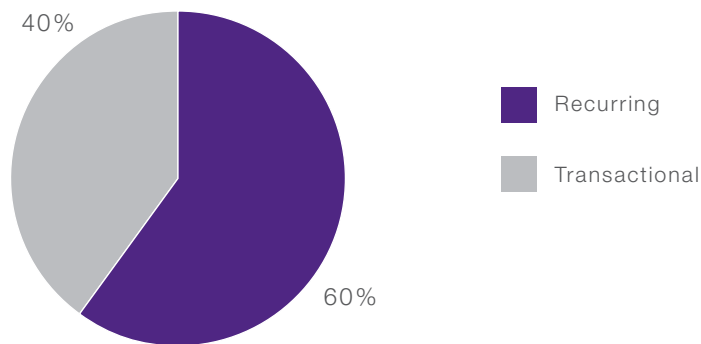


Smartgroup has a comprehensive and complementary product suite. Each of Smartgroup's products is offered stand alone to Employer Clients or as part of a bundled suite:

- + Smartsalary's outsourced salary packaging product offering includes a range of salary packaging benefits as well as novated leasing through the Smartleasing brand;
- + PBI Solutions provides marketing and administrative services for Employee Benefit Cards to employees of Employer Clients as a standalone solution and also to employees of selected Smartsalary and/or Seqoya Employer Clients;
- + Seqoya, Smartgroup's proprietary salary packaging software solution, is used by Employer Clients to administer salary packaging for their employees, and in addition is also offered to fleet administrators and other salary packaging providers;
- + Smartleasing's novated leasing product, which is typically offered as part of a fully outsourced salary packaging solution via Smartsalary, can also be cross marketed to the employees of selected Seqoya and/or PBI Solutions Employer Clients;
- + Smartfleet's fleet and vehicle services is offered to Smartleasing as well as to other salary packaging administrators; and
- + TAINS distributes vehicle insurance products to Smartleasing as well as to third party novated lease financiers and finance brokers.

3. Smartgroup Overview

Figure 14: Type of revenue (CY2013)

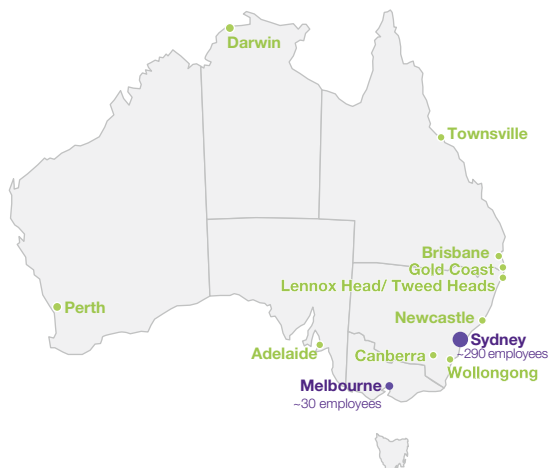


Note: Transactional revenue includes establishment fees, leasing brokerage, commissions/rebates from insurance sales, and vehicle sourcing revenue. Recurring revenue includes salary packaging administration fees, fleet management fees, PBI cards revenue, software revenue, other rebates, and operational interest income.

In CY2013, 40% of Smartgroup's revenue was transactional and 60% was recurring.

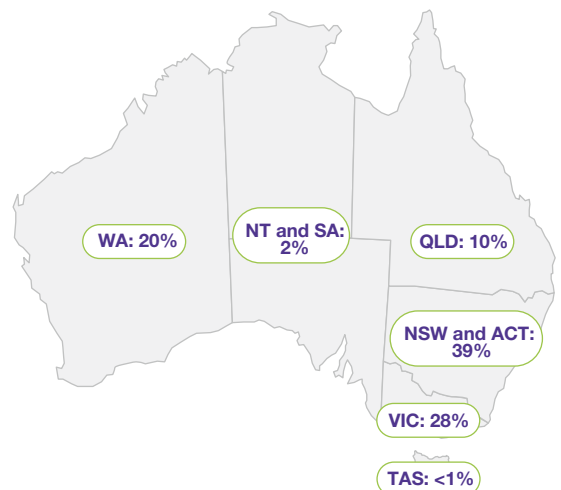
Smartgroup had 343 employees as at 1 April 2014, with major operations in Sydney and Melbourne as well as offices in additional cities across Australia including Brisbane, Perth and Canberra.

Figure 15: Geographic presence (employee locations)



Note: Smartgroup's two largest offices, Sydney and Melbourne, are staffed by around 290 and 30 employees, respectively, with 343 employees employed by Smartgroup nationally as at 1 April 2014.

Figure 16: Geographic presence (customers by state %)



Note: As at 1 April 2014.

3. Smartgroup Overview

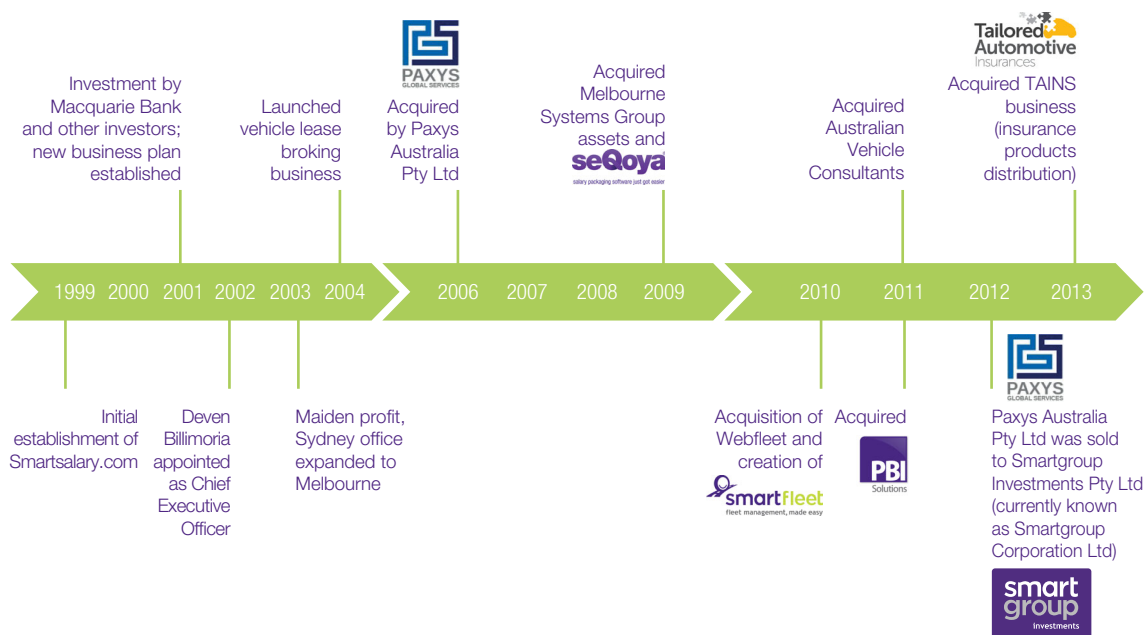
3.1.1 Corporate history

The current Smartgroup business was created in 2001 when Macquarie Bank and other investors formed a new business and acquired the assets of the Smartsalary.com entity which had been previously established in 1999. Following this, the business became a focused outsourced salary packaging company within the health, not-for-profit, State and Federal Government departments and corporate sectors nationwide.

In 2006, Smartsalary Pty Limited became a 100% owned subsidiary of Paxys Australia Pty Ltd (now known as Smartsalary Group Pty Ltd), an Australian company owned by Paxys Inc, a company listed on the Philippines Stock Exchange with investments in the business process outsourcing industry. Under the ownership of Paxys Australia Pty Ltd, Smartsalary Pty Limited executed a number of strategic acquisitions which saw the business expand its presence in the Australian salary packaging administration and novated leasing industry.

In 2012, Paxys Australia Pty Ltd (now known as Smartsalary Group Pty Ltd) was acquired by the Company (then known as Smartgroup Investments Pty Ltd), a wholly owned subsidiary of Smart Packages. Smart Packages is an indirect subsidiary of Usaha Tegas, a private investment holding company based in Malaysia.

Figure 17: Corporate timetable⁵³



3.2 Salary packaging

The salary packaging operations of Smartgroup comprise two key segments: salary packaging administration and novated leasing, within which Smartgroup provides a range of products and services.

Salary packaging represented 92% of Smartgroup's revenue in CY2013.

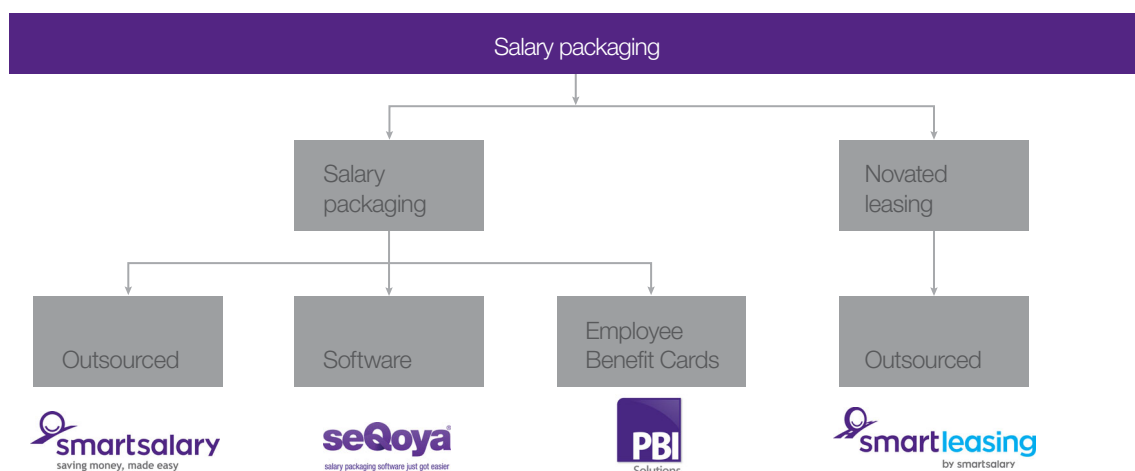
3.2.1 Salary packaging administration

Smartgroup provides salary packaging administration through its Smartsalary, Seqoya and PBI Solutions business units. Novated leasing benefits, administered under the Smartleasing brand (further details in Section 3.2.2), can be offered through each of these business units.

⁵³ Smartgroup also owns Autogenie, a car buying service offering consumers the ability to purchase new cars online after receiving dealer quotes. Autogenie is a recent initiative of Smartgroup that is still in its development phase.

3. Smartgroup Overview

Figure 18: Business overview



Smartsalary is Smartgroup's outsourced salary packaging administration business unit and has been the core operation of Smartgroup since it was founded. Since then, the business has grown significantly both through organic growth including tender wins, increased employee uptake, and new product offerings as well as strategic acquisitions which include Seqoya in 2009 (a salary packaging software offering) and PBI Solutions in 2011 (which provides marketing and administrative services for Employee Benefit Cards).

3.2.1.1 Smartsalary

Smartsalary's salary packaging administration application is a proprietary system that integrates with other internal and third party systems. Smartsalary's Payroll Reconciliation System is able to interface with an Employer Client's payroll system to generate the required salary packaging deductions, minimising administration for Employer Clients.

Smartsalary maintains close contact with Employee Customers through multiple channels. Salary packaging and mobile leasing consultants provide on-the-ground contact through education seminars as well as one-on-one appointments.

Smartsalary also has an Australian-based service centre staffed by customer service agents, directly accessible via phone, email, facsimile, post and social media platforms such as Facebook and Twitter.

Smartsalary offers self-service tools and email alert functions via its website and mobile applications.

Employer Clients are supported by Smartsalary's client relationship management team, whose focus is to develop and maintain strong relationships with key client stakeholders. Regular contract meetings are held between Smartsalary's client relationship management team and Employer Clients in order to review the status of the salary packaging program including service levels, survey results, employee participation rates, and emerging salary packaging trends.

3. Smartgroup Overview

Figure 19: Multiple customer engagement channels



Note: 2014 refers to proposed engagement channels.

Smartsalary generates revenue from administration fees and commissions/rebates on products sold/distributed, which provide a mix of recurring and transactional-based revenue streams. These are summarised in the below table.

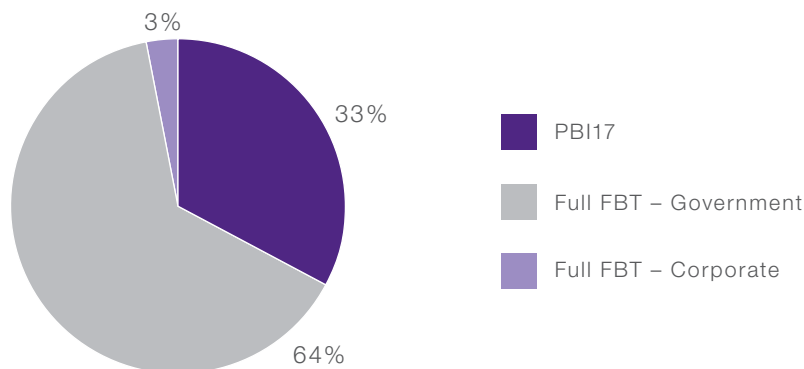
Figure 20: Smartsalary revenue model

Stage	Detail	Fees	Paid by
Employer Client sign-up	+ Smartsalary is chosen by an Employer Client as a provider + Employer Client agrees a negotiated fee and benefit structure	Nil	N/A
Employee Customer sign-up	+ Smartsalary markets services to employees of the Employer Client + Employee Customers sign up to one or more benefits	Administration fees (recurring fee based on benefits selected and occurring with the pay cycle) Establishment fees	Employer Clients through amounts deducted from Employee Customers' pre-tax salary
Provision of benefits	+ Smartsalary sources benefits that can be packaged by the Employee Customers + Smartsalary receives brokerage and commissions/rebates on certain items. It can earn a percentage of transaction fees from suppliers or brokerage	Upfront and ongoing commissions/rebates payable	Third party provider (financial institutions, laptop vendors and other vendors of salary packaging benefit items)

3. Smartgroup Overview

The majority of Employee Customers within Smartsalary's top 20 Employer Clients, by CY2013 revenue, are Government department employees who pay full FBT. This demonstrates the broad appeal of Smartsalary's products and services beyond Public Benevolent Institutes.

Figure 21: Smartsalary revenue from top 20 Employer Clients by FBT status (CY2013)



Note: Based on revenues from top 20 Employer Clients for CY2013. PBI17 refers to those organisations who can package tax exempt benefits with a total capped benefit of \$17,000 in grossed up income. This total capped benefit threshold is current as at the Prospectus Date.

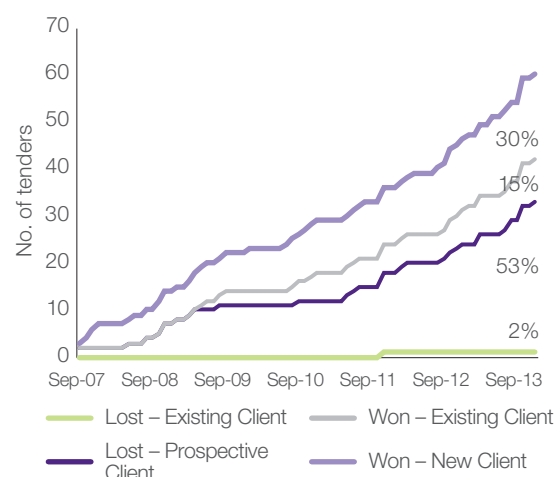
Smartsalary has grown its Employer Client base through a combination of tender wins and Employer Client referrals. Smartsalary has a high tender win rate, having won 45% of Employer Client public tenders for outsourced salary packaging from 1 September 2007⁵⁴ to 31 December 2013 for all tenders for which it has tendered, and that have been awarded⁵⁵. Smartsalary's high tender win rate continues to be a factor in their success, with two new clients signing with Smartsalary in CY2013 and a further three new clients signing on and expected to transition packages in CY2014. Since inception, only one salary packaging Employer Client with greater than 1,000 Employee Customers' salary packages under management (and that contributes >1% of annual revenue), has left Smartgroup.

⁵⁴ Data available from 1 September 2007 onwards. Data relates to public tenders for outsourced salary packaging from 1 September 2007 to 31 December 2013 and does not include tenders where the result is outstanding or where the tender was withdrawn.

⁵⁵ Based on tenders won as a percentage of tenders awarded, that is tenders won and lost, and excluding tenders still outstanding or withdrawn.

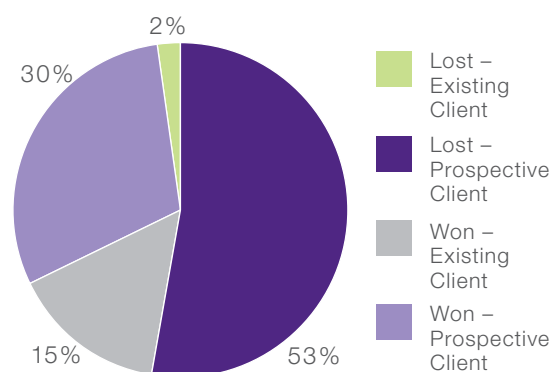
3. Smartgroup Overview

Figure 22: Tender outcomes – September 2007 to 31 December 2013



Note: Data available from 1 September 2007 onwards. Data relates to public tenders for outsourced salary packaging and does not include tenders where the result is outstanding or where the tender was withdrawn.

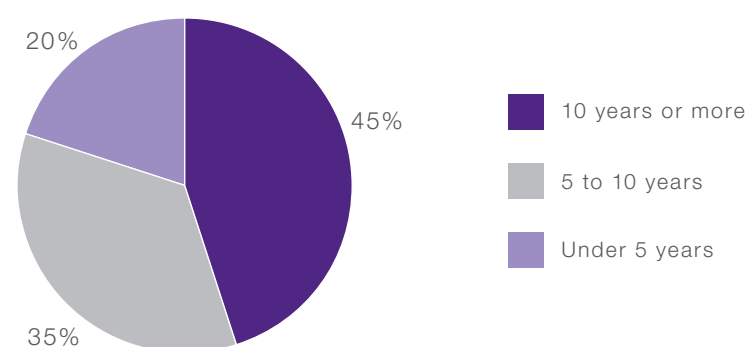
Figure 23: Tender outcomes – September 2007 to 31 December 2013



Note: Data available from 1 September 2007 onwards. Data relates to public tenders for outsourced salary packaging and does not include tenders where the result is outstanding or where the tender was withdrawn.

Smartsalary's revenue is derived from a large customer base of more than 130 Employer Clients. Smartsalary's Employer Client base consists of contracts with a number of large and reputable Employer Clients with whom it has long standing relationships. Of Smartsalary's top 20 Employer Clients⁵⁶, those who have had a relationship with Smartgroup for five years or longer contributed 80% of CY2013 revenues from top 20 Employer Clients⁵⁷.

Figure 24: Length of relationships with top 20 Employer Clients



Note: Based on data for Smartsalary's top 20 Employer Clients by Smartgroup revenue in CY2013. Split taken as a percentage of revenue from top 20 Employer Clients. Relationship length calculated as time between the start of contractual relationship and 1 April 2014.

⁵⁶ Top 20 Employer Clients refers to Smartsalary's top 20 Employer Clients by Smartgroup revenue in CY2013.

⁵⁷ Relationship length calculated as time between the start of contractual relationship and 1 April 2014.

3. Smartgroup Overview

Smartsalary has a relatively stable long term client base, with client churn in the industry typically being low as a result of the complexities associated with the transition process when changing providers. In spite of these complexities to transition, Smartsalary has won a number of Employee Clients from competitors. For example, four of Smartsalary's top 5 Employer Clients⁵⁸ have been won from competitors and all have since been renewed and retained by Smartsalary.

In addition, all of Smartsalary's top 20 Employer Clients⁵⁹ that have completed a contract renewal process (being 70% of Smartsalary's top 20 Employer Clients by revenue) have re-awarded the contract to Smartsalary.

3.2.1.2 Seqoya

The Seqoya administration system ("Seqoya") is Smartgroup's salary packaging software offering, formed following the acquisition and consolidation of Australia's two leading salary packaging software providers, Melbourne Systems Group in March 2009 and Seqoya Pty Ltd in September 2009.

Seqoya is a comprehensive suite of software which is licensed to Employer Clients to enable the employers to fully manage salary packaging administration in-house.

Smartgroup's clients who use Seqoya pay a monthly fee per user. The fee is paid by the Employer Client.

Seqoya is also licensed to a number of Smartgroup's competitors who utilise the software for their salary packaging administration business.

3.2.1.3 PBI Solutions

PBI Solutions provides marketing and administrative services for Employee Benefit Cards to allow employees working for Public Benevolent Institutes, charities and health sectors to pay for the purchases of items such as petrol, clothing, eating out and weekly groceries on a tax-free basis without the need for paperwork. The Employee Benefit Cards are issued by an Australian bank and are either Visa or MasterCard.

Smartgroup receives commissions based upon a share of the card scheme interchange generated from cardholder spend and also receives commission on card orders.

3.2.2 Novated leasing

Novated leasing, provided under the Smartleasing brand, is one of the primary benefit items provided to Employer Clients by Smartgroup, and was launched in 2004. Smartleasing provides novated leasing services through an extensive network of more than 220 car dealerships across Australia.

As well as tax savings from the use of a combination of pre-tax and post-tax dollars to pay for lease payments, Smartleasing is able to provide savings for all employees (regardless of FBT status) on GST, as well as through fleet discounts on the price of the car, ongoing insurance, registration and servicing, and tyres.

Smartleasing attracts a broad range of Employee Customers as all employees including corporate employees, Government department employees and Public Benevolent Institute employees can benefit from novated leasing.

As at 1 April 2014, Smartleasing had over 30,000 novated leases under management and was staffed by over 60 novated leasing experts and support members, with a 1300 leasing phone number available six days a week for Employee Customers wanting to learn about a novated car lease with Smartleasing.

Employee Customers can also make a request for information or a quotation online using Smartleasing's novated leasing calculator. Alternatively, Employee Customers can liaise with one of Smartsalary's mobile leasing consultants located across the country, for face-to-face service.

⁵⁸ Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

⁵⁹ Top 20 Employer Clients refers to Smartsalary's top 20 Employer Clients by Smartgroup revenue in CY2013.

3. Smartgroup Overview

Once a request for a quote is received, the Employee Customer is allocated a dedicated leasing consultant who will work with them from initial enquiry to lease settlement. The leasing consultant provides an end-to-end service for the Employee Customer including:

- + Sourcing the motor vehicle (if required);
- + Providing written quotes reflecting finance, budgets for maintenance, fuel, insurances, and all packaging costs and impact of packaging the vehicle (monthly cost and estimated tax savings obtained by packaging the car);
- + Providing copies of financial approval, proposal documents and vehicle order forms; and
- + Assisting to complete all relevant leasing and packaging documentation.

Smartleasing also provides a suite of ancillary products to Employee Customers including a range of motor vehicle insurance products, extended warranty, small damage repair, roadside assistance and a choice of fuel cards that Employee Customers may choose to add to their package.

Smartleasing does not provide finance but works with a few financiers to arrange finance for Employee Customers.

The revenue from novated leasing is largely transactional based, with sourcing and financing accounting for the majority of upfront revenue.

Figure 25: Novated leasing revenue model

Revenue	Detail	Fees	Paid by
Sourcing	Sourcing of vehicle and aftermarket products	Upfront commissions/rebates	Dealer/supplier
Financing	Sourcing of vehicle financing	Upfront brokerage and ongoing trails (% of value)	Finance provider
Insurance	Sourcing of insurance products	Upfront and ongoing commissions/rebates	Insurer
Maintenance	Vehicle maintenance	Monthly fees	Employee Customer
Supply services	Fuel, consumables and roadside assistance	Commissions/rebates	Supplier

The novated leasing business is governed by regulations and guidelines set out by the ATO as discussed in Section 2.1.5.1. The impact of changes to these regulations was witnessed in July 2013 as outlined below, which resulted in a material adverse impact to Smartgroup's business.

Impact of recent regulatory changes on Smartgroup performance

Smartgroup's revenue from salary packaging in the half year to 31 December 2013, which includes the period of regulatory uncertainty, fell 4.5% (compared to the first half ended 30 June 2013). Refer to Section 4.2.2 for more details on the estimated financial impact of this period of regulatory uncertainty.

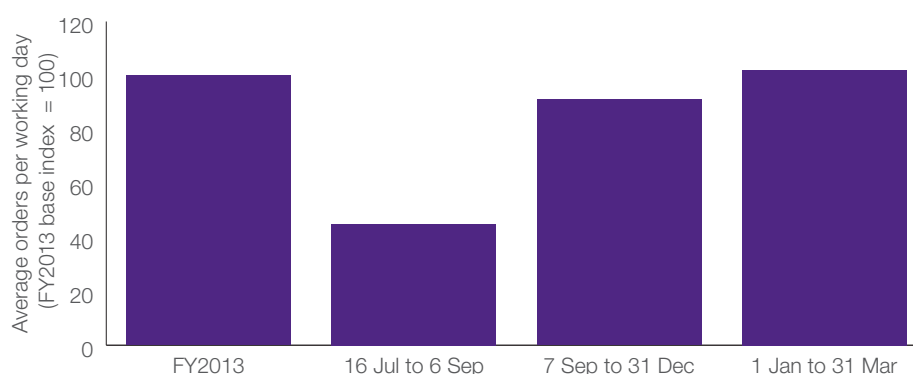
This may be in part attributable to:

- + Smartgroup's relationships with its Employer Client and Employee Customer base;
- + Smartgroup's response to the proposed regulatory changes, which included maintaining employee morale and guaranteeing their employment, as well as being proactive in engaging with customers and finding alternative solutions for use if the FBT changes were enacted; and
- + Smartgroup promoting a range of benefits other than those related to the FBT concessions that supported the continued attractiveness of vehicle leasing for Employee Customers. These benefits included GST savings on the purchase price of the vehicle, the convenience of a single pay deduction, and discounts on the purchase of related products such as insurances.

3. Smartgroup Overview

Subsequent to the current Federal Coalition Government's announcements of support for the novated leasing industry, Smartgroup's novated lease volumes have improved following the period of regulatory uncertainty, with recent performance in line with management expectations.

Figure 26: Novated lease orders pre and post 16 July 2013 (rebased to 100)



Note: Novated lease orders rebased to a FY2013 (i.e. year ended 30 June 2013) base index of 100.

During the period of uncertainty between 16 July 2013 and 6 September 2013, Smartgroup chose to retain its existing employees and did not change working conditions for existing employees. Further, teams at Smartgroup worked to maintain high service levels, and to continue to offer novated leasing through the operating cost method as an alternative for the potential loss of the statutory fraction method. Accordingly, Smartgroup was well positioned following the Federal election and the end of regulatory uncertainty and has experienced a recovery in novated leasing volumes.

3.3 Fleet management

3.3.1 Smartfleet

Smartfleet offers a fleet management solution that includes an innovative web-based fleet management software system and a broad suite of fleet management services.

Created from a merger of Webfleet (established in 2002 and acquired by Smartgroup in 2010) and Australian Vehicle Consultants (established in 2001 and acquired by Smartgroup in 2011), Smartfleet managed in excess of 13,000 full fleet managed vehicles throughout Australia as at 1 April 2014. This does not include those vehicles handled as part of vehicle procurement and vehicle maintenance authorisation services.

Smartfleet services are tailored for Employer Clients' specific requirements, and fall under three broad types:

- + **Full fleet management:** Smartfleet has a comprehensive fleet management system that includes modules for vehicle procurement, management, reporting, repair and service authorisation, registration renewals, tolls and infringements;
- + **Vehicle procurement only:** Procurement services for employers; and
- + **Vehicle maintenance authorisation services:** Smartfleet acts as an agent of novated lease providers for the servicing of their novated vehicles. Smartfleet manages service repair agents to ensure the reasonableness of service charges.

The Employer Client base spans all major sectors including Government departments, and corporate, health and not-for-profit organisations.

3. Smartgroup Overview

While most fleet management companies provide both management and financing, Smartfleet, as at the Prospectus Date, offers management only services and does not offer any direct financing for vehicles in the form of operating leases or finance leases.

Smartfleet can administer all requirements for a vehicle on behalf of Employer Clients (other than finance), including vehicle procurement, FBT management, reporting, repair and service authorisation, registration renewals and toll and infringement management.

Figure 27: Fleet management – revenue model

Service type	Phase	Fees	Paid by
Full fleet management	Setup	Nil	N/A
	Management	Monthly fee per vehicle	Employer Client
	Procurement and disposals	Transaction fee	Employer Client
	Sourcing of consumables	Rebates	Supplier
Vehicle procurement only	Setup	Nil	N/A
	Sourcing of vehicles	Transaction fee	Dealer and/or customer
Vehicle maintenance authorisation services	Setup	Nil	N/A
	Service management	Monthly fee per vehicle	Novated lease provider
	Sourcing of consumables	Rebates	Supplier

Source: Management

Smartfleet operates using a web-based system and a customer service centre which together allow Employer Clients to self-manage their fleet.

Smartfleet generates revenue from upfront fees and ongoing monthly management fees paid by the Employer Client, with the fee dependent on the number of system modules used by the Employer Client from the Smartfleet offered services.

3.3.2 TAINS

Tailored Automotive Insurances (“TAINS”) is an insurance distribution business acquired by Smartgroup in 2013 to market customised automotive insurance solutions. TAINS provides insurance through intermediaries and salary packaging companies acting on behalf of their customers. TAINS derives income from commissions from its insurance distribution services.

The policies distributed by TAINS are underwritten by TAINS’ insurance partner, AVEA Insurance Limited, an Australian owned insurance company associated with the motor industry. All claims and claim management under the policies are made with AVEA Insurance Limited directly.

3.4 Smartgroup employees

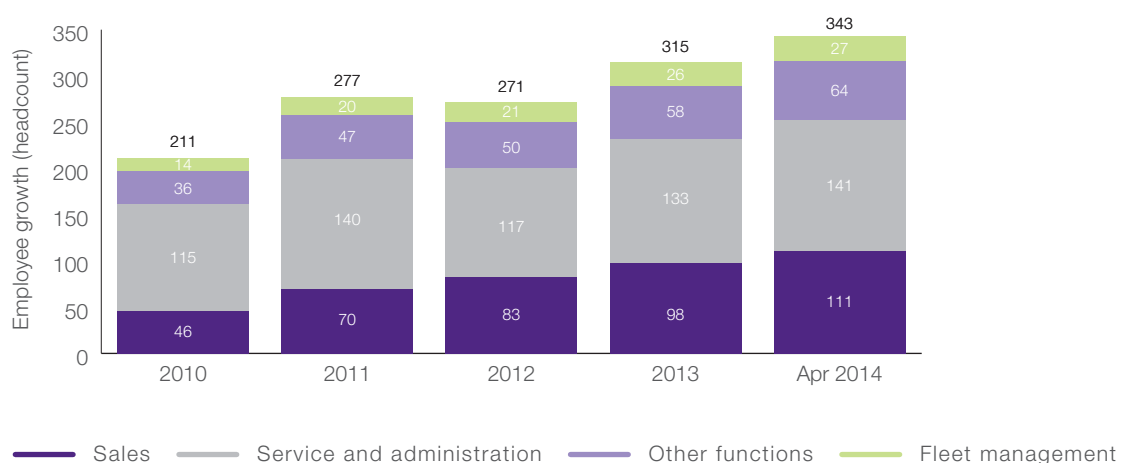
Smartgroup had 343 employees as at 1 April 2014. Smartgroup filled an additional 132 positions between 1 January 2011 and 1 April 2014, to help further develop its sales and marketing and customer service capabilities. This has contributed to Smartgroup’s Employee Customer salary packaging uptake.

As at 1 April 2014, there were 111 employees dedicated to sales and Employee Customer education, including telephone and field-based salary packaging and novated leasing consultants, as well as business development personnel who prepare tender responses and sell Smartgroup services to employers. Smartgroup employed a further 141 employees in service and administration specialising in operations and the service centre and customer relationship management, and 27 employees in fleet management.

3. Smartgroup Overview

There were a further 64 employees in a range of other functions including information technology, human resources, finance and legal, marketing, PBI Solutions and management. Smartgroup has a strong information technology capability to support its focus on innovation and efficiency.

Figure 28: Smartgroup employee growth (no. of employees)



Note: Employee breakdown as at 31 December 2013. Data for each year up to 31 December 2013 based on December figures. Smartgroup had 315 employees as at 31 December 2013. Total employees increased to 343 employees as at 1 April 2014.

Smartgroup employees' high level of engagement is reflected in Smartgroup's Aon Hewitt Employee Engagement Score. Smartgroup was one of only 16 companies in Australia to gain an Aon Hewitt Best Employer accreditation in 2014. Smartgroup focuses on employee engagement as a key metric.

3.5 Growth strategy

Smartgroup's continuing growth strategy is to grow its business through both existing and new Employer Clients by way of the following:

3.5.1 Maintain tender win rate and increase Employer Client referrals

Smartgroup has a track record of winning new Employer Clients from competitors as well as introducing multiple Smartgroup products to Employer Clients.

The management team of Smartgroup assesses upcoming tender opportunities and manages existing and potential Employer Clients through regular engagement.

Smartgroup's history of new Employer Client wins has been assisted through referrals from existing Employer Clients based on their satisfaction with Smartgroup's products and customer service.

Smartgroup continues to focus on customer service as a means to generate referrals and will continue to monitor and participate in tenders. Smartgroup has a range of strengths that position it well for tenders, including:

- + Established, scalable systems capable of managing large clients;
- + Track record of performance and customer retention;
- + High levels of customer satisfaction; and
- + Dedicated employees focused on business development opportunities.

3. Smartgroup Overview

Figure 29: September 2007 to December 2013 tender activity outcome

	Tenders
Won from existing packaging clients	9
Won from new clients	18
Lost from existing packaging clients	1
Lost from prospective clients	32
Sub-total	60
Win ratio (%)	45%
Withdrawn	2
Total tenders	62

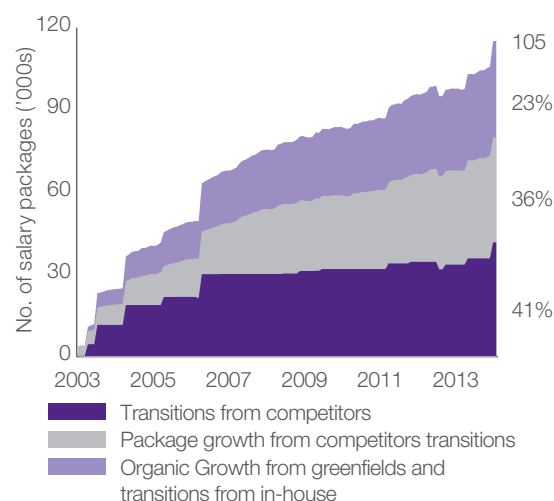
Source: Management estimates

Note: Data available from 1 September 2007 onwards. Data relates to public tenders for outsourced salary packaging from 1 September 2007 to 31 December 2013 and does not include tenders where the tender was withdrawn. There are no outstanding tenders.

3.5.2 Increase uptake within Employee Customer base

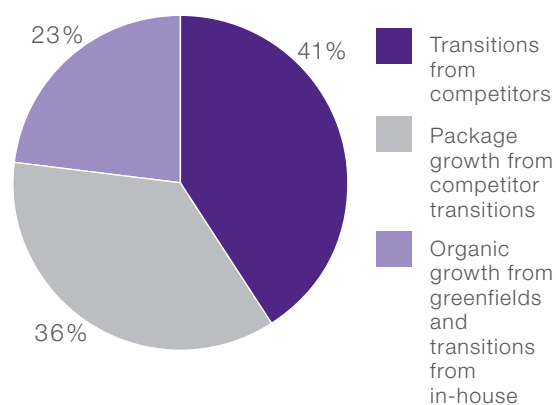
Smartgroup has a successful history of increasing the number of Employee Customers within each Employer Client.

Figure 30: Package growth (no. of outsourced salary packages)



Note: Number of packages between month of client transition and 31 December 2013.⁶⁰

Figure 31: Outsourced salary packages by origination



Note: As at 31 December 2013.

The majority of Employee Customers under management, or 77% of the total packages, as at 31 December 2013, were either won directly from competitors and transitioned to Smartgroup, or were additional packages gained through uptake within transitioned Employer Clients.

⁶⁰ Transitions from competitors refer to those packages won from competitors. Package growth from competitor transitions refers to additional packages gained through uptake within transitioned Employer Clients. Total active packages include additional packages gained through organic growth from greenfield clients as well as former in-house packages transitioned to outsourced packages with Smartgroup.

3. Smartgroup Overview

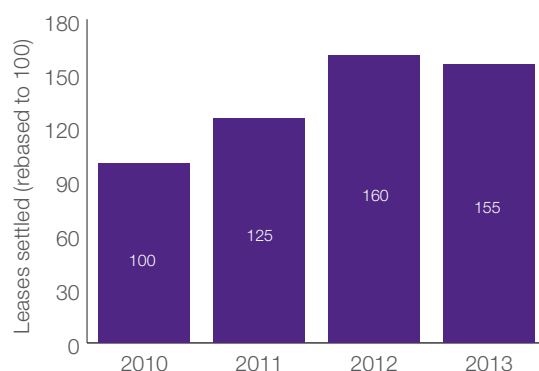
Smartgroup has initiatives in place to target future uptake including:

- + Increase awareness through Smartgroup's salary packaging consultants and other marketing initiatives; and
- + Increase customer engagement by providing multiple channels through which Employee Customers can interact with Smartgroup.

3.5.3 Increase uptake of multiple products, including novated leasing

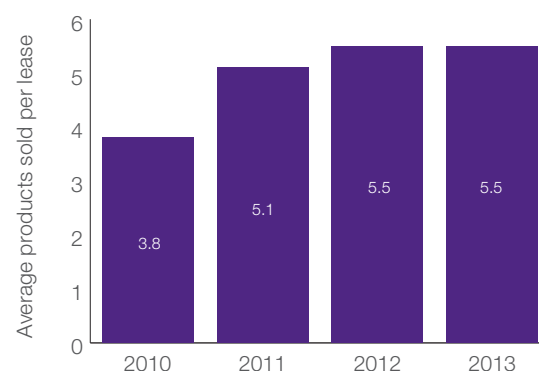
Smartgroup continues to seek to increase uptake of additional benefits by existing Employee Customers through improved marketing, awareness and employee education of multiple products such as novated leasing, Employee Benefit Cards and novated leasing insurance products. This is aided by providing better online capabilities and service through a range of channels. For example, from 2010 to 2012, novated lease settlements grew at a compound annual rate of 27%⁶¹.

Figure 32: Novated leasing settlement growth



Note: As at 31 December 2013. Novated leasing settlement growth in 2013 was impacted by a one-off fall in new settlements during the period of uncertainty in the novated leasing market between July 2013 and September 2013 following the then Federal Labor Government's announcement of proposed changes to FBT regulation as detailed in Section 2.1.5.2. For further information on the financial impact of the changes on Smartgroup, please refer to Section 4.

Figure 33: Average number of products by customer



Note: As at 31 December 2013. Products in this example refer to novated leasing-related products such as various insurances, vehicle maintenance programs, and aftermarket, and exclude, vehicle financing and sourcing and carbon emissions offsets.

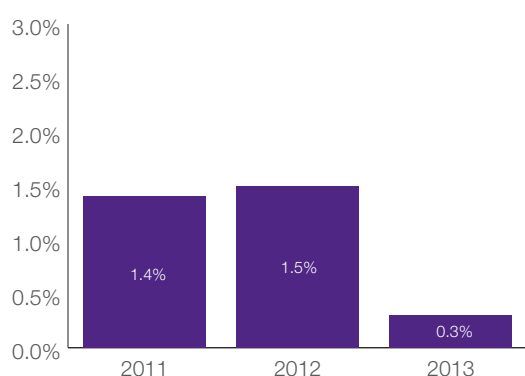
⁶¹ Lease settlement growth in 2013 was impacted by a one-off fall in new settlements during the period of uncertainty in the novated leasing market between July 2013 and September 2013 following the then Federal Labor Government's announcement of proposed changes to FBT regulation as detailed in Section 2.1.5.2.

3. Smartgroup Overview

3.5.4 Increase efficiency of multiple products

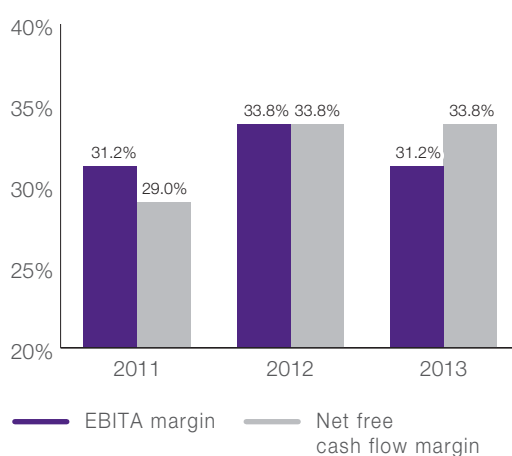
Smartgroup has an established and scalable platform, attributable in part to the asset-light nature of the business.

Figure 34: Capital expenditure as a % of revenue



Note: Capital expenditure for 2012 normalised to exclude approximately \$2.8 million of costs relating to one-off office relocation and corporate fit outs.

Figure 35: EBITA and net free cash flow (before financing, tax and after capital expenditure) margins (%)



Note: Net free cash flow margin refers to net free cash flow (before financing, tax and after capital expenditure). Smartgroup's EBITA margin was affected by a decrease in revenue for the period of regulatory uncertainty between the then Federal Labor Government's proposed FBT announcement in July and September 2013. In spite of the fall in revenue, the business guaranteed the employment of employees during that period and did not undertake any reductions in headcount, which affected EBITA margin for that year.

By continuing to implement programs and adopt changes that increase efficiency, Smartgroup expects to increase margins, and hence contribute to continued growth⁶².

3.5.5 Mergers and acquisitions

Smartgroup has a track record of completing acquisitions of providers of similar or complementary products. This is demonstrated by its successful integration of the acquisitions of Seqoya, Melbourne Systems Group, Webfleet, Australian Vehicle Consultants, PBI Solutions and TAINS.

The forecast financials do not assume that any acquisitions are completed by Smartgroup in the Forecast Period, although acquisition opportunities will continue to be evaluated, particularly where they provide an opportunity to:

- + Build scale in the business;
- + Expand operating margins;
- + Increase Smartgroup's capability or product offering; and/or
- + Diversify the business.

⁶² Note: Any forward looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed, implied or anticipated in these statements. Estimates, forecasts and projections involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

3. Smartgroup Overview

Figure 36: Acquisitions since inception

Acquisition	Year	Market facing business
Seqoya	2009	Seqoya
Melbourne Systems Group	2009	
Webfleet	2010	Smartfleet
Australian Vehicle Consultants	2011	
PBI Solutions	2011	PBI Solutions
TAINS	2013	TAINS

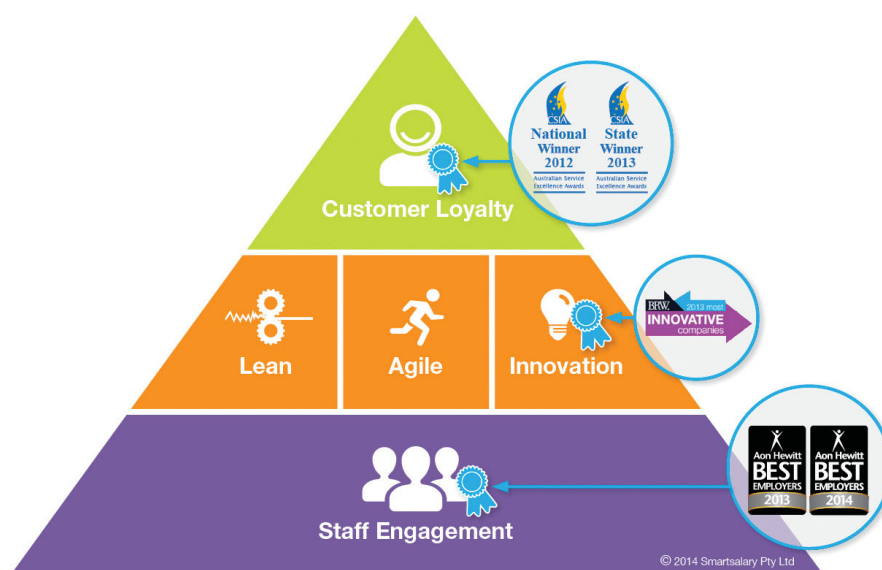
Source: Management

3.6 Core capabilities

Smartgroup's growth strategies are built on its core capabilities, which are based on the following key principles:

- + Customer loyalty;
- + Lean systems and processes, which focus on operational excellence in order to maximise customer value and eliminate waste;
- + Agile development methodologies, which allows Smartgroup to improve the delivery and quality of technology projects;
- + Innovation; and
- + Staff engagement.

Figure 37: Smartgroup's core capabilities



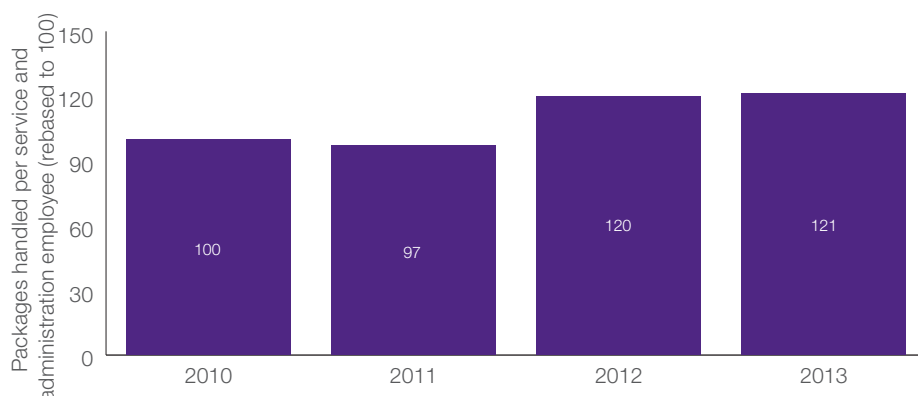
VISION: To be widely recognised as the easiest salary packaging and fleet management company to deal with.

3. Smartgroup Overview

Smartgroup has developed a salary packaging administration technology platform that enables efficient processing, a high degree of Employee Customer self-service and high Employee Customer satisfaction.

These improvements in efficiency have enabled Smartgroup to increase the average number of packages handled per service and administration employee (excluding employees in information technology functions).

Figure 38: Scalable platforms (rebased to 100)



Source: Management

Note: As at 31 December 2013. Data for each year based on December figures. Service and administration employees exclude employees in information technology functions. There was a significant increase in total headcount in CY2011.

3.7 Awards and reviews

Smartgroup has a strong service orientation, with a focus on employee engagement, which has been recognised and awarded, principally through its Smartsalary brand, as detailed below:

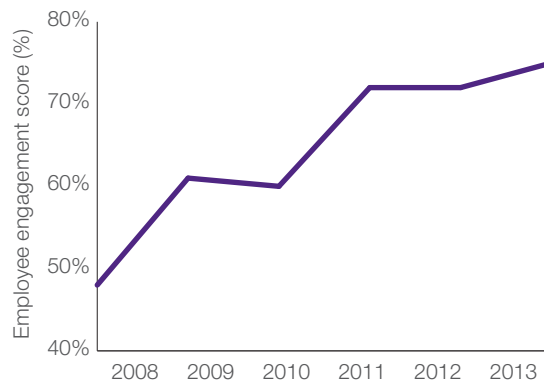
Figure 39: Smartsalary awards

	+ One of Australia's most innovative companies + Ranked 31st on BRW Magazine's list of Australia's top 50 most innovative companies in 2013
	+ One of only 19 companies in Australia to be accredited an Aon Hewitt Best Employer in 2013 + One of only 16 companies in Australia to be accredited an Aon Hewitt Best Employer in 2014
	+ Smartsalary was awarded the NSW State Award for Service Excellence in the Medium Business Category by CSIA for the past three consecutive years (2011 to 2013) + In 2012, it was also awarded the winner of the Australian Service Excellence Award in the National Medium Business category

3. Smartgroup Overview

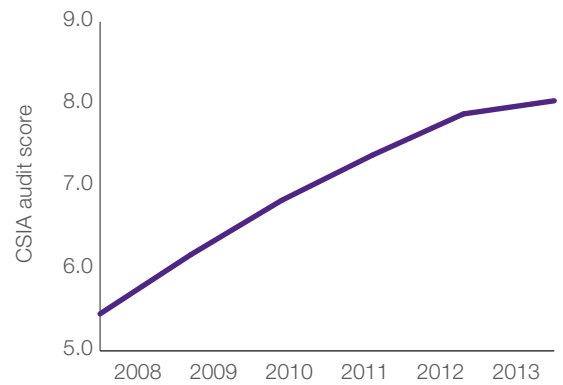
These awards are a reflection of Smartgroup's commitment to continuously achieve and improve against its goals of high employee engagement as measured by Aon Hewitt (75% in 2013), a high Net Promoter Score⁶³, as well as a high CSIA audit score (8.04 in 2013).

Figure 40: Employee engagement score (%)



Source: Aon Hewitt

Figure 41: CSIA audit score



Source: CSIA

⁶³ The Net Promoter Score measures customer loyalty and their willingness to openly promote the business

4

Financial Information

4. Financial Information

4.1 Introduction

The financial information for Smartgroup contained in this Section 4 includes:

- + Statutory historical financial information for Smartgroup, being the:
 - Statutory consolidated historical income statements for CY2011, CY2012 and CY2013 (**Statutory Historical Results**);
 - Statutory consolidated historical net cash flows from operating activities before financing and tax for CY2011, CY2012 and CY2013 (**Statutory Historical Cash Flows**); and
 - Statutory consolidated historical balance sheet as at 31 December 2013 (**Statutory Historical Balance Sheet**),
 (together, the **Statutory Historical Financial Information**);
- + Pro Forma historical financial information for Smartgroup, being the:
 - Pro Forma consolidated historical income statements for CY2011, CY2012 and CY2013 (**Pro Forma Historical Results**);
 - Pro Forma consolidated historical cash flow from operating activities before financing and tax for CY2011, CY2012 and CY2013 (**Pro Forma Historical Cash Flows**); and
 - Pro Forma consolidated historical balance sheet as at 31 December 2013 (**Pro Forma Historical Balance Sheet**),
 (together, the **Pro Forma Historical Financial Information** and together with the **Statutory Historical Financial Information**, the **Historical Financial Information**); and
- + Forecast financial information for Smartgroup, being the:
 - Statutory consolidated forecast income statement for CY2014 (**Statutory Forecast Result**);
 - Statutory consolidated forecast net free cash flow statement for CY2014 (**Statutory Forecast Cash Flows**);
 - Pro Forma consolidated forecast income statement for CY2014 (**Pro Forma Forecast Result**); and
 - Pro Forma consolidated forecast cash flow from operating activities before financing and tax for CY2014 (**Pro Forma Forecast Cash Flows**),
 (together, the **Forecast Financial Information**).

The Historical Financial Information and the Forecast Financial Information together form the **Financial Information**.

Also summarised in this Section 4 are:

- + the basis of preparation and presentation of the Financial Information (see Section 4.2);
- + the Directors' best estimate general and specific assumptions underlying the Forecast Financial Information (see Section 4.10) and key sensitivities in respect of the Forecast Financial Information (see Section 4.11);
- + the details on capitalisation and indebtedness (see Section 4.6); and
- + the Company's proposed dividend policy (see Section 4.12).

All amounts disclosed in this Section 4 are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$0.1 million.

4. Financial Information

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview

The Company was incorporated on 28 June 2007. The Company acquired a 100% interest in Paxys Australia Pty Ltd (now known as Smartsalary Group Pty Ltd) on 6 June 2012. Smartsalary Group owns various subsidiaries that have operated within the group since 2008. Management adopted the acquisition method of accounting to account for the acquisition which resulted in the assets and liabilities of Smartsalary Group being consolidated at their fair values as of acquisition date, including the identification and recording of intangible assets relating to customer contracts and relationships, software and brands. The excess of the cost of business combination over the fair value of identifiable net assets acquired is recognised as goodwill.

The Historical Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB), which are consistent with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

The Prospectus includes the Forecast Financial Information based on the best estimate assumptions of the Directors. The Forecast Financial Information presented in this Prospectus is unaudited. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Historical Financial Information unless otherwise noted.

The Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act. Smartgroup's significant accounting policies have been consistently applied throughout the periods presented and are set out in Appendix B.

In accordance with AASB 8 *Operating Segments* (AASB 8), Smartgroup has two reporting segments comprising salary packaging and fleet management. These two segments do not include corporate costs which consist of the general operating costs including annual and ongoing listing fees, senior leadership and professional advisers' fees, and finance costs of the Company that are not attributable exclusively to the salary packaging and fleet management segments.

The information in this Section 4 should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus. Importantly, a number of the risks if triggered and not mitigated could materially adversely affect the Forecast Financial Information.

4.2.2 Preparation of the Historical Financial Information

The Statutory Historical Financial Information has been extracted from Smartsalary Group's audited consolidated financial statements for CY2011 and CY2012 and from the Company's audited consolidated financial statements for CY2013.

The CY2011 and CY2012 audited consolidated financial statements of Smartsalary Group were selected since there are no actual historical consolidated financial results for the Company for CY2011 and its statutory results for CY2012 only include results for Smartsalary Group and its subsidiaries for the post-acquisition period from 6 June 2012 and therefore do not represent a full 12 month comparative period. Accordingly, the Directors consider that the Smartsalary Group's consolidated financial statements for CY2011 and CY2012 are more meaningful for investors.

The Smartsalary Group accounts for CY2011 and CY2012 are presented on a comparable basis with the Company's results for CY2013 as the fair value exercise undertaken by the Company on acquisition of Smartsalary Group did not impact the CY2011 or CY2012 profit of Smartsalary Group, other than for items that have been adjusted for in the Pro Forma to statutory reconciliation.

The CY2011 statutory financial statements of Smartsalary Group were audited by Ernst & Young. The CY2012 statutory financial statements of Smartsalary Group and the CY2013 statutory financial statements of the Company were audited by PricewaterhouseCoopers. The respective auditors issued unqualified opinions for the CY2011, CY2012 and CY2013 statutory financial statements. These financial statements are available on

4. Financial Information

the Offer website (www.smartgroupoffer.com) and the Statutory Historical Financial Information is summarised in Table 6.

The Pro Forma Historical Financial Information has been prepared for the purposes of inclusion in this Prospectus. It has been derived from the Statutory Historical Financial Information and adjusted with items as set out in Sections 4.3 to enable a reasonable comparison of the Financial Information across CY2011 to CY2014 assuming Smartgroup was in a listed public company position and reflecting the anticipated net debt profile of Smartgroup following Completion from CY2011.

As discussed in Sections 2.1.5.2, 3.2.1.2, and 4.9.4, the Company's EBITA in CY2013 was adversely impacted by the previous Federal Labor Government's announcement on 16 July 2013 to remove the statutory formula method for FBT calculation for both salary packaged and employer provided car fringe benefit. As a consequence of the announcement and subsequent uncertainty, the Company's novated lease settlements declined for a period of approximately up to three months until the Federal election in September 2013. The Company has estimated the impact on EBITA in CY2013 including the cost of contributing to an industry marketing fund to be approximately \$2.1 million. Since regulatory change is a normal course of business risk faced by participants in the broader leasing industry, a Pro Forma adjustment has not been made to CY2013 EBITA for this item.

The Historical Financial Information presented in this Prospectus has been reviewed, but not audited, by PwC. Investors should note the scope and limitations of the Independent Limited Assurance Report (refer to Section 8).

Refer to Section 4.3.3 for a reconciliation between the Statutory Historical Results and the Pro Forma Historical Results, to Section 4.8 for a reconciliation between the Statutory Historical Cash Flows and the Pro Forma Historical Cash Flows and to Section 4.5 for a reconciliation between the Statutory Historical Balance Sheet and the Pro Forma Historical Balance Sheet.

Investors should note that past results are not a guarantee of future performance.

4.2.3 Preparation of the Forecast Financial Information

The Forecast Financial Information is presented on both a statutory and Pro Forma basis and has been prepared solely for inclusion in this Prospectus.

The Pro Forma Forecast Result and the Pro Forma Forecast Cash Flows have been derived from the Statutory Forecast Result and the Statutory Forecast Cash Flows (respectively) after adjusting for Pro Forma transactions and other adjustments to reflect the Company's operations following Completion and to eliminate non-recurring items and to reflect standalone public company costs as set out in Sections 4.3 and 4.7. Both the Statutory Forecast Result and the Statutory Forecast Cash Flows for CY2014 reflect the Directors' best estimate forecasts for the 12 months to 31 December 2014.

The Forecast Financial Information has been prepared by the Directors based on an assessment of current market and operating conditions and best estimate assumptions regarding future events and actions as set out in Section 4.10. The Forecast Financial Information is subject to the risks set out in Section 5. The inclusion of these assumptions and these risks is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. The Forecast Financial Information presented in this Prospectus has been reviewed by PwC but has not been audited. Investors should note the scope and limitations of the Independent Limited Assurance Report (refer to Section 8).

The Company believes the best estimate assumptions, when taken as a whole, to be reasonable at the Prospectus Date. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or material negative effect on the Company's actual financial performance or financial position. In addition, the assumptions upon which the Forecast Financial Information is based are by their very nature subject to significant uncertainties and contingencies, many of which will be outside the control of Smartgroup, the Directors and management, and are not reliably predictable. Accordingly, none of Smartgroup, the Directors

4. Financial Information

or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

The Forecast Financial Information in Section 4.10 should be read in conjunction with, the general assumptions as set out in Section 4.10.1, the specific assumptions as set out in Section 4.10.2, the sensitivity analysis as set out in Section 4.11, the risk factors as set out in Section 5 and other information in this Prospectus.

Smartgroup has no intention to update or revise the Forecast Financial Information or other forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

For the purpose of this Section 4, an Offer Price of \$1.60 per Share has been used in calculations.

4.2.4 Explanation of certain non-IFRS financial measures

Smartgroup uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These are known as “non-IFRS financial measures” and the principal ones used in this Prospectus are as follows:

- + EBITDA is earnings before interest, tax, depreciation and amortisation;
- + EBITA is earnings before interest, tax and amortisation;
- + EBIT is earnings before interest and tax; and
- + NPATA is net profit after tax, adjusted to exclude the non-cash tax effected amortisation of intangibles:
 - It reflects the add-back of amortisation of intangibles net of the associated non-cash tax credit;
 - The associated tax credit is lower than that implied by the corporate tax rate of 30%, reflecting that a proportion of the intangible amortisation is deductible for tax purposes and a portion is not deductible for tax purposes. The amortisation (net of tax) that has been added back to NPAT is only adjusted for the non-deductible portion and is consequently higher by the amount of the cash tax benefit; and
 - In CY2014, the Company expects a cash tax benefit of approximately \$1.3 million and this is taken to account in the calculation of NPATA for CY2014. Further, it is expected that the cash benefit of this deduction of approximately \$1.3 million will continue to be received in CY2015, reducing to approximately \$0.6 million in CY2016 and nil thereafter.

NPATA is reconciled to NPAT in Table 5.

Although the Directors believe that these measures provide useful information about the financial performance of Smartgroup, they should be considered as supplements to the income statement and cash flow measures that have been presented in accordance with Australian Accounting Standards and not as a replacement for them. Because these non-IFRS financial measures are not based on Australian Accounting Standards, they do not have standard definitions, and the way Smartgroup calculated these measures may differ from similarly titled measures used by other companies. Investors should therefore not place undue reliance on these non-IFRS financial measures.

4. Financial Information

4.3 Consolidated historical and forecast income statement

4.3.1 Pro Forma Historical Results, Pro Forma Forecast Result and Statutory Forecast Result

The table below presents the Pro Forma Historical Results, the Pro Forma Forecast Result and the Statutory Forecast Result. The Pro Forma historical and forecast results are reconciled to the statutory historical and forecast results in Table 3, Table 4 and Table 5.

Table 1: Pro Forma Historical Results, Pro Forma Forecast Result and Statutory Forecast Result

	Note	Pro Forma Historical Results			Pro Forma Forecast Result	Statutory Forecast Result
\$ million, December year end		CY2011	CY2012	CY2013	CY2014	CY2014
Revenue		49.7	59.5	61.5	69.6	69.6
Staff costs		(22.5)	(25.9)	(27.5)	(32.3)	(32.3)
Administration and public company costs		(5.6)	(6.2)	(6.5)	(6.9)	(6.7)
Advertising and marketing costs		(1.3)	(2.1)	(1.9)	(1.9)	(1.9)
Occupancy costs		(1.4)	(1.6)	(1.8)	(1.9)	(1.9)
Other costs	1	(2.7)	(2.6)	(3.4)	(3.0)	(13.6)
Total operating expenses		(33.5)	(38.4)	(41.1)	(46.0)	(56.4)
EBITDA		16.2	21.1	20.4	23.6	13.2
Depreciation		(0.7)	(1.0)	(1.2)	(1.0)	(1.0)
EBITA		15.5	20.1	19.2	22.6	12.2
Amortisation		(12.6)	(12.6)	(12.6)	(12.6)	(12.6)
EBIT		2.9	7.5	6.6	10.0	(0.4)
Net interest expense		(1.2)	(0.8)	(0.8)	(0.8)	(1.8)
Profit/(loss) before tax		1.7	6.7	5.8	9.2	(2.2)
Tax (expense)/benefit		(0.5)	(2.1)	(2.0)	(2.8)	0.4
NPAT		1.2	4.6	3.8	6.4	(1.8)
Amortisation (tax effected)	2	10.1	10.1	10.1	10.1	10.1
NPATA		11.3	14.7	13.9	16.5	8.3

Notes:

1. **Other costs** in the CY2014 Statutory Forecast Result include the total expenses of the Offer that is expensed of \$9.6 million in 2014 of which \$4.4 million relates to a one-off cash bonus to be paid to senior management (refer to Section 4.6.1)). Other costs also includes an expense of \$0.9 million attributable to a share based payment on existing shares awarded to the Chairman of the Company in association with the Offer.
2. **Amortisation (tax effected)**: refer to Section 4.2.4 for explanation of the NPATA calculation.

4. Financial Information

4.3.2 Key operating metrics

The table below sets out a summary of Smartgroup's key historical operating metrics for CY2011, CY2012 and CY2013 derived from the Pro Forma Historical Results and the forecast key operating metrics for CY2014 derived from the Pro Forma Forecast Result and the Statutory Forecast Result.

Table 2: Summary of key operating metrics

	Pro Forma Historical Results			Pro Forma Forecast Result	Statutory Forecast Result
	CY2011	CY2012	CY2013	CY2014	CY2014
Growth rates (%)					
Revenue growth		19.7%	3.4%	13.2%	
EBITDA growth		30.2%	(3.3%)	15.7%	
EBITA growth		29.7%	(4.5%)	17.7%	
NPATA growth		30.1%	(5.4%)	18.7%	
Margins (%)					
EBITDA margin	32.6%	35.5%	33.2%	33.9%	
EBITA margin	31.2%	33.8%	31.2%	32.5%	
NPATA margin	22.7%	24.7%	22.6%	23.7%	
Net free cash flow margin	29.0%	33.8%	33.8%	33.5%	
Other					
Salary packages (at year end)	87,812	91,344	105,167	118,457	118,457
Employee headcount (at year end)	277	271	315	347	347
EBITDA to net free cash flow conversion	88.9%	95.3%	102.0%	98.7%	

Notes:

1. Certain key operating metrics have not been provided for in the Statutory Forecast Result as the Directors believe there is no meaningful comparable or appropriate basis by which to present them.
2. Net free cash flow is based on net free cash flow (before financing and tax but after capital expenditure) from Table 11.

Salary packages notes

- + **CY2012:** salary packages grew by 3,532 (4.0%) with no new major client contracts registered.
- + **CY2013:** salary packages grew by 13,823 (15.1%) with two major clients who signed with Smartsalary contributing approximately 8,633 packages which transitioned to the Company in April and December 2013.
- + **CY2014:** salary packages are forecast to grow by 13,290 (12.6%), largely driven by a 10,300 increase from three new major clients who have signed with Smartsalary. Approximately 6,300 packages transitioned in April 2014, and a further approximately 4,000 packages are expected to be transitioned in December 2014.

Headcount notes

- + **CY2012:** slightly lower than 2011 as there was no major step up in salary packages under administration or other significant change to the business.
- + **CY2013:** following the proposed legislative change in July 2013, a recruitment freeze was in place for three months of the year. After the Federal election, staff numbers increased to service the signing of a major client in December 2013.

4. Financial Information

+ **CY2014:** forecast growth in staff required to support three new major Employer Clients; two of these transitioned in January 2014 and April 2014 respectively, with the third expected to transition in December 2014.

4.3.3 Pro Forma adjustments to the Statutory Historical Results and Statutory Forecast Result

Table 3, Table 4 and Table 5 below set out the Pro Forma adjustments to historical and forecast statutory revenue, EBITA and NPAT to allow for the impact of historical acquisitions which Smartgroup made in CY2011 as if they had occurred for the full year from 31 December 2010, and the full year impact of the changes to operations and the capital structure that will be in place following Completion as if it was in place as at 31 December 2010.

In addition, certain other adjustments to eliminate non-recurring items have been made in the period in which they occurred and estimated standalone public company costs have been reflected across the historical and forecast periods. These adjustments are summarised below.

Table 3: Reconciliation of the historical and forecast statutory revenue to Pro Forma revenue

	Note	Historical Financial Information			Forecast Financial Information
\$ million, December year end		CY2011	CY2012	CY2013	CY2014
Statutory revenue	1	48.3	59.5	61.9	69.6
Pro Forma impact of historical acquisitions	2	1.4	–	–	–
Commissions received	3	–	–	(0.4)	–
Pro Forma revenue		49.7	59.5	61.5	69.6

Notes:

- 1. Statutory revenue:** statutory revenue presented above excludes interest earned from Smartgroup's corporate bank accounts. Interest on corporate accounts (CY2011: \$0.4 million, CY2012: \$0.3 million, CY2013: \$0.5 million and CY2014: \$0.6 million) is considered as non-operational in nature and has been netted against interest expense. This interest income is included within finance revenue in the statutory accounts.
- 2. Pro Forma impact of historical acquisitions:** adjustment to increase revenue as if the acquisitions of PBI Benefit Solutions Pty Ltd in May 2011 and Australian Vehicle Consultants Pty Ltd in July 2011 had occurred as at 31 December 2010.
- 3. Commissions received:** adjustment to remove one-off commissions received in CY2013 in relation to a supply contract.

4. Financial Information

Table 4: Reconciliation of the historical and forecast statutory EBITA to Pro Forma EBITA

	Note	Historical Financial Information			Forecast Financial Information
\$ million, December year end		CY2011	CY2012	CY2013	CY2014
Statutory EBITA		15.9	20.8	21.0	12.2
Pro Forma impact of historical acquisitions	1	0.7	–	–	–
Listed public company costs	2	(1.5)	(1.5)	(1.5)	(0.3)
IPO transaction costs	3	–	–	–	9.6
Other adjustments	4	0.4	0.8	(0.3)	1.1
Pro Forma EBITA		15.5	20.1	19.2	22.6

Notes:

- 1. Pro Forma impact of historical acquisitions:** adjustment to reflect EBITA as if the acquisitions of PBI Benefit Solutions Pty Ltd in May 2011 and Australian Vehicle Consultants Pty Ltd in July 2011 had occurred as at 31 December 2010.
- 2. Listed public company costs:** an adjustment has been made to include an estimate of the incremental annual costs that the Company will incur as an ASX listed public company. These costs include Directors' remuneration, additional Directors' and officers' liability insurance premiums, additional audit, tax and legal costs, listing fees and share registry costs and additional staff required. The adjustment in CY2014 is to provide a full year of the additional costs, as the Statutory Forecast Result already includes \$1.2 million of listed public company costs.
- 3. IPO transaction costs:** total costs of the Offer of \$12.1 million based on an Offer Price of \$1.60 per Share, of which \$9.6 million is expensed in 2014 (of the total IPO transaction costs expensed, \$4.4 million relates to a one-off cash bonus to be paid to senior management (refer to Section 4.6.1)). The remaining \$2.5 million is directly attributable to the issue of New Shares under the Offer and hence is offset against equity raised in the Offer.
- 4. Other adjustments:** adjustment has been made to remove other non-recurring revenues and expenses including expenses associated with an old share option plan closed in CY2012, write off of software assets, one-off commissions, mergers and acquisitions activity, share based payment of Existing Shares awarded to the Chairman of the Company by the Existing Shareholder and accelerated depreciation on fittings.

4. Financial Information

Table 5: Reconciliation of historical and forecast statutory NPAT to Pro Forma NPAT and NPATA

	Note	Historical Financial Information			Forecast Financial Information
\$ million, December year end		CY2011	CY2012	CY2013	CY2014
Statutory NPAT		6.7	11.4	3.0	(1.8)
Pro Forma impact of historical acquisitions	1	0.7	–	–	–
Listed public company costs	2	(1.5)	(1.5)	(1.5)	(0.3)
IPO transaction costs	3	–	–	–	9.6
Net interest adjustment	4	(0.8)	(1.0)	2.7	0.8
Straight-line amortisation of intangibles	5	(7.0)	(8.1)	0.2	–
Other adjustments	6	0.7	0.9	(0.2)	1.2
Income tax effect	7	2.4	2.9	(0.4)	(3.1)
Pro Forma NPAT		1.2	4.6	3.8	6.4
Amortisation (tax effected)	8	10.1	10.1	10.1	10.1
Pro Forma NPATA		11.3	14.7	13.9	16.5

Notes:

- 1. Pro Forma impact of historical acquisitions:** adjustment to reflect the EBITA as if the acquisitions of PBI Benefit Solutions Pty Ltd in May 2011 and Australian Vehicle Consultants Pty Ltd in July 2011 had occurred as at 31 December 2010.
- 2. Listed public company costs:** an adjustment has been made to include the estimate of the incremental annual costs that the Company will incur as a listed public company. These costs include Director remuneration, additional directors' and officers' liability insurance premiums, additional audit, tax and legal costs, listing fees and share registry costs and additional staff required. The adjustment in CY2014 is to provide a full year of the additional costs, as the statutory forecast only includes these costs forecast to be incurred from Completion of the Offer to 31 December 2014.
- 3. IPO transaction costs:** total costs of the Offer of \$12.1 million based on an Offer Price of \$1.60 per Share, of which \$9.6 million is expensed in CY2014 (of the total IPO transaction costs expensed, \$4.4 million relates to a one-off cash bonus to be paid to senior management (refer to Section 4.6.1)). The remaining \$2.5 million is directly attributable to the issue of New Shares under the Offer and hence is offset against equity raised in the Offer.
- 4. Net interest adjustment:** the net interest expense included in the Statutory Historical Results and the Statutory Forecast Result has been adjusted to reflect the anticipated net debt profile of Smartgroup following Completion of the Offer using base interest rates (BBSY) that prevailed during the relevant periods (CY2013 interest rates used for CY2014 calculation) and margins as set out in the New Banking Facilities following Completion. In addition, an adjustment has been made to remove the write off of unamortised borrowing costs in the Statutory Historical Results and the Statutory Forecast Result relating to the historical debt structure of Smartsalary.
- 5. Straight-line amortisation of intangibles:** intangibles arose from the acquisition of Smartsalary Group by the Company on 6 June 2012. The historical periods have been adjusted to reflect an annual amortisation charge on intangibles which is consistent with the charge which Smartgroup expects to recognise in CY2014, as if the acquisition had occurred at 31 December 2010.
- 6. Other adjustments:** adjustment has been made to remove other non-recurring revenues and expenses including expenses associated with an old share option plan closed in CY2012, write off of software assets, one-off commissions, mergers and acquisitions activity, share based payment of Existing Shares awarded to the Chairman of the Company by the Existing Shareholder and accelerated depreciation on fittings.
- 7. Income tax effect:** the forecast income tax rate applicable to Smartgroup is approximately 30%, which is equivalent to the Australian corporate tax rate. This tax rate as adjusted for differences has been applied to each of the historical and forecast periods. The tax impact of the above adjustments has been reflected as appropriate.
- 8. Amortisation (tax effected):** refer to Section 4.2.4 for explanation of the NPATA calculation.

4. Financial Information

Table 6: Summary of Statutory Historical Results for CY2011, CY2012 and CY2013

\$ million, December year end	Statutory Historical Results		
	CY2011	CY2012	CY2013
Revenue	48.3	59.5	61.9
Staff costs	(22.2)	(26.3)	(27.5)
Administration costs	(3.8)	(4.5)	(4.9)
Advertising and marketing costs	(1.2)	(2.1)	(1.9)
Occupancy costs	(1.4)	(1.6)	(1.8)
Other costs	(3.1)	(2.7)	(3.6)
Total operating expenses	(31.7)	(37.2)	(39.7)
EBITDA	16.6	22.3	22.2
Depreciation	(0.7)	(1.5)	(1.2)
EBITA	15.9	20.8	21.0
Amortisation	(5.7)	(4.5)	(12.9)
EBIT	10.2	16.3	8.1
Net interest expense	(0.3)	0.2	(3.4)
Profit before tax	9.9	16.5	4.7
Tax expense	(3.2)	(5.1)	(1.7)
NPAT	6.7	11.4	3.0

Notes:

The CY2011 and CY2012 statutory NPAT have been extracted from Smartsalary Group's audited consolidated financial statements since there are no actual historical consolidated financial results for the Company for CY2011 and its statutory results for CY2012 only include results for Smartsalary Group and its subsidiaries for the post-acquisition period from 6 June 2012 and therefore do not represent a full 12 month comparative period. Accordingly, the Directors consider that the Smartsalary Group accounts for CY2011 and CY2012 are more meaningful for investors.

4.4 Pro Forma historical and forecast income statements by segment

In accordance AASB 8 *Operating Segments*, Smartgroup has determined that its reporting segments comprise two segments, Salary Packaging and Fleet Management, based on Smartgroup's management reporting system and the way management views the business.

+ Salary packaging: Provides outsourced salary packaging services, novated leasing services and management, salary packaging software solutions, and the marketing of salary packaging Employee Benefit Cards.

+ Fleet management: Provides end-to-end fleet management services.

There are also general operating costs considered to be corporate costs and therefore not allocated to the operating segments listed above. These consist of costs such as annual and ongoing listing fees, senior leadership and professional advisers, and finance costs of the Company that are not attributable exclusively to the salary packaging and fleet management segments.

4. Financial Information

Refer to Section 4.9 for management discussion and analysis of the Pro Forma Historical Results and Section 4.10 for the assumptions and comparisons of the Pro Forma Forecast Result.

Table 7: Segment Pro Forma Historical Results and Pro Forma Forecast Result and Statutory Forecast Result

	Pro Forma Historical Results			Pro Forma Forecast Result	Statutory Forecast Result
\$ million, December year end	CY2011	CY2012	CY2013	CY2014	CY2014
Revenue					
Salary Packaging	45.8	55.0	56.5	61.6	61.6
Fleet Management	3.9	4.5	5.0	8.0	8.0
Total revenue	49.7	59.5	61.5	69.6	69.6
EBITA					
Salary Packaging	15.3	18.9	18.0	19.1	19.1
Fleet Management	1.6	2.4	3.0	5.4	5.4
Total operating segments EBITA	16.9	21.3	21.0	24.5	24.5
Corporate costs	(1.4)	(1.2)	(1.8)	(1.9)	(12.3)
Total EBITA	15.5	20.1	19.2	22.6	12.2

4.5 Pro Forma Historical Balance Sheet

Table 8 sets out the Pro Forma adjustments that have been made to the audited Statutory Historical Balance Sheet for Smartgroup as at 31 December 2013 to prepare the Pro Forma Historical Balance Sheet. These adjustments reflect the events and assumptions noted below in the table, including the impact of the Offer and capital structure that will be in place following Completion, as if they had occurred or were in place as at 31 December 2013.

Details of the Pro Forma adjustments made to the audited Statutory Historical Balance Sheet for Smartgroup as at 31 December 2013 are set out in the notes to Table 8. The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of the Company's view on its future financial position.

4. Financial Information

Table 8: Pro Forma Historical Balance Sheet as at 31 December 2013

\$ million	Note	Audited Statutory Historical Balance Sheet	Impact of the Offer and New Banking Facilities	Pro Forma Historical Balance Sheet
Assets				
Cash at bank	1	16.9	(9.8)	7.1
Trade and other receivables		7.9	–	7.9
Current tax receivable	2	–	2.2	2.2
Other current assets		1.1	–	1.1
Total current assets		25.9	(7.6)	18.3
Deferred tax assets	3	0.3	1.9	2.2
Property and equipment		3.0	–	3.0
Intangible assets	4	75.0	–	75.0
Total non-current assets		78.3	1.9	80.2
Total assets		104.2	(5.7)	98.5
Liabilities				
Trade and other payables	5	14.0	–	14.0
Borrowings	6	5.0	(5.0)	–
Provisions		2.6	–	2.6
Other current liabilities		0.9	–	0.9
Current liabilities		22.5	(5.0)	17.5
Borrowings	6	50.9	(29.0)	21.9
Provisions and other liabilities		0.8	–	0.8
Non-current liabilities		51.7	(29.0)	22.7
Total liabilities		74.2	(34.0)	40.2
Net assets		30.0	28.3	58.3
Equity				
Contributed equity	7	26.0	35.9	61.9
Share-based payments reserve	8	–	0.9	0.9
Retained earnings/(accumulated losses)	9	4.0	(8.5)	(4.5)
Total equity		30.0	28.3	58.3

Notes:

- Cash at bank:** this reflects the net impact of the Offer and the draw down of the New Banking Facilities and certain other transactions including redemption of the Redeemable Preference Shares, repayment of existing debt and payment of transaction costs (including senior management one-off cash bonus for prior period performance) of the Offer.
- Current tax receivable:** this reflects the immediately tax deductible portion of IPO transaction costs, Redeemable Preference Shares interest and expensed unamortised borrowing costs related to the previous debt facility.
- Deferred tax assets:** this reflects deferred tax assets of \$1.9 million arising from the tax deductibility treatment of IPO transaction costs that are not immediately deductible.
- Intangible assets:** this represents both amortising (\$21.5 million) and non-amortising (\$53.5 million) intangible assets identified in business combinations.
- Trade and other payables:** prior to Completion, the Company paid accrued interest of \$2.6 million relating to the Redeemable Preference Shares. This payment will be made in the normal course of business from operating cash flows and hence has not been included as an adjustment as it does not specifically relate to the impact of the Offer.

4. Financial Information

6. **Borrowings:** current and non-current borrowings will reduce by \$34.0 million primarily as a result of repayment of existing debt facility at the Offer date (\$36.4 million), draw down of the New Banking Facilities (gross value of \$22 million), net of redemption of the Redeemable Preference Shares (\$20.7 million including interest accruing to Completion), and portion of the costs associated with the New Banking Facilities to be capitalised as non-current borrowing costs (\$0.1 million) and the write off of previously capitalised borrowing costs (\$0.5 million).
7. **Contributed equity:** increases by \$35.9 million as a result of that portion of the proceeds of the Offer which is received by the Company through the issue of New Shares (\$37.5 million), partly offset by IPO transaction costs capitalised against new equity net of the tax deduction available for those transaction costs (\$1.6 million).
8. **Share based payments reserve:** reflect one off non-cash share based payment expense awarded to the Chairman of the Company in association with the Offer.
9. **Retained earnings/(accumulated losses):** the reduction in retained earnings of \$8.5 million mainly reflects total costs of the Offer relating to the sale of Existing Shares and other transaction costs expensed in the CY2014 Statutory Forecast Result (\$3.7 million net of tax), payment of a one off senior management bonus for prior period performance (\$3.1 million net of tax), a one off non-cash share based payment expense (\$0.9 million net of tax) awarded to the Chairman of the Company in association with the Offer, and interest expense and borrowing costs (\$0.8 million net of tax).

4.5.1 Pro Forma adjustments to the Statutory Historical Balance Sheet

As part of the Offer, the Company will issue New Shares, the proceeds of which together with available cash on the balance sheet will be used to:

- + Repay an existing ANZ debt facility by \$36.4 million;
- + Establish a new ANZ debt facility, drawing down gross debt of \$22.0 million (less capitalised costs of \$0.1 million);
- + Redeem the Redeemable Preference Shares at Completion for \$20.0 million plus dividend accruing to Completion of \$0.7 million; and
- + Pay \$12.1 million of transaction costs associated with the Offer, including IPO transaction costs, senior management one-off cash bonus for prior period performance to be paid by the Company on Completion.

Details of the Pro Forma adjustments made to the audited Statutory Historical Balance Sheet for Smartgroup as at 31 December 2013 are set out in the notes to Table 8. The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of Smartgroup's view on its future financial position.

Further information on the sources and uses of funds of the Offer and the New Banking Facilities is contained in Section 4.6.3.

4.6 Capitalisation and indebtedness

4.6.1 Sources and uses of IPO funds

The table below presents the sources and uses of funds as a result of the Offer:

Table 9: Sources and uses of funds as a result of the Offer

Sources of funds	\$ million
Sale of Existing Shares	75.2
Issue of New Shares	37.5
Existing cash on balance sheet	9.8
Total sources of funds	122.5
Uses of funds	\$ million
Payment of IPO transaction costs	7.7
Payment of senior management one-off cash bonus	4.4
Net reduction in debt (including redemption of Redeemable Preference Shares)	35.2
Payment of proceeds to SaleCo	75.2
Total uses of funds	122.5

4. Financial Information

4.6.2 Capital and debt

The table below sets out the capital and debt of Smartgroup as at 31 December 2013, before and after Completion of the Offer.

Table 10: Pro Forma consolidated historical capitalisation and indebtedness at 31 December 2013

\$ million, as at 31 December 2013	Statutory (before Completion)	Impact of the Offer and New Banking Facilities	Pro Forma (after Completion)
Senior facility – ANZ	35.9	(14.0)	21.9
Cash at bank	16.9	(9.8)	7.1
Net debt	19.0	(4.2)	14.8
Contributed equity	26.0	35.9	61.9
Share based payments reserve	–	0.9	0.9
Retained earnings/(accumulated losses)	4.0	(8.5)	(4.5)
Total equity	30.0	28.3	58.3
Total capitalisation and indebtedness	49.0	24.1	73.1
Net debt at 31 December 2013/CY2014 Pro Forma EBITDA	0.8×		0.6×
CY2014 Pro Forma EBIT/interest expense	5.6×		12.5×

4.6.3 Description of debt finance facilities

4.6.3.1 Overview

The Company and ANZ are currently party to a facilities agreement for the provision of certain banking facilities. The Company and ANZ have entered into a binding definitive agreement for the provision of banking facilities post Completion (the “New Banking Facilities”) subject to the Completion of the Offer and certain other usual conditions precedent. On Completion of the Offer and satisfaction of certain other usual conditions precedent, funding provided under the New Banking Facilities will be utilised to refinance existing indebtedness including refinancing costs, for general corporate purposes and for working capital.

4.6.3.2 Facilities

The New Banking Facilities comprise:

- + **Tranche A Facility:** a three year bullet revolving term facility for \$22 million;
- + **Tranche B Facility:** a three year interest only, revolving working capital facility for \$5 million;
- + **Tranche C Facility:** three year letter of credit facility for \$3 million; and
- + **Ancillary Facilities:** credit card and electronic pay away facility for \$1.85 million.

Tranche A Facility and Tranche B Facility are subject to a variable interest rate, which is based on BBSY plus a margin based on the leverage ratio of Smartgroup. Interest is payable on the last day of the relevant draw period and default interest of 2.0% per annum over the applicable interest rate is payable should a Default (as defined in the Facilities Agreement) subsist.

4. Financial Information

4.6.3.3 Covenants

The New Banking Facilities contain undertakings typical for facilities of this nature. The undertakings include financial undertakings which will be tested semi-annually and annually based on the preceding 12 months results. The Company expects to remain in compliance with these undertakings.

The financial undertakings are:

- + Interest coverage ratio: (ratio of EBITDA (as defined in the Facilities Agreement) to interest expense): not less than 4.0 times for the term of the loan;
- + Leverage ratio (ratio of debt to EBITDA (as defined in the Facilities Agreement)): not greater than 2.25 times for the term of the loan; and
- + Distribution: up to the lower of 100% of operating cash flow after taxation, interest and capital expenditure or 80% of NPATA (as defined in the Facilities Agreement) in each financial year while no actual Default or Potential Default (as defined in the Facilities Agreement) subsists⁶⁴.

The New Banking Facilities also contains certain representations and warranties, undertakings and events of default which are standard for facilities of this nature.

The New Banking Facilities also includes the following Review Events:

1. Save as otherwise permitted, change of control of the Company;
2. The delisting of the Company from ASX; and
3. Trading suspension where trading in Shares in the Company on ASX is suspended for longer than 10 consecutive trading days.

4.6.3.4 Security and commitments

The New Banking Facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The Company must ensure that:

- + At any time, the EBITDA (calculated by reference to the financial statements of Smartgroup on a consolidated basis) of the Guarantors under the New Banking Facilities represents not less than 90% of the consolidated EBITDA (as defined in the Facilities Agreement) of Smartgroup; and
- + The aggregate total assets (calculated by reference to the financial statements of Smartgroup on a consolidated basis) of the Guarantors under the New Banking Facilities represent not less than 90% of the consolidated total assets of Smartgroup.

4.6.4 Liquidity and capital resources

Following Completion of the Offer, Smartgroup's principal source of funds will be cash flows from operations along with the New Banking Facilities. Smartgroup's historical and forecast working capital and capital expenditure trends are set out in Section 4.9. The majority of Smartgroup's ongoing and recurring capital expenditure relates to expenditure on miscellaneous information technology equipment for staff and plant and equipment. The Company expects that its opening cash balances, operating cash flows and borrowings and facilities will support Smartgroup to grow its business in accordance with the Forecast Financial Information.

⁶⁴ Operating Cash flow means, for a period, the EBITDA for that period: (a) minus Tax Paid of the Group for that period; (b) plus or minus (as the case may be) the change in Net Working Capital of the Group for that period; and (c) minus the Total Interest Expense for that period.

4. Financial Information

4.7 Pro Forma Historical and Forecast Cash Flows and Statutory Forecast Cash Flows

The table below sets out the Pro Forma Historical Cash Flows, the Pro Forma Forecast Cash Flows and the Statutory Forecast Cash Flows:

Table 11: Pro Forma Historical and Pro Forma and Statutory Forecast Cash Flows

	Notes	Pro Forma Historical			Pro Forma Forecast	Statutory Forecast
\$ million, December year end		CY2011	CY2012	CY2013	CY2014	CY2014
EBITDA	1	16.2	21.1	20.4	23.6	13.2
Depreciation		(0.7)	(1.0)	(1.2)	(1.0)	(1.0)
EBITA		15.5	20.1	19.2	22.6	12.2
Non-cash items in EBITA	2	1.0	1.0	1.2	0.9	1.8
Change in net working capital		(1.4)	(0.1)	0.6	0.1	(0.7)
Operating free cash flow before capital expenditure		15.1	21.0	21.0	23.6	13.3
Capital expenditure	3	(0.7)	(0.9)	(0.2)	(0.3)	(1.3)
Net free cash flow (before financing and tax)		14.4	20.1	20.8	23.3	12.0
Net interest paid	4				(1.1)	(3.6)
Interest received					0.3	0.5
Income tax paid					(3.9)	(4.1)
Repayment of existing debt					–	(36.4)
Repayment of Redeemable Preference Shares					–	(20.7)
Proceeds from the New Banking Facilities (net of upfront fees)					–	21.9
Proceeds from the issue of New Shares					–	37.5
IPO transaction costs (capitalised to equity)					–	(2.5)
Net free cash flow					18.6	4.6

Notes:

- EBITDA:** the EBITDA result above has been adjusted to reflect the Pro Forma adjustments to the Statutory Historical Results and the Statutory Forecast Result set out in Section 4.3.3, with the exception of adjustments relating to the Pro Forma interest expense and the tax effect of the Pro Forma adjustments which do not impact Pro Forma EBITDA.
- Non cash items in EBITA:** this predominantly reflects the depreciation charge in the income statements and for the Statutory Forecast Result CY2014 it also includes a \$0.9 million one-off, non-cash share based payment awarded to the Chairman of the Company in association with the Offer.
- Capital expenditure:** Pro Forma capital expenditure excludes one-off costs associated with the fit out of new premises. The CY2014 Pro Forma capital expenditure excludes fit costs of approximately \$1.0 million to accommodate the operational requirements of Smartgroup. Smartgroup relocated its Sydney and Melbourne office in 2012 and the associated capital expenditure for the new premises was \$2.8 million.
- Net interest paid:** this includes the net amount of interest paid arising from Smartgroup's net debt position that is the interest paid under the New Banking Facilities and interest received from the Company bank balance.

4. Financial Information

4.8 Pro Forma adjustments to the Statutory Historical Cash Flows and the Statutory Forecast Cash Flows

Table 12: Pro Forma adjustments to the Statutory Historical and the Forecast Cash Flows from CY2011 to CY2014

	Notes	Historical Financial Information			Forecast Financial Information
\$ million, December year end		CY2011	CY2012	CY2013	CY2014
Statutory net cash flow from operating activities (before financing and tax)	1	15.3	15.2	22.0	13.3
Listed public company costs	2	(1.5)	(1.5)	(1.5)	(0.3)
Cash flow impact of other adjustments to Pro Forma EBITDA	3	1.3	7.3	0.5	10.6
Pro Forma operating free cash flow (before capital expenditure, financing and tax)		15.1	21.0	21.0	23.6

Notes:

1. The CY2014 Statutory Forecast Cash Flows include the IPO transaction costs expensed in the CY2014 statutory forecast EBITDA, refer to Section 4.7.
2. **Public company costs:** the cash flow impact of public company costs to be incurred after Listing has been reflected in the Pro Forma consolidated cash flow statement. These costs include Directors' remuneration, additional Directors' and officers' liability insurance premiums, additional audit, tax and legal costs, listing fees and share registry costs and additional staff required. The adjustment in CY2014 is to provide a full year of the additional costs, as the Statutory Forecast already includes \$1.2 million of listed public company costs.
3. **Cash flow impact of other adjustments to Pro Forma EBITDA:** Table 4 details Pro Forma adjustments to the income statement. This adjustment relates to those adjustments that impact cash flow. The adjustment in CY2012 includes a further adjustment of \$5.9 million to remove the cash flow impact of non-recurring intercompany transactions between Smartsalary and Smartgroup. The adjustment in CY2014 includes a further adjustment of \$0.8 million to remove the cash flow impact of abnormal cash payments and receipts to and from Employee Customers.

4.9 Management discussion and analysis of Pro Forma Historical Financial Information

4.9.1 General factors affecting the results of Smartgroup

Below is a discussion of the main factors which affected Smartgroup's operations and relative financial performance in CY2011, CY2012 and CY2013, and which may continue to affect it in the future.

The discussion of these factors is intended to provide a brief summary only and does not detail all factors that affected the historical operations and financial performance, nor everything which may affect the future operations and financial performance.

4.9.1.1 Revenue

An overview of the different revenue streams generated by Smartgroup is set out below:

- + **Outsourced salary packaging income:** salary packaging administration fees are received from the Employer Client on behalf of the Employee Customer under management, and are typically paid to Smartgroup at each Employer Customer pay cycle. The packaging fees differ with the type and number of benefits under administration;
- + **Novated lease income:** Smartgroup receives funding commissions, comprising upfront and trailing commissions on each vehicle financed. Smartgroup also receives commissions from certain value added products such as the arranging of insurances for novated vehicles and services rendered including vehicle sourcing and arranging for aftermarket products for example window tinting;

4. Financial Information

- + **Salary packaging software solutions income:** licence fees are generally charged based on number of users and are charged on a monthly or annual basis to employers and/or salary packaging and fleet providers for the use of Smartgroup's salary packaging software solution;
- + **Marketing of salary packaging Employee Benefit Cards fees:** Smartgroup receives a fee based on per card issued or retained basis and/or on a total card spend basis from the provider of the salary packaging Employee Benefit Card solution. The fees are calculated and received on a monthly or quarterly basis;
- + **Fleet management fees:** fleet management fees are received from each client for the administration of their vehicle fleet. The fees are typically received monthly and charged on a per vehicle basis per month; and
- + **Supplier rebates:** Smartgroup receives supplier rebates from the administration of salary packaging cards and the management of both novated lease and fleet vehicles. The rebates vary across suppliers and Smartgroup may not be eligible for rebates from certain suppliers whilst others have threshold limits on the rebates.

4.9.1.2 Operating expenses

The major expense items of Smartgroup are:

- + **Staff costs:** comprise the majority of all expenses and represents salaries, wages, bonuses, commissions and on-costs for the operation of the business. Sales and service staff costs are variable in nature and support and administration costs are largely fixed;
- + **Administration costs:** represent the costs of information technology software licensing for the software used for sales planning, service and fleet management, as well as data management, telephony and insurance;
- + **Advertising and marketing costs:** represent the costs of printed materials, customer collateral, marketing programs and events and sponsorships;
- + **Occupancy costs:** represents rent and associated costs including repairs, maintenance and cleaning; and
- + **Other costs:** represents travel, specialist advice and contractor costs and other miscellaneous expenses.

4.9.1.3 Working capital

The business model of Smartgroup results in the Company operating on a negative working capital position (non-cash current assets less current liabilities). Under salary packaging arrangements, Smartgroup deducts its administration fees fortnightly or monthly under the salary sacrifice arrangement which it administers on behalf of the Employer Clients. These funds are usually collected in advance of disbursements. Suppliers are generally paid on 14 or 30 day terms depending on the individual arrangements.

4.9.1.4 Capital expenditure

Smartgroup does not require significant capital expenditure in its day-to-day operations. Most of its information technology infrastructure requirements are now provided under service arrangements with third parties (Infrastructure as a Service arrangements) and current capital expenditure comprises hardware for individual staff only. Smartgroup relocated to new premises in 2012 and is expected to enter into a lease for an additional floor in Sydney in December 2014. The capital expenditure associated with the fit out of the Sydney and Melbourne offices in CY2012 was \$2.8 million and is expected to be \$1.0 million in CY2014.

4. Financial Information

4.9.2 Pro Forma Historical Income Statements: CY2011 to CY2012

Table 13: Pro Forma Historical Income Statements

\$ million, December year end	Note	CY2011	CY2012	Variance (\$ millions)	Variance (%)
Revenue		49.7	59.5	9.8	20%
Staff costs		(22.5)	(25.9)	(3.4)	15%
Administration and listed public company costs		(5.6)	(6.2)	(0.6)	11%
Advertising and marketing costs		(1.3)	(2.1)	(0.8)	62%
Occupancy costs		(1.4)	(1.6)	(0.2)	14%
Other costs		(2.7)	(2.6)	0.1	(4%)
Total operating expenses		(33.5)	(38.4)	(4.9)	15%
EBITDA		16.2	21.1	4.9	30%
Depreciation		(0.7)	(1.0)	(0.3)	43%
EBITA		15.5	20.1	4.6	30%
Amortisation		(12.6)	(12.6)	–	–
EBIT		2.9	7.5	4.6	159%
Net interest expense		(1.2)	(0.8)	0.4	(33%)
Profit before tax		1.7	6.7	5.0	294%
Tax expense		(0.5)	(2.1)	(1.6)	320%
Pro Forma NPAT		1.2	4.6	3.4	283%
Amortisation (tax effected)	1	10.1	10.1	–	–
Pro Forma NPATA		11.3	14.7	3.4	30%

Notes:

1. **Amortisation (tax effected):** refer to Section 4.2.4 for explanation of the NPATA calculation.

Revenue

Total revenues increased by \$9.8 million or 20% from \$49.7 million to \$59.5 million due to the following major items:

- + Higher novated leasing volumes and administered salary packages contributing to \$4.1 million increase. The volumes were driven by an additional 13 customer facing staff dedicated to leasing.; and
- + Increased revenues arising from the higher volumes of additional products sales and services contributing to \$5.6 million increase.

Operating expenses

Total operating expenses increased by \$4.9 million or 15% from \$33.5 million to \$38.4 million due to the following major items:

- + Higher staff costs of \$3.4 million arising from increase in staff numbers and increased commissions from higher sales volume and customer activities;
- + Higher marketing expense due to the advertising and marketing expense of \$0.8 million associated with an internet business start-up and customer loyalty program; and
- + Higher occupancy costs associated with the move to new and larger premises in Sydney in June 2012.

4. Financial Information

Depreciation and amortisation

- + Depreciation increased by \$0.3 million or 43% from \$0.7 million to \$1.0 million due to the depreciation charge associated with the fittings and office equipment for the new Sydney office.
- + Amortisation of \$12.6 million relates to the Pro Forma amortisation of customer contracts and software associated with the acquisition of Smartsalary Group by the Company.

4.9.3 Pro Forma Historical Cash Flow Statements: CY2011 to CY2012

Table 14: Pro Forma Historical Cash Flow Statements

\$ million, December year end	CY2011	CY2012	Variance (\$ millions)	Variance (%)
EBITA	15.5	20.1	4.6	30%
Non-cash items in EBITA	1.0	1.0	–	–
Change in working capital	(1.4)	(0.1)	1.3	(93%)
Capital expenditure	(0.7)	(0.9)	(0.2)	29%
Net cash flow before financing and taxation	14.4	20.1	5.7	40%

Net cash flow increased by \$5.7 million or 40% from \$14.4 million to \$20.1million due to stronger EBITA earnings of \$20.1 million, representing an increase of \$4.6 million or 30%.

4. Financial Information

4.9.4 Pro Forma Historical Income Statements: CY2012 to CY2013

Table 15: Pro Forma Historical Income Statements

\$ million, December year end	Note	CY2012	CY2013	Variance (\$ millions)	Variance (%)
Revenue		59.5	61.5	2.0	3%
Staff costs		(25.9)	(27.5)	(1.6)	6%
Administration and listed public company costs		(6.2)	(6.5)	(0.3)	5%
Advertising and marketing costs		(2.1)	(1.9)	0.2	(10%)
Occupancy costs		(1.6)	(1.8)	(0.2)	13%
Other costs		(2.6)	(3.4)	(0.8)	31%
Total operating expenses		(38.4)	(41.1)	(2.7)	7%
EBITDA		21.1	20.4	(0.7)	(3%)
Depreciation		(1.0)	(1.2)	(0.2)	20%
EBITA		20.1	19.2	(0.9)	(4%)
Amortisation		(12.6)	(12.6)	–	–
EBIT		7.5	6.6	(0.9)	(12%)
Net interest expense		(0.8)	(0.8)	–	–
Profit before tax		6.7	5.8	(0.9)	(13%)
Tax expense		(2.1)	(2.0)	0.1	(5%)
Pro Forma NPAT		4.6	3.8	(0.8)	(17%)
Amortisation (tax effected)	1	10.1	10.1	–	–
Pro Forma NPATA		14.7	13.9	(0.8)	(5%)

Notes:

1. **Amortisation (tax effected):** refer to Section 4.2.4 for explanation of the NPATA calculation.

Impact of Federal Labor Government FBT legislative announcement

The Company's EBITA in CY2013 was adversely impacted by the previous Federal Labor Government announcement on 16 July 2013 to remove the statutory formula method of FBT calculation for both salary packaged and employer provided motor vehicles. As a consequence of the announcement and subsequent uncertainty, the Company's novated lease settlements declined for a period of up to three months until the Federal election in September 2013. The Company has estimated the impact on EBITA in CY2013 including the cost of contributing to an industry marketing fund to be approximately \$2.1 million. Since regulatory change is a normal course of business risk faced by participants in the broader leasing industry, a Pro Forma adjustment has not been made to CY2013 EBITA for this item.

4. Financial Information

Revenue

Revenues increased by \$2.0 million or 3% from \$59.5 million to \$61.5 million due to the following major items:

- + Higher administered salary packages and increased margins from renegotiated supply agreements resulting in \$1.7 million increase;
- + \$1.2 million arising from an increased number of products sold associated with each novated lease; and
- + Partially offset by an estimated decline in revenue of \$1.4 million arising from the loss of novated lease settlements from the previous Federal Labor Government's proposed FBT announcement in July 2013.

Expenses

Total operating expenses increased by \$2.7 million or 7% from \$38.4 million to \$41.1 million due to the following major items:

- + Higher staff costs of \$1.6 million arising from increase in staff numbers required to support new clients;
- + The full year impact of higher occupancy costs for the new lease entered into in June 2012 in Sydney; and
- + Other costs increased due to a contribution of \$0.7 million for the industry marketing fund in July 2013.

Depreciation and Amortisation

- + Depreciation increased by \$0.2 million or 25% from \$1.0 million to \$1.2 million reflecting the higher capital expenditure incurred in CY2012 from relocation to the new Sydney office
- + Amortisation expense of \$12.6 million relates to the Pro Forma amortisation of customer contracts and software associated with the acquisition of Smartsalary Group by the Company.

4.9.5 Pro Forma Historical Cash Flow Statements: CY2012 to CY2013

Table 16: Pro Forma Historical Cash Flow Statements

\$ million, December year end	CY2012	CY2013	Variance (\$ millions)	Variance (%)
EBITA	20.1	19.2	(0.9)	(4%)
Non cash items in EBITA	1.0	1.2	0.2	20%
Change in working capital	(0.1)	0.6	0.7	(700%)
Capital expenditure	(0.9)	(0.2)	0.7	(78%)
Net cash flow before financing and taxation	20.1	20.8	0.7	3%

Net cash flow increased by \$0.7 million or 3% from \$20.1 million to \$20.8 million despite a 4% fall in EBITA, primarily due to a decrease in capital expenditure by \$0.7 million due to a lower spend on capital infrastructure as the Company relocated to the new Sydney office in June 2012.

4.10 Forecast Financial Information

In preparing the Forecast Financial Information, Smartgroup has undertaken an analysis of historical performance and applied assumptions in order to predict future performance for CY2014.

Smartgroup believes that it has prepared the Forecast Financial Information with due care and attention and considers all assumptions reasonable at the Prospectus Date. Actual results are likely to vary from those forecasts, and any variation may be materially positive or negative. The assumptions upon which the Forecast Financial Information is based are by their nature subject to significant uncertainties and contingencies, many of which are outside the control of Smartgroup, the Directors and management.

None of Smartgroup, the Directors or any other person can give any assurance that the Forecast Financial Information or any prospective statement contained in this Prospectus will be achieved.

4. Financial Information

4.10.1 General assumptions

In preparing the Forecast Financial Information, the following general assumptions have been made by the Directors:

- + No material changes in legislative guidelines under which Smartgroup operates, particularly pertaining to the salary packaging and novated leasing industries;
- + No material change in the competitive environment in which Smartgroup operates;
- + No material business acquisitions or asset disposals;
- + No material changes to Smartsalary's top 20 Employer Clients⁶⁵ or their terms;
- + Retention of key members of the executive team and management personnel;
- + No change in Smartgroup's capital structure other than as outlined in this Prospectus;
- + No adverse changes in Smartgroup's product sourcing capabilities or service offering;
- + No material changes in key supplier arrangements;
- + No material impact of any litigation (existing or otherwise) on Smartgroup's operations and financial position;
- + No occurrence of material risks outlined in Section 5;
- + The Offer proceeds in accordance with the timetable set out and important dates outlined in section 7; and
- + No material changes to accounting standards, the Corporations Act or other financial reporting requirements that may have a material effect on Smartgroup's accounting policies.

4.10.2 Material specific assumptions affecting management forecasts

The Forecast Financial Information is based on various best estimate assumptions, including those set out below. In preparing the Forecast Financial Information, Smartgroup has undertaken an analysis of historical performance and applied assumptions, where appropriate, across the business.

The assumptions set out above and below should be read in conjunction with the sensitivity analysis, the risk factors, the Independent Limited Assurance Reports and other information in this Prospectus.

4.10.2.1 Revenue

The Forecast Financial Information is based on the following key revenue assumptions:

- + **Salary packages:** the forecast salary packages are based on the assumption that Smartsalary's top 20 Employer Clients⁶⁶ maintain their relationship with Smartgroup, which is consistent with historical results and as highlighted in Section 4.9. Growth from new packages is based on signed contracts and estimates based on client information of transitioning packages and historical package growth uptake;
- + **Novated lease volumes:** the forecast assumes the run rate from historical results achieved and adjusted incrementally for the new major clients contracted;
- + **Fees per package:** this assumes actual fees received historically for benefits packaged. New contracts fees are based on new contract agreements and arrangements;
- + **Novated leasing revenue:** assumes historical results achieved by value added products and actual price increases implemented in CY2014;
- + **Sales of additional products and services:** assumes historical achievements of average products brokered per novated lease. Revenue per unit is based on historical or contracted commission per unit; and
- + **Salary packaging software solutions and salary packaging Employee Benefits Cards revenue:** based on current clients and historical revenue streams.

⁶⁵ Top 20 Employer Clients refers to Smartsalary's top 20 Employer Clients by Smartgroup revenue in CY2013.

⁶⁶ Top 20 Employer Clients refers to Smartsalary's top 20 Employer Clients by Smartgroup revenue in CY2013.

4. Financial Information

4.10.2.2 Expenses

The Forecast Financial Information is based on the following key expense assumptions:

- + **Staff costs:** these include an average 4.0% salary increase at the commencement of 1 January 2014 and forecast 32 additional employees to be hired for CY2014;
 - The forecast additional employees are based on actual staff employed in 2014 and management's estimates of resourcing required to service additional volumes arising from the signed new contracts;
 - The impact of listed public company director fees and additional hires required for a public company is excluded from staff costs and included in the \$1.5 million public company cost expense;
 - 2014 expenses do not include the costs of a long term incentive plan as one has not yet been established. As outlined in Section 6.3.3.2, after 1 January 2015 the Board may consider introducing a long term incentive plan. If recommended by the Board, any new long term incentive plan would only become effective after 1 January 2015. Consequently, as the Directors do not presently have a reasonable basis to estimate the terms (equity or cash) of a potential long term incentive, no pro forma expense or payment assumption in relation to a new long term incentive plan has been included in the CY2014 Pro forma Forecast Result or Cash Flows. The cost of any future new long term incentive plan (after 1 January 2015) may have an impact on the future financial performance of the Company but, at the date of this Prospectus, it is not possible to have a reasonable basis to estimate what that impact might be, and
- + **Administration and listed public company costs:** these are based on historical run rates and adjusted for an increase in administration costs associated with a larger workforce and forecast information technology projects. The additional costs relating directly to being a listed public company includes Directors' fees, share registry management and new functions required.

4.10.2.3 Capital expenditure

Capital expenditure in the Forecast Financial Information has been based on the prior year capital expenditure of the business adjusted for the projected CY2014 increase in staff levels.

Smartgroup relocated to new premises in CY2012 and is expected to enter into a lease for an additional floor in Sydney from December 2014. The capital expenditure associated with the fit outs in CY2012 was \$2.8 million and is expected to be \$1.0 million in CY2014. The fit out costs have been excluded from the capital expenditure to reflect only the ongoing capital expenditure requirements of Smartgroup.

4.10.2.4 Other

Several other assumptions have been made in the Forecast Financial Information:

- + Depreciation has been based on forecast depreciation expense on current furniture and fittings;
- + Financing has been based on the terms in the New Banking Facilities and the estimates of the forward BBSY rates for 2014;
- + Income tax has been based on historical tax rates from the operating Smartgroup business adjusted for the expected tax impact of the IPO transaction costs and other identifiable material items; and
- + Working capital has been based on historical working capital requirements which Smartgroup expects to reflect the CY2014 financial position.

4. Financial Information

4.10.3 Pro Forma Forecast Income Statements: CY2014 to CY2013

Table 17: Pro Forma Forecast Income Statements

\$ million, December year end	Note	CY2013	CY2014	Variance (\$ millions)	Variance (%)
Revenue		61.5	69.6	8.1	13%
Staff costs		(27.5)	(32.3)	(4.8)	17%
Administration and public company costs		(6.5)	(6.9)	(0.4)	6%
Advertising and marketing costs		(1.9)	(1.9)	–	–
Occupancy costs		(1.8)	(1.9)	(0.1)	6%
Other costs		(3.4)	(3.0)	0.4	(12%)
Total operating expenses		(41.1)	(46.0)	(4.9)	12%
EBITDA		20.4	23.6	3.2	16%
Depreciation		(1.2)	(1.0)	0.2	(17%)
EBITA		19.2	22.6	3.4	18%
Amortisation		(12.6)	(12.6)	–	–
EBIT		6.6	10.0	3.4	52%
Net interest expense		(0.8)	(0.8)	–	–
Profit before tax		5.8	9.2	3.4	59%
Tax expense		(2.0)	(2.8)	(0.8)	40%
Pro Forma NPAT		3.8	6.4	2.6	68%
Amortisation (tax effected)	1	10.1	10.1	–	–
Pro Forma NPATA		13.9	16.5	2.6	19%

Notes:

1. **Amortisation (tax effected):** refer to Section 4.2.4 for explanation of the NPATA calculation.

Revenue

Revenue is forecast to increase by \$8.1 million or 13% from \$61.5 million to \$69.6 million due to the following major items:

- + Higher administered salary packages and novated leasing volumes contributing \$5.2 million of additional revenue. In particular, novated leasing settlement volumes in CY2014 are forecast to improve from the prior year as CY2013 was adversely impacted by the Federal Labor Government's proposed FBT announcement in July 2013; and
- + \$2.4 million relating primarily to the full year impact of increased margins associated with the re-negotiation of supply agreements for fleet and insurance products sold to customers.

4. Financial Information

Expenses

Total operating expenses are forecast to increase by \$4.9 million or 12% from \$41.1 million to \$46.0 million due to:

- + Higher staff costs of \$4.8 million arising from increase of 32 staff and an average staff pay increase of 4.0% from 1 January 2014. The forecast increase in staff numbers is to support three new major clients that were signed on in late 2013 and early 2014; and
- + Occupancy costs increase primarily due to the rent for an additional floor in Sydney from December 2014 onwards and an increase in base rent on the existing Sydney premises.

Depreciation and Amortisation

- + Depreciation expense reduces by \$0.2 million due to certain assets being fully depreciated.
- + Amortisation expense of \$12.6 million relates to the amortisation of customer contracts and software associated with the acquisition of Smartsalary Group by the Company.

4.10.4 Pro Forma Forecast Cash Flow Statements: CY2014 to CY2013

Table 18: Pro Forma Forecast Cash Flow Statements

\$ million, December year end	CY2013	CY2014	Variance (\$ millions)	Variance (%)
EBITA	19.2	22.6	3.4	18%
Non cash items in EBITA	1.2	0.9	(0.3)	(25%)
Change in working capital	0.6	0.1	(0.5)	(83%)
Capital expenditure	(0.2)	(0.3)	(0.1)	50%
Net cash flow before financing and taxation	20.8	23.3	2.5	12%

Net cash flow is forecast to increase by \$2.5 million or 12% from \$20.8 million to \$23.3 million due primarily to an increase in EBITA of \$3.4 million from operational earnings growth.

4.11 Sensitivity analysis

The Forecast Financial Information included in Section 4.10 is based on a number of estimates and assumptions as described in Sections 4.10.1 and 4.10.2. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Smartgroup, the Directors and management. These estimates are based on assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of the Pro Forma Forecast Result to changes in a number of key assumptions. The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown. For the purposes of the analysis, sensitivities have been presented in terms of the impact of each on CY2014 Pro Forma forecast NPAT of \$6.4 million.

Care should be taken in interpreting these sensitivities. In order to illustrate the likely impact on the Pro Forma Forecast Result, the estimated impact of changes in each of the assumptions has been calculated in isolation from changes in other assumptions. In practice, changes in assumptions may offset each other or be additive, and it is likely that management would respond to any changes in one item to seek to minimise the net effect on Smartgroup's NPAT and cash flow.

4. Financial Information

Table 19: Sensitivity analysis

Assumption	Increase/ decrease (%)	CY2014 Pro Forma NPAT impact (\$ millions)
Salary packaging		
Active packages	+/- 5%	+/- \$0.8
Salary packaging pricing	+/- 5%	+/- \$0.8
Novated leasing settlements	+/- 5%	+/- \$0.9
Fleet management		
Vehicles under management	+/- 5%	+/- \$0.1
Fleet management pricing	+/- 5%	+/- \$0.1
Corporate		
Staff costs	+/- 5%	+/- \$1.2
Interest rate on debt facilities	+/- 100 bps	+/- \$0.2

4.12 Dividend policy

It is the current intention of the Board to pay fully franked interim dividends in respect of half years ending 30 June and fully franked final dividends in respect of full years ending 31 December each year.

The Board currently intends that the first dividend paid will be a fully franked final dividend in respect to the six months ending 31 December 2014, anticipated to be declared following Listing in February 2015. The Board currently intends to target a dividend payout ratio in the range of 60% to 70% of NPATA for the six months ending 31 December 2014. No dividend is to be paid to Successful Applicants for the period ending 30 June 2014.

Assuming a CY2014 result consistent with the forecast Pro Forma CY2014 NPATA of \$16.5 million is achieved, this final dividend for the period ending 31 December 2014 would represent an annualised dividend yield of 6.1% to 7.1% based on the Offer Price.

The payment of dividends by the Company is at the discretion of the Board and subject to a number of factors including future business conditions, future cash flow requirements of Smartgroup, taxation considerations, contractual, legal or regulatory restrictions and other matters that the Board may consider relevant.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking of any such dividend.

5

Risks

5. Risks

5.1 Introduction

There are a number of risks, both specific to Smartgroup and of a general nature, which may either individually, or in combination, materially adversely affect the future business, operations and financial performance of Smartgroup and the value of the Shares. Whilst Smartgroup seeks to manage risks to prevent adverse outcomes, many of these risks are outside the control of Smartgroup, the Directors and management.

This Section 5 describes some of the key risks associated with an investment in the Shares. These risks have been separated into:

- + Risks specific to an investment in Smartgroup;
- + Tax-related risks; and
- + General risks of an investment in Smartgroup.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. This assessment is based on knowledge of Directors as at the Prospectus Date. There is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Prospective investors should note that this is not an exhaustive list of the risks associated with an investment in Smartgroup. This Section 5 should also be read in conjunction with other information disclosed in this Prospectus. Investors should have regard to their own investment objectives, financial situation or particular needs, and should consider seeking professional guidance from their stockbroker, solicitor, accountant or other independent professional adviser before deciding whether to invest.

5.2 Risks specific to an investment in Smartgroup

5.2.1 The laws enabling salary packaging and novated leasing may be adversely amended or repealed

The provision of products and services within salary packaging administration and novated leasing is underpinned by the associated benefits permitted under taxation laws including the Income Tax Assessment Acts 1997 and 1936, the FBTAA and A New Tax System (Goods and Services Tax) Act 1999, as administered by the ATO.

Various changes to the regulatory framework have been proposed in recent years, including the proposal announced by the former Federal Labor Government on 16 July 2013 to remove the statutory formula method for calculating FBT for both salary packaged and employer provided cars (see Section 2.1.5.2 for further details). This announcement had a significant adverse effect on the novated leasing industry and was made without any prior consultation with or warning to industry participants.

While the current Federal Coalition Government has announced that it will not proceed with the proposed FBT regulatory changes announced by the former Federal Labor Government, there can be no guarantee that regulatory changes will not be proposed in the future which may have a material adverse impact on Smartgroup's business, operations and financial performance. It is the Coalition's stated intent to complete a White Paper on taxation reform prior to the next Federal election. Any future reforms may not be limited to novated leasing, but could impact any of the salary packaging benefits offered by Smartgroup (such as the FBT exemptions available to Public Benevolent Institute employees or the GST exemptions available in respect of salary packaging items, including novated leasing).

The Working Group report, which considered tax concessions provided to the not-for-profit sector, was released on 21 February 2014 under freedom of information request. The recommendations included the removal of FBT concessions for the not-for-profit sector (see Section 2.1.5.2). As at the Prospectus Date, it is unclear whether any of the recommendations will be progressed or adopted by the current Federal Coalition Government.

Adverse changes to these laws (or their administration) could render any of Smartgroup's products less attractive or redundant, which could have a material adverse effect on its business, operations and financial performance, and the price of the Shares.

5. Risks

5.2.2 Concentration of Employer Clients

Smartsalary's top 5 Employer Clients⁶⁷ represented approximately 51% of Smartgroup's revenue for the year ended 31 December 2013. The largest Employer Client by revenue represented approximately 22% of revenue for the same year.

Smartgroup's business, operations and financial performance (including revenue and profits) would be materially adversely affected if one or more of the top 5 Employer Clients⁶⁸ terminated their contract or did not renew their contracts at the end of the contract term or renewed on terms at a materially lower level than currently contracted.

The majority of the contracts for the top 5 Employer Clients contain a right for the Employer Clients to terminate their contracts without cause, and on short notice, and some of those contracts also contain a right to terminate on change of control of Smartgroup (or the relevant Smartgroup contracting entity). The largest Employer Client by revenue's contract contains a right to terminate immediately by notice to Smartgroup (or the relevant Smartgroup contracting entity).

5.2.3 Loss of Employer Clients

Many of Smartgroup's Employer Clients are Federal Government departments and large public authorities. Many of Smartgroup's contracts with these Employer Clients include a right for the client to terminate their contracts without cause, and on short notice.

In addition, some Employer Client contracts permit the Employer Clients to terminate their contracts on (or require the counterparty's consent to) a change of control of Smartgroup (or the relevant Smartgroup contracting entity). A change in control of Smartgroup will occur as a result of the Completion of the Offer.

There is no guarantee that Employer Clients will not exercise their rights to terminate their contracts prior to the end of their relevant contract term. As at the Prospectus Date, Smartgroup has not obtained the consent of all of its Employer Clients to the proposed change in control of Smartgroup arising as a result of Completion of the Offer.

Smartgroup's business, operations and financial performance (including revenue and profits) would be materially adversely affected if a number of Employer Clients (or if one or more of Smartsalary's top 5 Employer Clients⁶⁹ which constitute a significant proportion of Smartgroup's revenue) elected to exercise such a right of termination within a short period of time.

Most of Smartgroup's contracts with Employer Clients are for a limited term (typically three to five years), and are then typically subject to renewal or tender processes. There is a risk that Smartgroup would not be able to secure renewal of contracts with Employer Clients at the end of the relevant term.

As at Prospectus Date, out of Smartsalary's top 20 Employer Client contracts⁷⁰ (other than the contract for the 5th largest Employer Client described below), one remains up for renewal in the year ending 31 December 2014⁷¹. This Employer Client contract represented approximately 1.0% of Smartgroup's CY2013 revenue. Within Smartsalary's top 20 Employer Clients, a further seven Employer Client contracts are up for renewal in the year ending 31 December 2015⁷², including the largest Employer Client by revenue. These seven Employer Clients represented approximately 40.9% of Smartgroup's CY2013 revenue.

The contract for Smartgroup's 5th largest Employer Client is due to be renewed in 2014. Smartgroup has been advised that it is the preferred tenderer with agreed terms on pricing and tenure. There are no other contracts, post the Prospectus Date, within Smartsalary's top 5 Employer Clients⁷³ that are up for renewal in the year ending CY2014⁷⁴. Within Smartsalary's top 5 Employer Clients⁷⁵, two Employer Client contracts, representing approximately 33.8% of Smartgroup's CY2013 revenue, are up for renewal in the year ending 31 December 2015.

67 Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

68 Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

69 Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

70 Top 20 Employer Clients refers to Smartsalary's top 20 Employer Clients by Smartgroup revenue in CY2013.

71 Contract term assumed to include the exercise of all available contract extensions. The exercise of contract extensions is generally at the discretion of the relevant Employer Client.

72 Contract term assumed to include the exercise of all available contract extensions. The exercise of contract extensions is generally at the discretion of the relevant Employer Client.

73 Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

74 Contract term assumed to include the exercise of all available contract extensions. The exercise of contract extensions is generally at the discretion of the relevant Employer Client. Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

75 Top 5 Employer Clients refers to Smartsalary's top 5 Employer Clients by Smartgroup revenue in CY2013.

5. Risks

There can be no guarantee that Smartgroup will be successful in these tender or renewal processes, or that Smartgroup will be able to renew these Employer Client contracts on similar or more favourable terms. An inability to retain a number of Employer Clients (or one of the top 5 Employer Clients) contracts on expiry or to renew Employer Client contracts on similar or more favourable terms would be expected to have a material adverse effect on Smartgroup's business, operations and financial performance.

5.2.4 Smartgroup could face increased competition

There has been increased competition in the salary packaging and novated leasing industry in recent years, which may be reflected, for example in lower pricing on tenders, or loss of customers. These pressures may continue in future periods. Competition may also increase from the merger between existing competitors or the entry of new competitors.

Smartgroup's competitive position in the market may deteriorate as a result of any of these factors or by failure of Smartgroup to meet changes in market conditions, customer demands or technology advancements. In addition, a small number of Employer Client contracts are part of a panel arrangement, whereby Smartgroup is appointed as one service provider among a panel of providers that may provide services to the employees of the relevant Employer Client. Smartgroup does not have any minimum guaranteed revenue or number of Employee Customers under these contracts, and Smartgroup directly competes for Employee Customers with competitors that are also part of these panels. Smartgroup would be particularly susceptible to any deterioration in its competitive position under a panel arrangement.

Any such deterioration in Smartgroup's competitive position could materially adversely affect Smartgroup's business, operations and financial performance.

5.2.5 Smartgroup may be unable to retain its key personnel or recruit and retain suitably qualified employees

Smartgroup operates with a small executive management team, all of whom have been with Smartgroup for more than four years, and have extensive experience in Smartgroup's business and the industry in which it operates (see Section 6.2). In particular, Smartgroup's Chief Executive Officer and Managing Director, who has been with Smartgroup for almost 14 years, has a long association with the business and good relationships with key Employer Clients and suppliers. The loss of key personnel (in particular, the Chief Executive Officer and Managing Director) without suitable and timely replacements may adversely affect Smartgroup's future business, operations and financial performance and position in the short to medium term.

In addition, Smartgroup relies on its ability to attract and retain suitably qualified employees, including sales employees, customer service operators and qualified information technology personnel. The inability to attract and retain such persons may adversely affect Smartgroup's ability to carry out its growth strategy or result in higher recruitment or employment costs, which ultimately may result in deterioration in Smartgroup's competitive position or business, operations and financial performance.

5.2.6 Smartgroup's information technology systems could be disrupted, fail or become obsolete

Smartgroup depends on the performance, reliability and availability of its software, technology platforms and communications systems (and certain third party systems) to provide its services to Employer Clients and Employee Customers. There is a risk that these systems may be adversely affected by a number of factors including damage, equipment faults, power failure, computer viruses, misuse by employees or contractors, external malicious interventions such as hacking, fire, natural disasters or weather interventions. Events of that nature may cause part of Smartgroup's technology platform or websites to become unavailable or obsolete, where these systems are unable to be used in the future.

Smartgroup's operational processes or disaster recovery plans may not adequately address every potential event and its insurance policies may not cover loss or damage that Smartgroup suffers as a result of a system failure. Any systemic failure or sustained interruption in service provision could severely damage Smartgroup's reputation and ability to generate new business or retain existing business, directly impair Smartgroup's operations and customer service levels and necessitate increased expenditure on technology. One or more of these factors could have a material adverse effect on Smartgroup's business, operations and financial performance.

5. Risks

There is also a risk that potential errors or faults in Smartgroup's technology platform (or its personnel's use of such technology) could cause transaction errors that could adversely impact upon Employee Customers' ability to obtain benefits under FBT and salary packaging laws or the accuracy of information relating to their benefits. This could potentially lead to compensation being payable, loss of clients and damage to Smartgroup's reputation, and any of these may have a material adverse effect on Smartgroup's business, operations and financial performance.

5.2.7 The protection of confidential information held by Smartgroup may be compromised

Through the ordinary course of business, Smartgroup collects a range of personal and financial data from Employer Clients and Employee Customers. This includes information such as personal contact details as well as payment information and bank account details. There is a risk that cyber attacks or other security breaches may lead to a compromise or even breach of the technology platform used by Smartgroup to protect confidential information. It is possible that the measures taken by Smartgroup (including firewalls, encryption of client data, a privacy policy, and policies to restrict access to data to authorised employees) will not be sufficient to detect or prevent unauthorised access to, or disclosure of, confidential information. Any successful cyber attack or other breach of security could result in loss of information integrity, breaches of Smartgroup's obligations under applicable laws or client agreements and website and system outages, each of which may potentially have an adverse impact on Smartgroup's reputation, retention of clients, ability to attract new clients and its business, operations and financial performance.

5.2.8 Smartgroup may lose key suppliers to the business

Smartgroup maintains a number of important relationships with key third party suppliers and service providers. Key third party suppliers include suppliers of customer relationship management software, insurance, novated lease finance, Employee Benefits Cards, fuel and telephony. In respect of some of these suppliers, Smartgroup has no formal contract in place or the relevant contract may be terminated without cause, and on short notice, and/or on change of control of Smartgroup (or the relevant Smartgroup contracting entity).

There is a risk that one or more of these suppliers may terminate its contract, not renew the contract on expiry or otherwise cease to deal with Smartgroup (which may occur on short notice), substantially reduce the products or services it supplies or the level of service provided, substantially alter the terms on which it is willing to offer services to Smartgroup, exit one or more of the markets in which Smartgroup uses its products or services, or collapse.

Smartgroup's business may be disrupted or the replacement supplier may impose more onerous terms, which could impact Smartgroup's ability to win and retain contracts and could ultimately materially adversely affect Smartgroup's business, operations and financial performance (including revenue and profits) if one or more key suppliers ceased to supply products or services to Smartgroup.

5.2.9 Smartgroup may lose access to lease funder arrangements or access to finance or funders may change the terms of finance provided

Smartgroup depends on third party financial institutions to provide funding for its Employee Customers who enter into novated leases. Smartgroup has arrangements with a limited number of financial institutions, which are not presently governed by any formal contract documentation. Specifically, a significant majority of Employee Customers' funding is provided by one major financial institution.

Third party funders may cease to provide funding, or materially limit the amount of funding that they provide, to Employee Customers, or change the terms on which such funding is currently provided without cause, and on short notice. Any loss of access, or material limitation to the terms of funding for Employee Customers could materially adversely affect Smartgroup's ability to win new contracts or retain existing contracts, which could affect Smartgroup's business, operations and financial performance.

5.2.10 Smartgroup's internal controls may fail

Smartgroup relies on internal controls to ensure that it complies with contracts with Employer Clients including service levels, benefit administration compliance and relevant laws and regulations. Internal controls are also relied on to detect any fraud by employees of Smartgroup or Employee Customers in respect of the sums of money for salary packaging benefits received by Smartgroup on behalf of Employer Clients.

5. Risks

Any failure on these internal controls could result in damage to Smartgroup's reputation, loss of an Employer Client or inability to attract new clients. These factors could materially adversely affect Smartgroup's business, operations and financial performance.

5.2.11 Smartgroup may suffer damage to its reputation and brand

Smartgroup's reputation and brand are a key component of Smartgroup's success in winning and retaining contracts, winning Employee Customers within Employer Clients, maintaining relationships with Employer Clients and third party suppliers and attracting and retaining employees. Reputational damage could arise in a number of circumstances including deterioration in service levels, breach of the law, litigation, information technology system breach or failure, failures of internal controls, improper conduct, and adverse media coverage.

Reputational damage may result in loss of Employer Clients, loss of Employee Customers or failure to win new clients or customers, loss of key suppliers and inability to attract and retain employees. If any of these occurs, this could have a material adverse effect on Smartgroup's business, operations and financial performance.

5.2.12 Smartgroup's intellectual property rights may be infringed or lost

Smartgroup relies on laws relating to trade secrets and copyright to assist to protect its proprietary rights in its internal and customer facing technology platforms. Smartgroup also generates revenue through licensing of proprietary Seqoya software to Employer Clients. There is a risk that unauthorised use or copying of Smartgroup's proprietary software, data, specialised technology, or databases will occur or that a third party could challenge Smartgroup's ownership or use of certain intellectual property.

Any infringement or loss of Smartgroup's intellectual property could result in significant costs, for example in defending claims or making alternative arrangements, and deterioration in Smartgroup's competitive position. These factors could potentially have a material adverse effect on Smartgroup's business, operations and financial performance.

5.2.13 Litigation, claims, disputes and regulatory action

Smartgroup may be subject to litigation and other claims and disputes in the course of its business, including employment disputes, contractual disputes with Employer Clients, Employee Customers or suppliers, indemnity claims, including regarding an incurred FBT calculation, or regulatory actions. While, as at the Prospectus Date, Smartgroup is not subject to any outstanding litigation, such litigation, claims and disputes, including the costs of settling claims and operational impacts, could materially adversely affect Smartgroup's business, operations and financial performance.

A number of the benefits which Smartgroup procure or administer for Employee Customers involve financial and other services which are highly regulated and subject to close scrutiny by regulators. There is a risk that a regulator may find that Smartgroup breaches or has breached certain regulations, which could result in damage to Smartgroup's reputation, breach of contracts and damages claims, penalties or other regulatory actions, loss of Employer Clients or inability to attract new clients. These factors could materially adversely affect Smartgroup's business, operations and financial performance.

5.2.14 Smartgroup may not be able to comply with debt covenants

Smartgroup has various financial and non-financial covenants under its finance facilities which could limit its future financial flexibility. Smartgroup estimates that its Pro Forma net indebtedness as at 31 December 2013 was \$14.8 million. See Section 4.6.2 for further detail on capitalisation and indebtedness. If Smartgroup's operating results deteriorate, it may be unable to meet the covenants governing its indebtedness, which may require Smartgroup to seek amendments, waivers of covenant compliance or alternative borrowing arrangements, reduce debt or raise additional equity. If a breach of covenant were to occur, there is no guarantee that Smartgroup's financiers would consent to an amendment or waiver, or that its financiers would not exercise their enforcement rights, such as immediate repayment, or taking control of Smartgroup, or putting Smartgroup into administration. Failure to comply with covenants may also impact the Company's ability to pay dividends (see Section 5.2.18). Such events could limit Smartgroup's flexibility in planning for or reacting to downturns in its business or otherwise materially adversely affect Smartgroup's business, operations and financial performance.

5. Risks

5.2.15 Concentration of shareholding

After the Offer is completed, Smart Packages will hold 30% of the Shares, and will continue to have the ability to exert significant influence over the Company. The interests of Smart Packages may be different from the interests of investors who purchase Shares under the Offer. See Sections 3.1.1 and 7.1.5 for further details regarding the ongoing relationship between Smart Packages and the Company.

5.2.16 Impairment/impact of accounting policies

A substantial proportion of Smartgroup's consolidated total assets consist of goodwill and certain other intangible and other assets that may become impaired. As required under A-IFRS, Smartgroup tests goodwill and certain other intangible and other assets annually, and on an interim date if impairment indicators become apparent that would require an interim test of these assets. Potential impairments of Smartgroup's goodwill and certain other intangible and other assets may arise from a significant reduction in operating results or cash flows in one or more of Smartgroup's businesses, or a forecast of such reductions, a significant adverse change in the salary packaging or fleet management industry, and adverse regulatory changes affecting Smartgroup's assets, among other matters, which may be beyond Smartgroup's control. If the carrying value of goodwill and certain other intangible and other assets is revised downward due to impairment, such charges could materially adversely affect Smartgroup's financial position and profitability.

5.2.17 Acquisition and dilution

Smartgroup has a history of making strategic acquisitions, and further strategic acquisitions may be pursued in the future. If any businesses acquired by Smartgroup, either historically or in the future, do not meet business expectations, such as if Smartgroup experiences difficulties with funding arrangements, cultural compatibility and organisation structure or operational integration, or is unable to successfully realise anticipated reductions in costs, increase in revenue or economies of scale with respect to the acquired business, Smartgroup's business, operations and financial performance may be materially adversely affected and Smartgroup may be required to impair goodwill and other intangible assets associated with those acquisitions.

5.2.18 The Company may be unable to pay dividends or realise dividends from its subsidiaries or due to restrictions under its finance facilities

Dividend payments are not guaranteed and the Board may decide, at its absolute discretion, at any time and for any reason, not to pay dividends or to change the dividend policy. If the Company is unable to pay dividends in accordance with its dividend policy, or is unable to pay dividends at levels anticipated by investors, the market price of the Shares may be negatively affected and the value of any investment in the Shares may be reduced.

Pursuant to the terms of the New Banking Facilities, the Company may only pay dividends if no default or potential default is subsisting under the New Banking Facilities or would be caused by the making of the distribution and the amount of the total dividends paid in a financial year does not exceed 80% of the NPATA⁷⁶ (as defined in the New Banking Facilities) for Smartgroup for that financial year (provided that such distributions do not exceed 100% of operating cash flow (as defined in the New Banking Facilities) (including taxation and interest payments) for that financial year) unless otherwise agreed in writing by the financier.

In addition, the Company is an investment holding company incorporated in Victoria, Australia and its business is operated through its subsidiaries in Australia. Accordingly, an important source of the Company's income, and consequently an important factor in its ability to pay dividends on the Shares, is the amount of dividends and other distributions that the Company receives from its subsidiaries. The ability of the Company's subsidiaries to pay dividends or make other distributions to the Company in the future will depend upon the subsidiaries' operating results, earnings, capital requirements and general financial condition. In addition, restrictive covenants in bank borrowings or other agreements that the Company or its subsidiaries may enter into in the future or changes in A-IFRS, may also affect the ability of the Company's subsidiaries, and consequently, the Company's ability to declare and pay dividends.

⁷⁶ NPATA refers to NPAT, adjusted to exclude the tax effected amortisation of intangibles. See Section 4.2.4 and the Glossary for further details.

5. Risks

Furthermore, as the Company is the shareholder of its subsidiaries, its claims against its subsidiaries will generally rank junior to those of all other creditors and claimants of its subsidiaries. In the event of a subsidiary's liquidation, there may not be sufficient assets after paying creditors and claimants for the Company to recoup its investment and this may have a material adverse effect on Smartgroup's business, operations and financial performance. For a description of the Company's dividend policy, please refer to Section 4.12.

5.3 Tax-related risks

5.3.1 Changes in tax legislation

The tax information provided in this Prospectus is based on current taxation law as at the Prospectus Date. Tax law is periodically changed, both prospectively and retrospectively. There are a number of key tax reform measures that have been implemented in recent years, and a number of other key reforms that have been deferred, and there may be new tax reforms in the future. Furthermore, the status of some key tax reforms remains unclear at this stage.

The recent reforms and current proposals for further reforms to Australia's tax laws give rise to uncertainty. The precise scope of much of the new and proposed tax laws is unclear and has not been tested before the courts. Any change to the current rate of income tax or other taxes imposed on Smartgroup in jurisdictions where Smartgroup operates may impact on Shareholder returns. Similarly, any changes to the current rates of relevant taxes applying to individual and other Shareholders may impact on Shareholder returns. In addition, any change in tax rules and tax arrangements could have a material adverse effect on the level of dividend imputation and franking and Shareholder returns. An interpretation of Australian taxation laws by the Commissioner of Taxation that is contrary to Smartgroup's view of those laws, may increase the amount of tax to be paid. Personal tax liabilities are the responsibility of each individual investor. Smartgroup is not responsible for taxation or penalties incurred by investors.

5.3.2 Dividends may not be fully franked

There is no guarantee that Smartgroup will have sufficient franking credits in the future to fully frank dividends or that the franking system will not be varied or abolished. The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances. Shareholders should also be aware that the ability to use the franking credits, either as a tax offset or to claim a refund after the end of the income year will depend on the individual tax position of each Shareholder. Please refer to Section 5.2.18.

Each prospective investor is encouraged to seek professional tax advice in connection with any investment in Smartgroup. The tax consequences of any investment in Smartgroup will depend upon an investor's particular circumstances. Prospective investors should obtain their own tax advice prior to deciding whether to invest.

5.3.3 The Commissioner of Taxation takes alternative view

The listing of the Company on ASX will give rise to certain taxation implications for Smartgroup. Smartgroup has sought advice and formed a view in respect of the likely application of the tax law to the Listing; however, it is possible that the Commissioner of Taxation may take an interpretation that is contrary to Smartgroup's view of the laws which may increase the amount of tax to be paid by Smartgroup. This may have an adverse impact on Smartgroup's earnings. Section 4 describes the view taken by Smartgroup as to the forecast tax expense.

5. Risks

5.4 General risks of an investment in Smartgroup

5.4.1 Price of Shares may fluctuate

There are pricing and other risks associated with any investment in a company listed on a stock market. The price of Shares on ASX may rise or fall due to numerous factors which may affect the market performance, including changes in Australian and other international stock markets and investor sentiment, domestic and world economic conditions and outlook, inflation rates, interest rates, employment, taxation and changes to government policy, legislation or regulation.

The market price for the Shares could be volatile or fluctuate in response to a wide range of factors and actual or anticipated events, including variations in Smartgroup's actual financing or operating results and those expected by investors and analysts, change in analysts' recommendations or projections, changes in industry dynamics (including competition and regulation), and other events or factors affecting the operations, financial performance or actual or perceived value of Smartgroup.

Further, the share prices for many companies have in recent times, been subject to wide fluctuations, which in many cases may reflect a diverse range of non-company-specific influences such as global hostilities and tensions, acts of terrorism and the general state of the economy. Such market fluctuations may materially adversely affect the market price of the Shares.

In the future, the sale of large parcels of Shares may cause a decline in the price at which Shares trade on ASX. The escrow arrangements, described in Section 7.7, contemplate the release of approximately 30.4 million Shares held by the Existing Shareholder from escrow on the day after release to ASX of the Company's financial results for the year ending 31 December 2014 to ASX.

No assurances can be given that the performance of the Shares will not be adversely affected by any such market fluctuations or factors. None of the Company, SaleCo, the Directors, SaleCo Directors or any other person guarantees the performance of the Shares.

5.4.2 Trading in Shares may not be liquid

There is currently no public market through which the Shares may be sold. There can be no guarantee that an active market in the Shares will develop or that the price of the Shares will increase following Listing. There may be relatively few potential buyers or sellers of the Shares on ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid under the Offer.

5.4.3 General economic conditions

The operating and financial performance of Smartgroup is influenced by a variety of general economic and business conditions in Australia and global economic conditions generally. Prolonged deterioration in general economic conditions, for example a decrease in consumer and business demand which may impact the demand of Employer Clients for services, the size of addressable employee base, or their capacity to pay for those services, could be expected to have a material adverse impact on Smartgroup's business or financial condition.

In addition to impacting the financial condition of the underlying business, ongoing uncertainty in the macroeconomic outlook is likely to increase the share price volatility of listed companies, including that of Smartgroup.

5.4.4 Force majeure events

Events may occur within or outside Australia that could impact upon the world economy, the operations of Smartgroup and the price of the Shares. These events include war, acts of terrorism, civil disturbance, political intervention and natural events such as earthquakes, floods, fires and severe weather conditions.

5. Risks

5.4.5 Shareholder dilution

In the future, Smartgroup may elect to issue Shares for general fundraising and also to fund acquisitions that Smartgroup may decide to make. While Smartgroup will be subject to the constraints of ASX Listing Rules regarding the percentage of its capital it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and fundraisings.

5.4.6 No guarantee in respect of investment

The above list of risk factors should not be taken as an exhaustive list of the risks faced by Smartgroup or by investors in Smartgroup. The above factors, and others not specifically referred to above, may materially affect the business, operations and financial performance of Smartgroup and the value of the Shares under the Offer. The Shares issued and transferred under the Offer carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on ASX. In addition, past performance and the Forecast Financial Information for CY2014 provide no indication or guarantee of Smartgroup's performance in the future.

Furthermore, there is no guarantee that the Shares will remain continuously quoted on ASX, which could impact the ability of Shareholders to sell their Shares.

Prospective investors should consult their professional adviser before deciding whether to apply for Shares under the Offer.

6

Key People, Interests and Benefits

6. Key People, Interests and Benefits

6.1 Board of Directors

The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.

Director and position	Experience
 Michael Carapiet Chairman and Non-Executive Director (independent)	Michael was appointed to the Board in February 2014 as an independent Non Executive Director and Chairman. Michael is currently the Chairperson of SAS Trustees (NSW State Super), and Chairperson of the Safety, Return to Work and Support Board, which includes the WorkCover Authority of NSW, the Motor Accidents Authority and Lifetime Care and Support. He is also a Non-Executive director of Southern Cross Media Limited. In addition, Michael is a member of the advisory boards of Transfield Holdings, and legal practice, Norton Rose Australia, as well as a director of the Australian Government's Clean Energy Finance Corporation. Michael is also a member of the NSW Government's Advisory Panel for Economy and Trade. Michael retired from Macquarie Group Limited in 2011 after over two decades with Macquarie. He was a member of Macquarie Group's Executive Committee since 2005 and the Chairman of Macquarie Capital and Macquarie Securities. Michael holds a Master of Business Administration from Macquarie University.
 Deven Billimoria Chief Executive Officer and Managing Director	Deven has been with Smartgroup for almost 14 years. He joined in 2000 and in 2002 was appointed Chief Executive Officer of Smartgroup, and Managing Director of the Company in March 2014. Deven began his career as an engineering consultant, before transitioning to management consulting with Booz Allen Hamilton. Deven earned a Master of Business Administration from Northwestern University's Kellogg School of Management and a Bachelor of Science in Mechanical Engineering from the University of California, Los Angeles (UCLA). In December 2013, Deven was awarded the Australian Human Resources Institute's Lynda Gratton CEO of the Year 2013 Award.
 Gavin Bell Non-Executive Director (independent)	Gavin was appointed to the Board in February 2014 as an independent Non-Executive Director. Gavin is also a member of the Safety, Return to Work and Support Board and a director of Australian Indigenous Minority Supplier Council Limited. Gavin was Managing Partner and Chief Executive Officer of law firm Herbert Smith Freehills (formerly Freehills), a role he held since 2005. Gavin joined Herbert Smith Freehills in 1982, became a partner in 1988 and has held a number of senior positions since that time. He retired from these roles on 30 April 2014. Gavin holds a Law degree from The University of Sydney and Master of Business Administration (Executive) from the Australian Graduate School of Management.

6. Key People, Interests and Benefits

Director and position

Experience



Andrew Bolam

Non-Executive Director

Andrew was appointed to the Board in January 2012.

Andrew has more than 20 years of experience in financial and general management. He was the Chief Financial Officer of ASTRO ALL ASIA NETWORKS plc (the then holding company of MEASAT Broadcast Network Systems Sdn Bhd which launched the Astro Pay-TV services) shortly following its launch in late 1996. Following this, he served as the Chief Financial Officer of Usaha Tegas, a private investment holding company based in Malaysia. He was later Commercial Director of Bumi Armada Berhad, an associate of Usaha Tegas group.

Andrew is currently Chief Financial Officer at Fetch TV Pty Limited and he also serves on the board of Benaris International Pty Ltd.

He holds a Bachelor of Commerce from the University of Tasmania and is a Certified Practising Accountant (CPA).

In light of Andrew's role as a director of the Company since January 2012 and connection with associates of Smart Packages, the Directors have formed the view that he may be perceived to be not independent at this time.



John Prendiville

Non-Executive Director
(independent)

John was appointed to the Board in February 2014 as an independent Non Executive Director.

John is currently Chairman of Kina Petroleum Ltd. John is also a Governor of the board of the University of Notre Dame (and member of the University's Audit and Finance Committee).

John was recently a major shareholder and Non-Executive director at AVANA Group Pty Ltd (now part of the ASX listed company, Vocation Limited). He is also Chairman elect of the privately owned Global Advanced Metals Limited, a global, vertically integrated business operating in the industrial minerals space.

Previously, John was Chairman of Macquarie Capital (Australia) Limited and, prior to that, was a Global Industry Group Head within Macquarie Capital (having been with Macquarie for 20 years from 1991 to 2011).

John holds a Bachelor of Science (Hons in Astrophysics) and Master of Business Administration from The University of Western Australia and the Institute for International Finance in Japan, respectively.

6. Key People, Interests and Benefits

6.2 Management

Smartgroup benefits from the wealth of expertise shared by its management team. All senior members of the management team have been working together since at least 2009, with more than 40 years of combined experience with Smartgroup.

Name and position	Background
 Deven Billimoria Chief Executive Officer and Managing Director	See Section 6.1.
 Tim Looi Chief Financial Officer	Tim joined Smartgroup in 2009 and is responsible for the finance, corporate development and legal and secretarial functions. Tim previously worked for Aristocrat Leisure Limited in various senior management roles and prior to that with PricewaterhouseCoopers in Sydney and London. Tim holds a Bachelor of Economics from The University of Sydney and is a member of The Institute of Chartered Accountants in Australia.
 Dave Adler Chief Commercial Officer	Dave joined Smartgroup in 2002 and heads Smartgroup's sales and marketing functions. Dave previously founded and led a coffee distribution company during the start-up phase of the business. Dave holds a Bachelor of Business Management from CESA in Bogotá, Colombia and is a Harvard Business School alumnus after completing the Program for Leadership Development.
 Michael Ellies Chief Operating Officer	Michael joined Smartgroup in 2009 as Chief Operating Officer. Michael is responsible for the delivery of client services and building operational capabilities to enable efficient growth. Michael's previous roles include Head of Group Services for APN News & Media, Vice President Global ASP Services for internet start-up Peakhour and Management Consultant with both Booz Allen Hamilton and McKinsey & Company. In a prior career, he was a medical practitioner for seven years. Michael holds a Master of Business Administration from London Business School and a Bachelor of Medicine from The University of Western Australia.

6. Key People, Interests and Benefits

Name and position	Background
 Houda Lebbos Chief Human Resources Officer	Houda has been Chief Human Resources Officer of Smartgroup since 2008. In 2010 and 2011, Houda also held the position of General Manager of Smartgroup's Smartfleet business of which she remains a director. Houda previously worked for the Coles Group in a variety of human resources roles, ranging from organisational development to generalist roles and then moving into human resources leadership. Houda is currently undertaking a Global Executive Master of Business Administration with The University of Sydney for which she was awarded the Excellence in Leadership Scholarship. She holds Graduate Diplomas in both Human Resources & Industrial Relations and Education, and a Diploma of Education from RMIT University, Melbourne.

6.3 Interests and benefits

This Section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- + Director or proposed Director or SaleCo Director or proposed SaleCo Director;
- + person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- + promoter of the Company; or
- + underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds as at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- + the formation or promotion of the Company;
- + property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- + the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such person for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director or SaleCo Director or proposed SaleCo Director to induce them to become, or qualify as, a Director or SaleCo Director.

6.3.1 Interests of advisers

The Company has engaged the following professional advisers in relation to the Offer:

- + Macquarie as Sole Global Coordinator and Underwriter, Joint Lead Manager and Joint Bookrunner to the Offer, which will receive the fees payable to the Sole Global Coordinator and Underwriter pursuant to the Underwriting Agreement as described in Section 9.3;
- + CIMB as Joint Lead Manager and Joint Bookrunner to the Offer will receive the fees payable pursuant to the Underwriting Agreement as described in Section 9.3;
- + Macquarie Equities Limited, Morgans Financial Limited and Ord Minnett Limited as Co-Managers to the Offer will be paid a broker firm fee of 1.5% (inclusive of GST), payable by the Sole Global Coordinator and Underwriter out of the fees payable to the Sole Global Coordinator and Underwriter by the Company;
- + King & Wood Mallesons has acted as Australian legal adviser to the Company in relation to the Offer. The Company has paid or agreed to pay, approximately \$0.9 million (excluding disbursements and GST)

6. Key People, Interests and Benefits

for these services up until the Prospectus Date. Further amounts may be paid to King & Wood Mallesons in accordance with its normal time-based charges;

- + PwC has acted as the Investigating Accountant of the Company on the Historical Financial Information and the Forecast Financial Information in relation to the Offer and has performed work in relation to its Independent Limited Assurance Report in Section 8, as well as due diligence enquiries in relation to the Historical Financial Information and the Forecast Financial Information. The Company has paid, or agreed to pay, approximately \$0.6 million (excluding disbursements and GST) for the services up until the Prospectus Date. Further amounts may be paid to PwC under time-based charges; and
- + Ernst & Young has acted as taxation adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately \$0.2 million (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Ernst & Young under time-based charges.

These amounts, and other expenses of the Offer, will be paid by the Company out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.1.

6.3.2 Directors' interests and remuneration

6.3.2.1 Non-Executive Director remuneration

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

This amount has been fixed by the Existing Shareholder at \$1 million per annum. Any change to that aggregate annual sum needs to be approved by Shareholders. The aggregate sum includes any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board. ASX Listing Rules require that the remuneration of Directors must not include a commission on, or a percentage of, profits or operating revenue.

Annual Directors' fees to be paid by the Company are \$200,000 to the Chairman, Michael Carapiet, and \$90,000 to each of Gavin Bell, Andrew Bolam and John Prendiville in each case plus required superannuation contribution and GST, if any. The Directors' fees for Michael Carapiet and John Prendiville will be paid to Gentilly Services Pty Ltd and Point Capital Pty Ltd respectively, which are personal services companies of those Directors.

Directors may be paid additional or substituted remuneration if they, at the request of the Board, and for the purpose of the Company, perform any additional or special duties.

In addition to the above, the chairpersons of the Audit and Risk Committee and Human Resources and Remuneration Committee respectively will be paid \$20,000 annually for the services provided to each of those committees. Each member of a standing committee (other than the chairperson) will be paid \$10,000 annually for the services provided to that committee.

Directors may also be reimbursed for all reasonable travelling and other expenses properly incurred by the Directors in attending Board meetings or any meetings of committees, in attending any general meetings of the Company and when otherwise engaged on the business of the Company.

There are no retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

6.3.2.2 Deeds of indemnity, insurance and access

The Company has entered into deeds of indemnity, insurance and access with each Director and officer which confirms and extend the Director's general law rights of access to Board papers and the books and records of the Company and its wholly owned subsidiaries. The deeds provide that the Director be allowed access to and a copy of records in certain circumstances.

Pursuant to the Constitution, the Company may indemnify any current and former directors and officers of the Company and its subsidiaries against any liability incurred by that person in that capacity and against some legal costs, to the maximum extent permitted by law. Accordingly, the deeds of indemnity, insurance and

6. Key People, Interests and Benefits

access also provide that the Company shall indemnify the directors and officers of the Company and its subsidiaries for liability incurred as an officer of the Company and its subsidiaries, to the maximum extent permitted by law and to the extent that such liability did not arise out of conduct which is fraudulent, criminal, dishonest or a wilful default. The deeds provide that the Company must advance to the Director, costs reasonably incurred by the Director in conducting or defending certain proceedings, in relation to certain inquiries, or in obtaining legal advice in good faith on certain issues.

The Constitution also allows the Company to enter into and to pay premiums on contracts insuring any liability incurred by any current and former directors and officers of the Company and its subsidiaries, which is incurred by them in that capacity, including legal costs. Accordingly, the deeds of indemnity, insurance and access require the Company to use reasonable endeavours to maintain, to the extent permitted by law, an insurance policy which contains the kinds of terms commonly included in such insurance policies for a company in the position and circumstances of the Company, from the date of the deed until the date which is seven years after the director or officer ceases to hold office or the date any action commenced during that seven years is finally resolved.

6.3.2.3 Directors' interests in Shares and other securities

The Directors are not required by the Constitution to hold any Shares.

The Directors' interests in Shares upon Completion are set out below:

Directors	Shares held on Completion (in millions)
Michael Carapiet (to be held by Gentilly Holdings 2 Pty Limited)	1.19
Deven Billimoria (to be held by Apinto Pty Limited)	1.00
Gavin Bell	0.05
Andrew Bolam	0.03
John Prendiville	0.16

The Directors are entitled to apply for Shares under the Offer.

The following Shares will be subject to the voluntary escrow restrictions as outlined in Section 7.7:

- + Michael Carapiet, will receive 0.6 million Shares from the Existing Shareholder for nil consideration on Completion. These Shares will be held by Gentilly Holdings 2 Pty Limited as trustee of the Carapiet Family Trust (a company associated with Michael Carapiet); and
- + Deven Billimoria, will receive 0.6 million Shares via the subscription of Shares under the Employee Offer as part of remuneration for his past performance (as described in Section 6.3.2.4). These Shares will be held by Apinto Pty Limited as trustee of the Deven Billimoria Family Trust.

All of the Directors and all of the senior management team intend to participate in the Offer.

Michael Carapiet and Deven Billimoria intend to apply for \$1.0 million and \$0.6 million worth of Shares respectively (in addition to the Shares subject to escrow restrictions described above).

6.3.2.4 Executive employment arrangements

Chief Executive Officer

Smartsalary has entered into an employment contract with Deven Billimoria to govern his employment as Smartgroup's Chief Executive Officer. Deven Billimoria will, upon Completion of the Offer, be entitled to receive fixed annual remuneration of \$525,000 inclusive of superannuation contributions. Deven Billimoria will also be entitled to participate in the Short Term Incentive Plan (STIP), with Deven Billimoria's target participation under the STIP capped at a maximum of 60% of his fixed annual remuneration. For further details about the STIP, refer to Section 6.3.3.

6. Key People, Interests and Benefits

Deven Billimoria's employment contract may be terminated by either party giving 12 months written notice or in Smartsalary's case, payment in lieu of notice. Smartsalary may terminate Deven Billimoria's employment contract immediately and without payment for notice or payment in lieu of notice in the event of serious misconduct or other specified circumstances.

The Board may determine (in its sole discretion) the extent to which a non-compete restraint will apply upon termination of Deven Billimoria's employment. The period of the non-compete restraint cannot exceed a maximum of 24 months from the date of termination of employment (depending on the circumstances of termination). The enforceability of the restraint clause is subject to usual legal requirements.

Other senior management

The Company's other senior management are employed under individual employment agreements with Smartsalary. These agreements provide for:

- + Total compensation inclusive of a base salary and superannuation contribution to a fund of the individual's election;
- + Eligibility to participate in the STIP, with target participation in the STIP capped at a maximum of 30% of total fixed annual remuneration. For further details on the STIP, refer to Section 6.3.3;
- + Termination by either party giving three months written notice, or in the case of Smartsalary, by payment in lieu of notice;
- + Immediate termination by Smartsalary without payment in lieu of notice in the event of serious misconduct or other specific circumstances; and
- + Non-compete provisions upon termination of employment for a maximum of six months from the date of termination of employment, as determined by the Board (in its sole discretion), depending on the circumstances of termination. The enforceability of the restraint clause is subject to all usual legal requirements.

Management incentive arrangement in respect of past performance

In recognition of their work with Smartgroup to date, including their assistance with the IPO process, the Company will provide a total one-off gross cash bonus payment to the senior management team of A\$3.8 million (in aggregate) conditional on Completion of the Offer. The bonus to be paid to Deven Billimoria and other members of the senior management team are set out below:

Eligible person	Gross cash bonus amount (in millions)
Deven Billimoria	\$2.0
Other members of the senior management team	\$1.8

Eligible members of the senior management team have each agreed to use 50% of the gross bonus payment received to subscribe for Shares under the Employee Offer, and accordingly have directed the Company to apply 50% of their gross bonus payment to subscribe for those Shares.

The Shares held by Management Shareholders (or their nominees) will be subject to the voluntary escrow restrictions described in Section 7.7.1.

6.3.3 Employee and executive incentive plans

6.3.3.1 Short Term Incentive Plan

The Chief Executive Officer and senior management of Smartgroup are eligible to participate in the STIP in a manner determined by the Board from time to time. The STIP may be extended to other selected employees of Smartgroup from time to time at the Board's discretion.

Participants in the STIP have a target cash payment which is set every year as a percentage of their total fixed annual remuneration, currently subject to a maximum target of 60% for Deven Billimoria and 30% for each other member of senior management. Payments under the STIP in any given year depend on the achievement

6. Key People, Interests and Benefits

of a range of financial and non-financial key performance indicators and objectives (“KPIs”) as approved by the Board on an annual basis. The current STIP provides for financial and non-financial KPIs weighted 60% and 40% respectively.

The financial KPIs under the current STIP include forecast Smartgroup NPATA⁷⁷ and forecast Smartgroup EBITA. Non-financial KPIs are determined annually by a participant’s manager, or the Human Resources and Remuneration Committee, in the case of the Chief Executive Officer. These measures are tested annually after the end of the relevant financial year.

Any amount that may be paid to the participants under the STIP is subject to the absolute discretion of Smartgroup, and will be subject to the approval of the Board, after taking into account performance against KPIs, and any other matters determined by the Board to be relevant at its discretion including, without limitation the participant’s conduct.

If the participant is entitled to payment under the STIP, the STIP amount will be paid to the participant as soon as practicable after the lodgement of the Company’s audited financial statements with ASIC for the relevant year.

6.3.3.2 Long term incentive plan

Smartgroup has not yet established a long term incentive plan and accordingly as outlined in Section 4.10.2.2 no long term incentives will be expensed or paid in CY2014. After 1 January 2015 the Board may consider introducing a long term incentive plan for CY2015 which, if implemented, would only become effective after 1 January 2015. The cost of any future new long term incentive plan (after 1 January 2015) may have an impact on the future financial performance of the Company but, at the date of this Prospectus, it is not possible to have a reasonable basis to estimate what that impact might be.

6.4 Corporate governance

This Section 6.4 explains how the Board intends to oversee the management of the Company’s business.

The Company believes that there is a positive relationship between a high standard of corporate governance and the creation of long term Shareholder value. The Board has accordingly committed to strong corporate governance arrangements to foster the values of integrity, respect and safety between the Board, the management team, employees, customers and suppliers.

These corporate governance arrangements are sustained by a number of policies and practices adopted by the Company, some of which will take effect from Listing. The main policies are summarised below.

In establishing a framework for the management of the Company which it believes is appropriate to the business, the Company has had regard to the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations. These recommendations are intended to foster strong corporate governance and promote investor confidence. The recommendations are guidelines and are not mandatory. However, a company must specifically identify in its annual report any recommendation it does not follow and the reason for not following it.

The Board does not expect that it will depart from the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations as they apply on Listing. However, the Board may elect to do so in the future if it believes that such departure would be reasonable in the circumstances.

The Company’s key policies, and the charters of the Board and each of its committees, are available at www.smartgroup.com.au.

6.4.1 The Board

The Board is responsible for the governance of the Company. This entails providing overall strategic guidance for the Company, providing effective oversight of management and monitoring the operational and financial position of the Company.

⁷⁷ NPATA refers to net profit after tax, adjusted to exclude the tax effected amortisation of intangibles. See Section 4.2.4 and the Glossary for further details.

6. Key People, Interests and Benefits

The Board ensures that the activities of the Company comply with its Constitution, from which the Board derives its authority to act, and with legal and regulatory requirements. The Board is focused on maximising Shareholder value by sustaining Smartgroup's performance, and it is determined to ensure the growth and success of the Company through effective strategy.

Consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the Board comprises a majority of Directors who are independent.

The Board considers an independent Director to be a Non Executive Director who is not a member of Smartgroup's management and who is free of any business or other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of their judgement.

The Board will consider the materiality of any given relationship on a case-by-case basis. In light of Andrew Bolam's role as a director of the Company since January 2012 and connection with associates of Smart Packages, the Directors have formed the view that he may be perceived to be not independent at this time. The Board also considers that Deven Billimoria is not independent.

The following table provides information regarding the Directors, such as their position and experience.

Name	Position	Experience (years)/industry	Independence
Michael Carapiet	Chairman and Non-Executive Director	Approximately 35 years/banking and financial services, public and private sector advisory	Independent
Deven Billimoria	Chief Executive Officer and Managing Director	Approximately 14 years/salary packaging	Non-independent
Gavin Bell	Non-Executive Director	Approximately 32 years/legal advisory	Independent
Andrew Bolam	Non-Executive Director	Approximately 26 years/accounting, finance and general management	Non-independent
John Prendiville	Non-Executive Director	Approximately 23 years/banking and financial services	Independent

Detailed biographies of the Directors are provided in Section 6.1.

6.4.2 Board Charter

The Board Charter has been adopted to provide a framework for the effective operation of the Board. The Board Charter sets out:

- + the Board's composition;
- + the role and responsibilities of the Board;
- + the role and responsibilities of the Chairperson and Company Secretary;
- + the relationship between the Board and management; and
- + procedure for the conduct of Board meetings.

The Board's role includes to:

- + represent and serve the interests of Shareholders by overseeing and assessing the Company's performance, strategic direction and policies;
- + optimise the Company's performance to build sustainable value for Shareholders;
- + review the Company's compliance with the Company's values and its governance framework; and
- + ensure that Shareholders are kept informed of the Company's performance.

6. Key People, Interests and Benefits

6.4.3 Board committees

The Constitution and the Board Charter allow the Board to delegate powers and responsibilities to committees established by the Board.

The Board may, from time to time, establish committees to assist in the discharge of its duties as it considers fit, although the Board will retain ultimate accountability to Shareholders. Membership of any Board committees will be considered on the basis of the Company's needs, any relevant legislative and other requirements and the skills and experience of particular Directors.

At the time of Listing, the Board has established two committees, namely the Audit and Risk Committee and the Human Resources and Remuneration Committee.

6.4.4 Audit and Risk Committee

The Board has established the Audit and Risk Committee to assist it in carrying out its accounting, auditing, financial reporting and risk management responsibilities, including oversight of:

- + the integrity of the Company's external financial reporting and financial statements;
- + the appointment, remuneration, independence and competence of the Company's external auditors;
- + the performance of the internal and external auditors and review of their audits;
- + the effectiveness of the Company's system of risk management and internal controls; and
- + the Company's systems and procedures for compliance with applicable legal and regulatory requirements.

The Audit and Risk Committee must have at least three members, a majority of whom (including the Chairperson) must be independent and all of whom must be Non-Executive Directors. Currently, John Prendiville, Michael Carapiet, Gavin Bell and Andrew Bolam are members of the Audit and Risk Committee. John Prendiville will act as Chairperson of the Audit and Risk Committee.

The charter of the Audit and Risk Committee intends that all members of the Audit and Risk Committee be financially literate. At least one member of the Audit and Risk Committee should have relevant financial experience.

It is the policy of the Company that its external auditor must be independent of it.

6.4.5 Human Resources and Remuneration Committee

The Board has established the Human Resources and Remuneration Committee to assist it in carrying out its Director performance evaluation, Board composition and succession responsibilities and in forming its remuneration policies and practices to attract Directors and management team members.

The roles of the committee in relation to nomination include to assist and advise the Board in:

- + identifying and making recommendations regarding the necessary and desirable competencies of Directors;
- + developing and reviewing the process for the selection, appointment and re-election of Directors;
- + overseeing the development and implementation of a process for the evaluation of the performance of the Board, Board committees, and Directors individually, using both measurable and qualitative indicators; and
- + reviewing Board and senior management succession plans and processes.

The roles of the committee in relation to remuneration include:

- + reviewing the appropriateness and relevance of the remuneration framework for the chairperson and the Non-Executive Directors;
- + reviewing the Company's policy on remuneration for the Chief Executive Officer and Managing Director and other senior management;
- + considering the Company's recruitment, retention and termination policies for the Chief Executive Officer and Managing Director and other senior management; and
- + legislative, regulatory or market developments likely to have a significant impact on the Company and legislative compliance in employment issues.

6. Key People, Interests and Benefits

The Human Resources and Remuneration Committee must have at least three members, a majority of whom (including the Chairperson) must be independent Non-Executive Directors. Currently, Michael Carapiet, Gavin Bell, Andrew Bolam and John Prendiville are members of the Human Resources and Remuneration Committee. Gavin Bell will act as Chairperson of the Human Resources and Remuneration Committee.

6.4.6 Corporate governance policies

6.4.6.1 Diversity policy

The Company is committed to creating and ensuring a strong and diverse work environment where everyone feels responsible for the reputation and performance of the Company. To this end, the Company has adopted a diversity policy which requires the Board to set measurable objectives in achieving gender diversity. The Company will strive to ensure the advancement of gender diversity in the workplace and will review its policies in order to maximise the support that the Company provides to foster a culture of diversity.

In its annual report, the Company will provide a summary of its progress towards achieving its diversity objectives, and it will detail the measurable objectives set under the diversity policy.

6.4.6.2 Continuous disclosure policy

Upon Listing, the Company will be required to comply with the continuous disclosure requirements under ASX Listing Rules and the Corporations Act.

The Company will be required to disclose to ASX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares (subject to certain limited exceptions).

The Company has adopted a policy, which sets out the Company's governance arrangements in relation to continuous disclosure and aims to ensure that Directors, management and other personnel are aware of their obligations. Continuous disclosure announcements will be made available on the Company's website at www.smartgroup.com.au.

6.4.6.3 Securities trading policy

The Company has adopted a policy, to explain the types of dealings in securities that are prohibited under the Corporations Act. The policy intends to establish a best practice procedure in relation to dealings in Shares by Directors, management and other personnel.

Under the current policy, Directors, management and other personnel are only permitted to deal in Shares during the following periods:

- + the 30 day period beginning on the business day after the Company's half yearly results are announced to ASX;
- + the 30 day period beginning on the business day after the Company's annual results are announced to ASX;
- + the 30 day period beginning on the business day after the Company's annual general meeting;
- + at any time a prospectus or similar disclosure document has been lodged with ASIC and is open for acceptances; and
- + at any other times as the Board permits or where exceptional circumstances apply in accordance with the policy.

At times outside of these periods, Directors, management and other personnel must receive clearance for any proposed dealing in Shares. In all instances, buying or selling of Shares is not permitted at any time by any person who possesses price-sensitive information.

6.4.6.4 Code of conduct

The Company is committed to acting honestly and with integrity in all its dealings both internally and externally and respects all people, their ideas and cultures. To this end, the Board has adopted a code of conduct. The code of conduct sets out the values, commitments, ethical standards and policies of the Company and outlines the standards of conduct expected of the Company's business and people, taking into account the Company's legal and other obligations to its stakeholders.

6. Key People, Interests and Benefits

6.4.6.5 Communications with Shareholders

The Company is committed to the objective of promoting investor confidence and the rights of its Shareholders by:

- + ensuring that the Company's announcements are presented in a factual, clear and balanced way;
- + ensuring that all Shareholders have equal and timely access to material information concerning Smartgroup; and
- + communicating effectively with Shareholders and making it easy for them to participate in general meetings.

The Company believes that Shareholders should be provided with sufficient information to assess the Company's performance and to ensure that Shareholders are made aware of all major developments affecting the Company that are relevant to Shareholders in accordance with all applicable laws. Information will be communicated to Shareholders through the lodgement of all relevant announcements and financial and other information with ASX as well as on the Company's website at www.smartgroup.com.au.

7

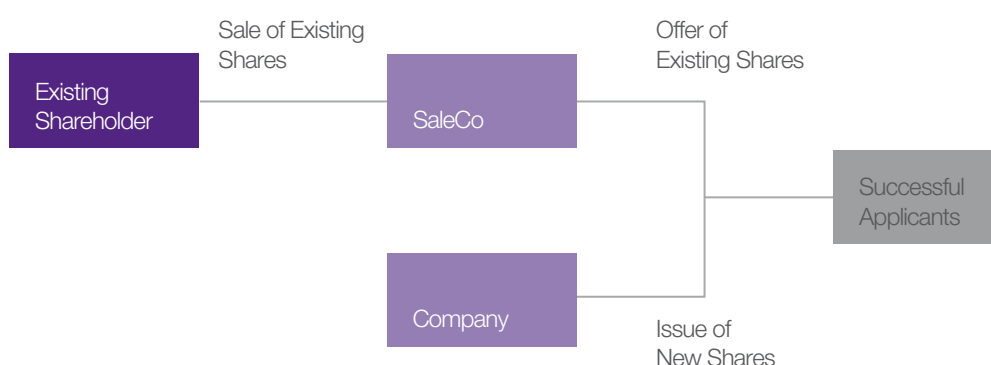
Details of the Offer

7. Details of the Offer

7.1 The Offer

The Offer comprises the issue of New Shares by the Company and the offer of Existing Shares by SaleCo, as described in the diagram below. Please refer to Section 9.2 for a description of the role of SaleCo in the Offer process.

Figure 42: Offer structure



Approximately 70.5 million Shares in aggregate are being offered under this Prospectus⁷⁸. Based on the Offer Price of \$1.60 per Share, the Offer is expected to raise \$112.7 million. The total number of Shares on issue at Listing will be approximately 101.5 million.

The Shares offered under this Prospectus will represent 69.4% of the Shares on issue on Completion based on the Offer Price.

All Successful Applicants under the Offer will pay the Offer Price of \$1.60 per Share.

All Shares being offered under this Prospectus will rank equally with each other.

7.1.1 Structure of the Offer

The Offer comprises the:

- + Broker Firm Offer, which is open only to Australian resident investors who are not Institutional Investors and who receive a firm allocation from their Broker;
- + Priority Offer, which is open to selected investors in Australia who have received a Priority Offer Invitation;
- + Employee Offer, which is open to Eligible Employees; and
- + Institutional Offer, which is open to Institutional Investors in Australia and a number of other eligible jurisdictions.

No general public offer will be made under the Offer.

Details of each component of the Offer and their respective allocation policies are described in Sections 7.3, 7.4, 7.5 and 7.6.

⁷⁸ Based on the Offer Price of \$1.60 per Share and includes the offer of Existing Shares through SaleCo and the issue of New Shares by the Company other than the Existing Shares to be transferred to Gentilly Holdings 2 Pty Limited described in Section 6.3.2 or the New Shares to be issued to management of the Company described in Section 6.3.2.4.

7. Details of the Offer

7.1.2 Purpose of the Offer and use of proceeds

The Offer is being conducted to provide Smartgroup with:

- + A liquid market for the Shares and an opportunity for the Existing Shareholder to realise part of its investment in Smartgroup;
- + Funds to reduce Smartgroup's debt, redeem the Redeemable Preference Shares and pay any costs incurred in connection with the Offer; and
- + Additional financial flexibility and access to capital markets to pursue Smartgroup's growth strategy.

The proceeds of the Offer will be applied to the:

- + redemption of the Redeemable Preference Shares;
- + net reduction in Smartgroup's debt;
- + payment to the Existing Shareholder as consideration for the Existing Shares offered by SaleCo pursuant to the Share Sale Deed; and
- + payment of the costs associated with the Offer.

Sources and uses of funds

Sources		Uses	
Cash proceeds received from issue of New Shares under the Offer	\$37.5 million	Redemption of Redeemable Preference Shares	\$20.7 million
		Net reduction in debt	\$14.5 million
		Payment of costs of the Offer	\$12.1 million
Cash proceeds received from sale of Existing Shares under the Offer	\$75.2 million	Payment of proceeds to the Existing Shareholder	\$75.2 million
Cash on balance sheet	\$9.8 million		
Total sources	\$122.5 million	Total uses	\$122.5 million

7.1.3 Pro Forma Historical Balance Sheet

Smartgroup's Pro Forma Historical Balance Sheet following Completion, including details of the Pro Forma adjustments, is set out in Section 4.5.

7.1.4 Capitalisation and indebtedness

Smartgroup's capitalisation and indebtedness as at 31 December 2013, before and following Completion of the Offer, is set out in Section 4.6.

7. Details of the Offer

7.1.5 Shareholding structure

The details of the ownership of Shares on Completion of the Offer are set out below

	Shares pre-Offer (million)	% pre-Offer	Shares (sold)/ issued/ acquired (million)	Shares held immediately post-Offer (million)	% post-Offer
Existing Shareholder	78.0	100.0%	(47.6)	30.4	30.0%
New Shareholders	–	0.0%	67.8	67.8	66.8%
Directors and management	–	0.0%	3.2	3.2	3.2%
Total	78.0	100.0%	23.5	101.5	100.0%

Smart Packages, being the Existing Shareholder, is the current owner of the Company. The Existing Shareholder will sell 60.3% of its Existing Shares under the Offer. Details of the Shares that will be subject to voluntary escrow arrangements are set out in Section 7.7.

7.1.6 Control implications of the Offer

The Directors do not expect any Shareholder to control (as defined by section 50AA of the Corporations Act) the Company on Completion.

7.1.7 Potential effect of the fundraising on the future of Smartgroup

The Directors believe that on Completion, Smartgroup will have sufficient funds available from cash proceeds of the Offer, its operations and the New Banking Facilities to fulfil the purposes of the Offer and meet Smartgroup's stated business objectives.

7.2 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in the capital of the Company).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.10.
What is the consideration payable for each security being offered?	The Offer Price is \$1.60 per Share.
What is the Offer Period?	The key dates, including details of the Offer, are set out on pages 2 and 3.
What are the cash proceeds to be raised?	\$112.7 million will be raised under the Offer, based on the Offer Price.

7. Details of the Offer

Topic	Summary
Is the Offer subject to conditions?	Yes. Completion of the Offer is conditional upon release of security held by ANZ in respect of the Existing Shares under Smartgroup's financing arrangements and ASX's approval of the Company's Listing application.
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Sole Global Coordinator and Underwriter.
What is the minimum and maximum Application size under the Broker Firm Offer, Priority Offer and the Employee Offer?	The minimum Application under the Broker Firm Offer and the Priority Offer is \$2,000 worth of Shares respectively. There is a minimum Application of \$1,000 worth of Shares under the Employee Offer. There is no maximum value of Shares that may be applied for under the Offer (subject to the aggregate caps on allocations under the Priority Offer and Employee Offer described in sections 7.4.6 and 7.5.2). The Sole Global Coordinator and Underwriter, the Company and SaleCo in consultation with CIMB, reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for. In addition, the Sole Global Coordinator and Underwriter, the Company and SaleCo reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person.
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Priority Offer, the Employee Offer and the Institutional Offer was determined by the Sole Global Coordinator and Underwriter, the Company, in consultation with SaleCo and CIMB, having regard to the allocation policies outlined in Sections 7.3.5, 7.4.6, 7.5.2 and 7.6.2. For Broker Firm Offer participants, the relevant Broker will decide as to how they allocate Shares among their retail clients. The Company, in consultation with the Sole Global Coordinator and Underwriter, has absolute discretion regarding the allocation of Shares to Eligible Employees under the Employer Offer and Successful Applicants under the Priority Offer. The allocation of Shares under the Institutional Offer was determined by the Sole Global Coordinator and Underwriter and the Company in consultation with SaleCo and CIMB.
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or about 3 July 2014. Refunds to Applicants under the Priority Offer and the Employee Offer who make an Application and are scaled back, will be made as soon as possible post Settlement, which is expected to occur on or about 1 July 2014.
Will the Shares be listed on ASX?	The Company will apply within seven days of the Prospectus Date, for admission to the Official List and for quotation of the Shares on ASX (which is expected to be under the code SIQ). Completion of the Offer is conditional on ASX approving the Company's listing application. If approval is not given within three months after the Prospectus Date (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

7. Details of the Offer

Topic	Summary
When are the Shares expected to commence trading?	It is expected that trading of the Shares on ASX will commence on 2 July 2014, initially on a deferred settlement basis until the Company has advised ASIC that holding statements have been despatched to Shareholders. Shares will commence trading on ASX on a normal settlement basis about or on 4 July 2014. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. The Company, SaleCo and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Smartgroup Offer Information Line, by a Broker or otherwise.
Are there any escrow arrangements?	Yes. Details are provided in Section 7.7.
Has an ASX confirmation and ASIC relief been obtained or been relied on?	Yes. Details are provided in Section 9.8.
Are there any tax considerations?	Refer to Section 9.7.
Is there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.
What should you do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Smartgroup Offer Information Line on 1800 237 687 (toll free within Australia) or +61 1800 237 687 (outside Australia) from 8.30am until 5.30pm (Sydney Time), Monday to Friday. All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.

7. Details of the Offer

7.3 Broker Firm Offer

7.3.1 Who may apply

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. Investors who are offered a firm allocation of Shares by a Broker will be treated as an Applicant under the Broker Firm Offer in respect of that allocation.

You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer.

The Broker Firm Offer is not open to persons in the United States (or any other person with a registered or residential address outside Australia).

7.3.2 How to apply

If you have received an allocation of Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Application Form and for payment instructions. Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Share Registry.

Applicants under the Broker Firm Offer should contact their Broker or the Smartgroup Offer Information Line on 1800 237 687 (toll free within Australia) or +61 1800 237 687 (outside Australia) to request for a copy of this Prospectus and the Broker Firm Offer Application Form, or download a copy at www.smartgroup.com.au. Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Broker Firm Offer Application Form and Application Monies are received before 5.00pm (Sydney Time) on the Closing Date or any earlier closing date as determined by your Broker.

By making an Application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The Company, SaleCo, the Joint Lead Managers and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

The Broker Firm Offer opens at 9.00am (Sydney Time) on 24 June 2014 and is expected to close at 5.00pm (Sydney Time) on 30 June 2014. The Company, SaleCo and the Joint Lead Managers may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier time and date, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Contact your Broker for instructions.

7.3.3 How to pay

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by their Broker.

7.3.4 Application acceptances and Application Monies

An Application in the Broker Firm Offer is an offer by the Applicant to the Company to subscribe for Shares in the dollar amount specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus including any supplementary or replacement prospectus and the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to Successful Applicants conditional on the quotation of Shares on ASX and Settlement.

The Sole Global Coordinator and Underwriter, the Company and SaleCo, in consultation with CIMB, reserves the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by the Applicant in completing their Application.

7. Details of the Offer

Successful Applicants in the Broker Firm Offer will be allotted Shares at the Offer Price and will receive the number of Shares equal to the value of their Application accepted by the Company divided by the Offer Price (rounded down to the nearest whole Share). No refunds pursuant solely to rounding will be provided.

7.3.5 Allocation policy under the Broker Firm Offer

The allocation of firm stock to Brokers will be determined by the Sole Global Coordinator and Underwriter, and the Company, in consultation with SaleCo and CIMB. Shares that have been allocated to Brokers for allocation to their Australian resident clients will be issued or transferred to the Applicants nominated by those Brokers. It will be a matter for each Broker as to how they allocate firm Shares among their retail clients, and they (and not the Company, SaleCo and the Joint Lead Managers) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

7.4 Priority Offer

7.4.1 Invitations to apply

The Priority Offer is open to selected investors in Australia who have received a Priority Offer Invitation to participate.

7.4.2 How to apply

If you have received a Priority Offer Invitation and you wish to apply for Shares, you should follow the instructions on how to apply in your personalised invitation.

Applications under the Priority Offer must be for a minimum of \$2,000 worth of Shares.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

7.4.3 How to pay

Applicants under the Priority Offer must pay their Application Monies in accordance with instructions in their personalised invitation. For more details, prospective Applicants should contact the Smartgroup Offer Information Line on 1800 237 687 (toll free within Australia) or +61 1800 237 687 (outside Australia).

Application Monies must be received by the Share Registry by no later than 5.00pm (Sydney Time) on 30 June 2014 and it is your responsibility to ensure that this occurs. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. Neither the Company, SaleCo or the Joint Lead Managers take any responsibility for any failure to receive Application Monies or payment before the Priority Offer Offer closes arising as a result of, among other things, delays processing of payments by financial institutions.

7.4.4 Application Monies

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Applicants under the Priority Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down and any excess refunded (without interest).

If the amount of your Application Monies that you pay is less than the amount specified on your Priority Offer Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Priority Offer Application Form) or your Application may be rejected.

7. Details of the Offer

7.4.5 Acceptance of Applications

An Application in the Priority Offer is an offer by an Applicant to the Company to apply for Shares in the amount specified the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form (including the conditions regarding quotation on ASX in Section 7.10.3). To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

7.4.6 Priority Offer allocation policy

Priority Offer Applicants will receive a guaranteed allocation of Shares in the amount notified on their Priority Offer Invitation or such lesser amount validly applied for. Beyond this, the allocation of Shares to Applicants under the Priority Offer will be determined by the Company subject to allocations made to Successful Applicants under the Priority Offer not exceeding \$5.25 million in aggregate.

7.5 Employee Offer

7.5.1 Invitations to apply

The Employee Offer consists of an invitation to Eligible Employees to apply for Shares. If you are eligible to apply for Shares under the Employee Offer, you will receive a personalised invitation providing instructions on how to apply.

The minimum Application size under the Employee Offer is \$1,000 worth of Shares and your personalised invitation and the Employee Offer Application Form will set out the terms of your Application.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

7.5.2 Application Monies

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Applicants under the Employee Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down and any excess refunded (without interest).

If the amount of your Application Monies that you pay is less than the amount specified on your Employee Offer Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Employee Offer Application Form) or your Application may be rejected.

7.5.3 Acceptance of Applications

An Application in the Employee Offer is an offer by an Applicant to the Company to apply for Shares in the amount specified the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form (including the conditions regarding quotation on ASX in Section 7.10.3). To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

7. Details of the Offer

7.5.4 Allocation policy under the Employee Offer

Eligible employees who are successful Applicants will receive a guaranteed minimum allocation of the amount of their Application and accompanying Application Monies (inclusive of any applicable grant) up to the Guaranteed Minimum of \$1,500 worth of Shares. Beyond this, the allocation of stock to Applicants under the Employee Offer will be determined by the Company subject to allocations made under the Employee Offer not exceeding \$3.4 million in aggregate (including the Shares subscribed for by senior management in respect of past performance described in Section 6.3.2.4).

The allocation of Shares in excess of the Guaranteed Minimum under the Employee Offer will be determined by the Company, in consultation with the Sole Global Coordinator and Underwriter and taking into consideration the Guaranteed Minimum. The Company will have absolute discretion regarding the basis of allocation of Shares and there is no assurance that an Eligible Employee will receive the number of Shares applied for under the Employee Offer.

Successful Applicants under the Employee Offer will receive a holding statement confirming the number of Shares issued to them, expected to be dispatched on or around 3 July 2014.

7.6 Institutional Offer

7.6.1 Invitations to bid

The Company and SaleCo have invited certain eligible Institutional Investors to bid for Shares in the Institutional Offer. The Institutional Offer was an invitation to Institutional Investors in Australia and a number of other eligible jurisdictions to bid for Shares. Shares issued or transferred to Institutional Investors as part of the Institutional Offer will be issued under this Prospectus.

7.6.2 Allocation policy under the Institutional Offer

The allocation of Shares among bidders in the Institutional Offer was determined by the Sole Global Coordinator and Underwriter, the Company, in consultation with SaleCo and CIMB. The Sole Global Coordinator and Underwriter, and the Company, in consultation with SaleCo and CIMB had absolute discretion regarding the basis of allocation of Shares among Institutional Investors and there was no assurance that any Institutional Investor would be allocated any Shares, or the number of Shares for which it had bid.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Sole Global Coordinator and Underwriter.

The allocation policy under the Institutional Offer was influenced by, but not constrained by, the following factors:

- + the number of Shares bid for by participants;
- + the timeliness of the bids by participants; and
- + any other factors that the Sole Global Coordinator and Underwriter, CIMB, the Company and SaleCo considered appropriate, in their sole discretion.

7.7 Disposal restrictions on Shares

7.7.1 Voluntary escrow arrangements

At Completion, certain Shares held by the Existing Shareholder, Gentilly Holdings 2 Pty Limited (as trustee of the Carapiet Family Trust) and the Management Shareholders ("Escrow Shareholders") will be subject to voluntary escrow arrangements.

The Escrow Shareholders have agreed to enter into voluntary escrow deeds preventing them from dealing with the escrowed Shares for the duration of the relevant escrow period, subject to a number of exceptions described below. The restriction on dealing is broad and includes, selling, assigning or transferring, or agreeing or offering to sell, assign or transfer, the relevant escrowed Shares, entering into an option which would enable or require the relevant escrowed Shares to be sold, assigned or transferred or creating or agreeing to create any security interest over the escrowed Shares.

7. Details of the Offer

The Shares held by the Existing Shareholder will be subject to voluntary escrow from the date of Completion, until the day following release of the Company's financial results for the year ending 31 December 2014, to ASX.

0.6 million of the Chairman's Shares, to be held by Gentilly Holdings 2 Pty Limited (as trustee of the Carapiet Family Trust), will be subject to a voluntary escrow for a period of 12 months from the date of Completion. The other Shares held by Gentilly Holdings 2 Pty Limited will not be subject to escrow restrictions.

The Management Shareholders will subscribe for 1.2 million Shares on Completion in respect of past performance, as set out in Section 6.3.2.4. These Shares will be held pursuant to voluntary escrow arrangements from the date of Completion. With the exception of the 0.6 million Shares held by Deven Billimoria, the Chief Executive Officer and Managing Director, 50% of the Shares held by each Management Shareholder (or their nominee) will be held in escrow until the day following release of the Company's financial results for the year ending 31 December 2014, to ASX. The remaining 50% of Shares will be held in escrow until the day following release of the Company's financial results for the year ending 31 December 2015, to ASX.

With respect to Deven Billimoria's 0.6 million Shares, these Shares will be held by Apinto Pty Limited (as trustee of the Deven Billimoria Family Trust). 25% of these Shares will be held in escrow until the day following release of the Company's financial results for the year ending 31 December 2014, to ASX. The remaining 75% of these Shares will be held in escrow until the day following release of the Company's financial results for the year ending 31 December 2015, to ASX.

Any other Shares subscribed for by Management Shareholders under the Employee Offer will not be subject to escrow restrictions.

7.7.2 Exceptions to escrow arrangements

During the escrow period, the Escrow Shareholders may not deal with any of their escrowed Shares in any way other than:

- + with the prior written approval of the Board;
- + pursuant to a court order compelling disposal of the escrow Shares or a security interest being granted over them;
- + to allow acceptance of a takeover offer which is unconditional or has become unconditional, where the holders of at least half of the non-escrowed Shares have accepted the offer;
- + to allow an Escrow Shareholder to tender its escrowed Shares into a bid acceptance facility for a takeover offer, where the holders of at least half of the non-escrowed Shares have accepted the offer or tendered their Shares into the bid acceptance facility; and
- + in connection with the transfer or cancellation of the escrowed Shares as part of a Share buy-back or other reorganisation, a scheme of arrangement or an acquisition of Shares that has received the necessary approvals.

7.7.3 Consequences of breach of the voluntary escrow deeds

If an Escrow Shareholder breaches its voluntary escrow deed:

- + the Company may take the steps necessary to enforce the deed, or to rectify the breach; and
- + the Company may refuse to acknowledge, deal with, accept or register any sale of, assignment of, or other dealing in, any of the applicable escrowed Shares in addition to other rights and remedies of the Company.

7.8 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia. In particular, the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States, except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable United States state securities laws.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus except to the extent permitted below.

7. Details of the Offer

7.8.1 Hong Kong

WARNING: The contents of this Prospectus have not been reviewed by the Securities and Futures Commission or any other Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

This Prospectus is strictly confidential to the person to whom it is addressed and may not be provided, assigned or transferred to any other person. If you are not the intended recipient of this Prospectus, you are hereby notified that any review, dissemination, distribution, publication or reproduction (in whole or in part) of this Prospectus to any person in Hong Kong is strictly prohibited except to your professional advisers under duties of confidentiality.

This Prospectus has not been, and will not be, registered as a prospectus under the Companies (Winding-up and Miscellaneous Provisions) Ordinance (Cap. 32) ("CO"), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong ("SFO").

No action has been taken in Hong Kong to authorise or register this Prospectus or to permit the distribution of this Prospectus or any documents issued in connection with it to the public in Hong Kong.

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong).

The Offer has not been made, and will not be made, other than (i) in circumstances which do not constitute an offer or invitation to the public within the meaning of the CO and the SFO or (ii) to persons outside Hong Kong or to "professional investors" (as defined in the SFO and any rules made under that ordinance) in Hong Kong. No person allotted Shares may sell, or offer to sell, such Shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such Shares.

7.8.2 Malaysia

No prospectus or other offering material or document in connection with the Offer has been or will be registered with the Securities Commission of Malaysia ("Commission") pursuant to the Capital Markets and Services Act 2007. Accordingly, this Prospectus and any other document or material in connection with the Offer, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Malaysia other than

- (i) a closed end fund approved by the Commission;
- (ii) a holder of a Capital Markets Services Licence;
- (iii) a person who acquires the Shares, as principal, if the offer is on terms that the Shares may only be acquired at a consideration of not less than Ringgit 250,000 (or its equivalent in foreign currencies) for each transaction;
- (iv) an individual whose total net personal assets or total net joint assets with his or her spouse exceeds Ringgit 3 million (or its equivalent in foreign currencies), excluding the value of the primary residence of the individual;
- (v) an individual who has a gross annual income exceeding Ringgit 300,000 (or its equivalent in foreign currencies) per annum in the preceding twelve months;
- (vi) an individual who, jointly with his or her spouse, has a gross annual income of Ringgit 400,000 (or its equivalent in foreign currencies), per annum in the preceding twelve months;
- (vii) a corporation with total net assets exceeding Ringgit 10 million (or its equivalent in a foreign currencies) based on the last audited accounts;
- (viii) a partnership with total net assets exceeding Ringgit 10 million (or its equivalent in foreign currencies);
- (ix) a bank licensee or insurance licensee as defined in the Labuan Financial Services and Securities Act 2010;

7. Details of the Offer

- (x) an Islamic bank licensee or takaful licensee as defined in the Labuan Financial Services and Securities Act 2010; and
- (xi) any other person as may be specified by the Commission; provided that, in the each of the preceding categories (i) to (xi), the distribution of the Shares is made by a holder of a Capital Markets Services Licence who carries on the business of dealing in securities.

7.8.3 New Zealand

This Prospectus has not been and will not be registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (NZ). This Prospectus does not constitute a prospectus or investment statement under New Zealand law. The Applicant acknowledges that the Shares are not being offered, sold or allotted with a view to them being offered for sale to the public in New Zealand, and no person in New Zealand may accept a placement of Shares other than to persons:

- + whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money within the meaning of section 3(2)(a)(ii) of the Securities Act 1978 (NZ); or
- + who:
 - are each required to pay a minimum subscription price of at least NZ\$500,000 for the Shares before allotment; or
 - have each previously paid a minimum subscription price of at least NZ\$500,000 for Shares in a single transaction with the Company before the allotment of such Shares and such allotment was not more than 18 months prior to the Prospectus Date,

and, accordingly, the Applicant acknowledges that the provisions of the Securities Act 1978 (NZ) shall not apply to the offer of Shares to the investor.

The Applicant undertakes to the Company that if in the future the Applicant elects to directly or indirectly sell or offer any of the Shares allotted to it, the Applicant will not do so in a manner which will, or is likely to, result in a contravention of the Securities Act 1978 (NZ) or may result in the Company or its Directors incurring any liability.

7.8.4 Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289 of Singapore) ("SFA"). Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares to be issued or transferred from time to time by the Company pursuant to the Offer may not be circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in section 4A of the SFA) pursuant to section 274 of the SFA, (b) to a relevant person (as defined in section 275(2) of the SFA) pursuant to section 275(1) of the SFA, or any person pursuant to an offer referred to in section 275(1A) of the SFA, and in accordance with the applicable conditions specified in section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Shares are acquired by persons who are relevant persons specified in section 276 of the SFA, namely:

- + a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- + a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares pursuant to an offer made under section 275 of the SFA except:

- + to an institutional investor (under section 274 of the SFA) or to a relevant person as defined in section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at

7. Details of the Offer

a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in section 275(1A) of the SFA;

- + where no consideration is or will be given for the transfer;
- + where the transfer is by operation of law;
- + as specified in section 276(7) of the SFA; or
- + as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

7.8.5 United Kingdom

Neither the information in this Prospectus nor any other document relating to the Offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the Shares. This Prospectus is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the Shares may not be offered or sold in the United Kingdom by means of this Prospectus, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This Prospectus should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person, in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company or SaleCo.

In the United Kingdom, this Prospectus is being distributed only to, and is directed at, persons: (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together, "relevant persons"). The investments to which this Prospectus relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

7.8.6 United States

This Prospectus may not be released or distributed in the United States, and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

Each Applicant in the Broker Firm Offer, the Priority Offer and the Employee Offer, and each person in Australia to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- + it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable United States state securities laws;
- + it is not in the United States;
- + it has not and will not send the Prospectus or any other material relating to the Offer to any person in the United States; and
- + it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction which the Shares are offered and sold.

Each successful bidder under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7. Details of the Offer

7.9 Discretion regarding the Offer

The Company and SaleCo, may withdraw the Offer at any time before the issue or transfer of Shares to Successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

The Company, SaleCo and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Shares than those applied or bid for.

7.10 ASX listing, registers, holding statements and deferred settlement trading

7.10.1 Application to ASX for listing of the Company and quotation of Shares

The Company will apply within seven days after the Prospectus Date for admission to the Official List and for quotation of the Shares on ASX. The Company's expected ASX code will be SIQ.

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription or purchase.

If approval is not granted for the official quotation of the Shares on ASX within three months after the Prospectus Date (or any later date permitted by law), all Application Monies will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Subject to certain conditions (including any waivers obtained by the Company from time to time), the Company will be required to comply with ASX Listing Rules.

7.10.2 CHESS and issuer sponsored holdings

The Company will apply to participate in ASX's CHESS and will comply with ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, an electronic CHESS subregister or an issuer sponsored subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number ("HIN") for CHESS holders or, where applicable, the Securityholder Reference Number ("SRN") of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their holding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.10.3 Deferred settlement trading and selling Shares on market

It is expected that the Shares will commence trading on ASX on or about 2 July 2014, initially on a deferred settlement basis. Trading will be on an unconditional but deferred delivery basis until the Company has advised ASX that holding statements have been despatched to Shareholders. Normal settlement trading is expected to commence on or about 4 July 2014.

7. Details of the Offer

It is the responsibility of each person who trades in the Shares to confirm their holding before trading in the Shares. If you sell the Shares before receiving a holding statement, you do so at your own risk. The Company, SaleCo, the Share Registry, the Joint Lead Managers and the Existing Shareholder disclaim all liability, whether in negligence or otherwise, if you sell the Shares before receiving your holding statement, even if you obtained details of your holding from the Smartgroup Offer Information Line or confirmed your firm allocation through a Broker.

7.11 Summary of rights and liabilities attaching to the Shares and other material provisions of the Constitution

7.11.1 Description of the Shares

7.11.1.1 Introduction

The rights and liabilities attaching to ownership of the Shares are governed by the Constitution, statute, ASX Listing Rules, ASX Settlement Operating Rules and general law. A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution is set out below. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the Official List. A copy of the Constitution is available for inspection at the Company's registered office during normal business hours.

7.11.1.2 Voting at a general meeting

At a general meeting of the Company, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Share held.

7.11.1.3 Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act or ASX Listing Rules.

7.11.1.4 Dividends

The Board may from time to time resolve to pay dividends to Shareholders and fix the amount of the dividend, the time for determining entitlements to the dividend and the timing and method of payment. For further information in respect of the Company's dividend policy, refer to Section 4.12.

7.11.1.5 Transfer of Shares

Subject to the Constitution, Shares may be transferred by a proper transfer effected in accordance with ASX Settlement Operating Rules, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board may refuse to register a transfer of the Shares where permitted to do so under the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board must refuse to register a transfer of the Shares if required by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

7.11.1.6 Issue of further Shares

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules and any rights and restrictions attached to a class of shares, the Company may issue, or grant options in respect of, further Shares on such terms and conditions as resolved by the Board.

7.11.1.7 Winding up

If the Company is wound up, then subject to the Constitution and any rights or restrictions attached to any class of shares and a special resolution of the shareholders, the liquidator may divide the whole or part of the Company's property among the shareholders and decide how the division is to be carried out as between members or different classes of members.

7. Details of the Offer

7.11.1.8 Unmarketable parcels

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, the Company may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

7.11.1.9 Share buy-backs

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, the Company may buy back Shares in itself on terms and at times determined by the Board.

7.11.1.10 Variation of class rights

Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:

- + with the consent in writing of the holders of three-quarters of the issued shares included in that class; or
- + by a special resolution passed at a separate meeting of the holders of those shares.

In either case, the holders of not less than 10% of the votes in the class of shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or cancellation.

7.11.1.11 Dividend reinvestment plan

The Constitution authorises the Board, on any terms and at its discretion, to establish a dividend reinvestment plan (under which any member may elect that the cash dividends payable by the Company be reinvested by a subscription for shares in the Company).

7.11.1.12 Authority to capitalise profits

The Constitution authorises the Board to resolve to capitalise any part of the Company's profit. If this occurs, it may use it to benefit those shareholders who are entitled to dividends in the proportions that would apply if the entire amount of the profits to be capitalised were a dividend. The benefit may be given in one of the following ways:

- + paying up the amounts unpaid on the shareholder's shares; and/or
- + issuing shares or debentures of the Company to the shareholder.

7.10.1.13 Directors – appointment and removal

Under the Constitution, the minimum number of Directors that may comprise the Board is four and the maximum is 10. The Company may pass a resolution varying that number. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that no Director (excluding the Managing Director) holds office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or for more than three years (whichever is longer). All of the current Non-Executive Directors were re-elected at the 2014 annual general meeting held in April 2014. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the Directors, who will then hold office until the end of the next annual general meeting of the Company.

7.11.1.14 Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote unless only two Directors are present and entitled to vote on the resolution.

7.11.1.15 Directors – remuneration

The remuneration of a Managing Director or other Executive Director may be fixed by the Board and may be by way of salary or commission or participation in profits or by all or any of those modes, but may not be by commission or percentage of operating revenue.

In relation to the remuneration of the Non Executive Directors, please refer to Section 6.3.2.1.

7. Details of the Offer

7.11.1.16 Indemnities

The Company may, to the maximum extent permitted by law, indemnify each Director against any liability incurred by that person as an officer of the Company including against any legal costs incurred by that person in defending an action for a liability of that person.

The Company may, to the fullest extent permitted by the Corporations Act, pay the premium on a policy of insurance in respect of a person who is or has been an officer or secretary of the Company.

The Company, to the extent permitted by law, may enter into an agreement or deed with a Director or a person who is, or has been, an officer of the Company, under which the Company must do all the following:

- + keep books of the Company and allow either or both that person and that person's lawyer access to those books on the terms agreed;
- + indemnify that person against any liability incurred by that person as an officer of the Company and legal costs incurred by that person in defending an action for a liability of that person;
- + make a payment to that person in respect of legal costs incurred by that person in defending an action for a liability of that person; and
- + keep that person insured in respect of any liability incurred by that person while being a Director or an officer of the Company, on the terms agreed (including as to payment of all or part of the premium for the contract for insurance).

7.11.1.17 Amendments to the Constitution

The Constitution can only be amended by special resolution passed by at least 75% of Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of the Company.

**Independent Limited
Assurance Report
on Financial
Information**

8. Independent Limited Assurance Report



The Directors
Smartgroup Corporation Ltd
Level 8, 133 Castlereagh Street
Sydney NSW 2000

The Directors
Smartgroup SaleCo Limited
Level 8, 133 Castlereagh Street
Sydney NSW 2000

13 June 2014

Dear Directors

Independent Limited Assurance Report on Smartgroup Corporation Ltd's Historical and Forecast Financial Information and Financial Services Guide

We have been engaged by Smartgroup Corporation Ltd (**Company**) and Smartgroup SaleCo Limited (**SaleCo**) to report on the historical and forecast financial information of the Company for inclusion in the prospectus (**Prospectus**) dated on or about 16 June 2014 relating to the proposed initial public offering of fully paid ordinary shares in the Company (**Offer**).

Expressions and terms defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001 (Cth). PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian financial services licence under the Corporations Act 2001 (Cth). This report is both an Independent Limited Assurance Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

You have requested PricewaterhouseCoopers Securities Ltd to review the following information of the Company included in the Prospectus:

1. **Statutory Historical Financial Information** comprising:
 - Statutory consolidated historical income statements for CY2011, CY2012 and CY2013;
 - Statutory consolidated historical net cash flows from operating activities before financing and tax for CY2011, CY2012 and CY2013;
 - Statutory consolidated historical balance sheet as at 31 December 2013,
2. **Pro Forma Historical Financial Information** comprising:

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, Sydney NSW 1171
T: 61 2 8266 0000, F: 61 2 8266 9999, www.pwc.com.au

8. Independent Limited Assurance Report



- Pro forma consolidated historical income statements for CY2011, CY2012 and CY2013;
- Pro forma consolidated historical net cash flows from operating activities before financing and tax for CY2011, CY2012 and CY2013; and
- Pro forma consolidated historical balance sheet as at 31 December 2013, which assumes completion of the Offer.

collectively the **Historical Financial Information**,

3. **Statutory Forecast** comprising:

- Statutory consolidated forecast income statement for CY2014; and
- Statutory consolidated forecast net free cash flows for CY2014,

4. **Pro Forma Forecast** comprising:

- Pro forma consolidated forecast income statement for CY2014; and
- Pro forma consolidated forecast net free cash flows for CY2014.

collectively the **Forecast Financial Information**, which together with the Historical Financial Information forms the **Financial Information**.

Statutory Historical Financial Information

The statutory consolidated historical financial information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies. The statutory consolidated historical financial information has been extracted from the financial reports of the Company or its subsidiaries for the three years ended 31 December 2013, which in the case of CY2012 and CY2013 were audited by PricewaterhouseCoopers and in respect of CY2011 were audited by Ernst & Young, in accordance with the Australian Auditing Standards. PricewaterhouseCoopers and Ernst & Young issued unmodified audit opinions on the financial reports in relation to these respective financial periods.

The statutory consolidated historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001 (Cth).

Pro Forma Historical Financial Information

The pro forma consolidated historical financial information has been derived from the statutory consolidated historical financial information of the Company or its subsidiaries, after adjusting for the effects of pro forma adjustments described in sections 4.3, 4.5 and 4.7 of the Prospectus. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the statutory consolidated historical financial information and the events or transactions to which the pro forma adjustments relate, as described in sections 4.3, 4.5 and 4.7 of the Prospectus, as if those events or

8. Independent Limited Assurance Report



transactions had occurred as at the date of the historical financial information. Due to its nature, the pro forma consolidated historical financial information does not represent the Company's actual or prospective financial position, financial performance, and/or cash flows.

Statutory Forecast

The statutory consolidated forecast income statement and net free cash flows of the Company for the year ending 31 December 2014, as described in sections 4.3 and 4.7 of the Prospectus have been prepared in accordance with the directors' best-estimate assumptions underlying the Statutory Forecast as described in sections 4.3, 4.7 and 4.10 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecast are the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

Pro Forma Forecast

The pro forma consolidated forecast income statement and net free cash flows of Company for the year ending 31 December 2014, as described in sections 4.3 and 4.7 of the Prospectus have been derived from the Company's Statutory Forecast, after adjusting for the effects of the pro forma adjustments described in sections 4.3 and 4.7 of the Prospectus. The stated basis of preparation used in the preparation of the Pro Forma Forecast are the recognition and measurement principles contained in Australian Accounting Standards applied to the forecast and the events or transactions to which the pro forma adjustments relate, as described in sections 4.3 and 4.7 of the Prospectus, as if those events or transactions had occurred as at 31 December 2013. Due to its nature, the Pro Forma Forecast does not represent the Company's actual prospective financial performance, and/or cash flows for the year ending 31 December 2014.

Directors' responsibility

The directors of the Company are responsible for the preparation of the statutory and pro forma historical financial information, including its basis of preparation and the selection and determination of pro forma adjustments made to the historical financial information and included in the pro forma historical financial information.

The directors of the Company are also responsible for the preparation of the Statutory Forecast, including its basis of preparation and the best-estimate assumptions underlying the Statutory Forecast. They are also responsible for the preparation of the Pro Forma Forecast, including its basis of preparation and the selection and determination of the pro forma adjustments made to the Statutory Forecast and included in the Pro Forma Forecast.

This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors of the Company determine are necessary to enable the preparation of Historical and Forecast Financial Information that are free from material misstatement.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Financial Information, the best-estimate assumptions underlying the Forecast Financial Information, and the reasonableness of the Forecast Financial Information itself, based on the procedures performance and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance

8. Independent Limited Assurance Report



Engagement ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

A review consists of making enquiries, primarily of the Company's directors and management responsible for financial and accounting matters and others who have been engaged for the purposes of and in connection with the Offer, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Statutory historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the statutory historical financial information of the Company, as described in sections 4.3, 4.5 and 4.7 of the Prospectus, and comprising:

- the statutory consolidated historical income statements for CY2011, CY2012 and CY2013;
- the statutory consolidated historical net cash flows from operating activities before financing and tax for CY2011, CY2012 and CY2013;
- the statutory consolidated historical balance sheet as at 31 December 2013.

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4.2 of the Prospectus being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

Pro Forma historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro forma historical financial information of the Company as described in sections 4.3, 4.5 and 4.7 of the Prospectus, and comprising:

- the pro forma consolidated historical income statements for CY2011, CY2012 and CY2013;
- the pro forma consolidated historical net cash flows from operating activities before financing and tax for CY2011, CY2012 and CY2013; and
- the pro forma consolidated historical balance sheet as at 31 December 2013.

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4.2 of the Prospectus being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the historical financial information and the events or transactions to which the pro forma adjustments

8. Independent Limited Assurance Report



relate, as described in sections 4.3, 4.5 and 4.7 of the Prospectus, as if those events or transactions had occurred as at the date of the historical financial information.

Statutory Forecast

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the statutory consolidated forecast income statement and net free cash flows for the year ending 31 December 2014 do not provide reasonable grounds for the Statutory Forecast; and
- in all material respects, the Statutory Forecast:
 1. is not properly prepared on the basis of the directors' best-estimate assumptions as described in sections 4.3, 4.7 and 4.10 of the Prospectus; and
 2. is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies; and
- the Statutory Forecast itself is unreasonable.

Pro Forma Forecast

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the pro forma consolidated forecast income statement and net free cash flows of the Company for the year ending 31 December 2014 do not provide reasonable grounds for the Pro Forma Forecast; and
- in all material respects, the Pro Forma Forecast:
 1. is not properly prepared on the basis of the directors' best-estimate assumptions, as described in sections 4.3, 4.7 and 4.10 of the Prospectus; and
 2. is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies, applied to the Pro Forma Forecast and the pro forma adjustments as if those adjustments had occurred as at the date of the Forecast; and
- the Pro Forma Forecast itself is unreasonable.

Statutory Forecast and Pro Forma Forecast

The Statutory Forecast and Pro Forma Forecast have been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 31 December 2014. There is a considerable degree of subjective judgment involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Statutory

8. Independent Limited Assurance Report



Forecast and Pro Forma Forecast since anticipated events or transactions frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Statutory Forecast and Pro Forma Forecast are based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the directors' best-estimate assumptions on which the Statutory Forecast and Pro Forma Forecast are based however such evidence is generally future-oriented and therefore speculative in nature.

We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the Company, which are detailed in the Prospectus, and the inherent uncertainty relating to the Statutory Forecast and Pro Forma Forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section(s) 5 and 4.11 of the Prospectus. The sensitivity analysis described in section 4.11 of the Prospectus demonstrates the impact of changes in key best-estimate assumptions on the pro forma forecast net profit after tax. We express no opinion as to whether the Pro Forma Forecast will be achieved.

We disclaim any assumption of responsibility for any reliance on this report, or on the Statutory Forecast or Pro Forma Forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Restriction on Use

Without modifying our conclusions, we draw attention to the Important Notices section and sections 4.1 and 4.2 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Prospectus. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Prospectus.

8. Independent Limited Assurance Report



Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this transaction other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to this report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in this report.

Yours faithfully

A handwritten signature in black ink, appearing to read "Charles Humphrey".

Charles Humphrey
Director and Authorised Representative of
PricewaterhouseCoopers Securities Ltd

A handwritten signature in black ink, appearing to read "Glen Hadlow".

Glen Hadlow
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

8. Independent Limited Assurance Report



Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 13 June 2014

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by Smartgroup Corporation Ltd ("**Smartgroup**") and Smartgroup SaleCo Limited ("**SaleCo**") to provide a report in the form of an Independent Limited Assurance Report in relation to the historical and forecast financial information (**the "Report"**) for inclusion in the prospectus dated on or about 16 June 2014.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

8. Independent Limited Assurance Report



4. **General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. **Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on an hourly basis and as at the date of this Report amount to approximately \$650,000 (excluding GST).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. **Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. In relation to Smartgroup, PricewaterhouseCoopers is the auditor.

7. **Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

8. Independent Limited Assurance Report



If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("FOS"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Charles Humphrey
Director and Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Darling Park, Tower 2
201 Sussex Street
Sydney NSW2000
GPO Box 2650
Sydney NSW1171

Additional Information

9. Additional Information

The Company was registered in Victoria, Australia on 28 June 2007 and converted to a public company limited by shares on 11 March 2014.

SaleCo was registered in Victoria, Australia on 24 March 2014 as a public company limited by shares.

9.1 Company tax status

The Company will be taxed as a public company for the purpose of Australian income tax law.

9.2 Sale of Shares by SaleCo

SaleCo is a special purpose vehicle which has been established to enable the Existing Shareholder to sell a portion of its Existing Shares as part of the Offer, such that the Existing Shareholder will hold 30% of Shares on issue at Completion. The Existing Shareholder has executed a Share Sale Deed in favour of SaleCo under which it offers to sell part of its Existing Shares to SaleCo (or its nominee) free from encumbrances and third party rights, and subject to certain conditions. As at the Prospectus Date, the Existing Shareholder has irrevocably offered to sell 47.0 million Existing Shares to SaleCo.

The Existing Shares offered by SaleCo will be transferred to Successful Applicants under the Offer at the Offer Price. The Company will also issue New Shares to Successful Applicants under the Offer.

SaleCo has no material assets, liabilities or operations other than its interest in the Share Sale Deed described above. The SaleCo Directors are Tarcisio Medalla, Deven Billimoria and Tim Looi. The shareholder of SaleCo is Tarcisio Medalla. The Company has agreed to indemnify SaleCo and the SaleCo Directors for any loss which SaleCo or the SaleCo Directors may incur as a consequence of the Offer. The monies received under the Offer in respect of the Existing Shares will be received by the Company (on behalf of SaleCo) and transferred to the Existing Shareholder as consideration for the Existing Shares under the Share Sale Deed.

9.3 Summary of Underwriting Agreement

The Company, SaleCo and the Joint Lead Managers signed the Underwriting Agreement on or about the Prospectus Date. Under the Underwriting Agreement, the Company and SaleCo appointed Macquarie as Sole Global Coordinator and Underwriter and Macquarie and CIMB as Joint Lead Managers and Joint Bookrunners to the Offer. The following is a summary of the principal provisions of the Underwriting Agreement. Under the Underwriting Agreement, the Joint Lead Managers have agreed to arrange and manage the Offer and for the Sole Global Coordinator and Underwriter has agreed to underwrite the Offer.

9.3.1 Fees and expenses

The Company has agreed to pay:

- + the Joint Lead Managers an offer management fee equal to 3% of the Total Proceeds;
- + at its sole discretion, a discretionary fee to the Joint Lead Managers of 0.50% of the Total Proceeds.

The payment of these fees is to occur on the date of Settlement. The actual amount of fees payable to the Joint Lead Managers will not be known until the allocation of Shares under the Offer.

The Company must pay or reimburse each Joint Lead Manager for certain reasonable costs (including legal, travel and other out of pocket costs) incurred by the Joint Lead Managers in relation to the Offer.

9. Additional Information

9.3.2 Conditions, representations, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard conditions precedent (including the Existing Shareholder entering into a voluntary escrow arrangement and ASX and ASIC granting the waivers, confirmations and relief necessary to enable the Offer to proceed in accordance with the timetable) and also various standard representations, warranties and undertakings given by the Company and SaleCo (including in respect of other Smartgroup entities).

The representations and warranties given by the Company and SaleCo relate to matters such as (among others) power and authorisations, information provided by the Company and SaleCo, information in this Prospectus and the conduct of the Offer. The Company also gives a number of additional warranties in relation to it and other Smartgroup entities, including compliance with relevant laws, its assets and insurance.

The undertakings given by the Company include an undertaking that it will not, without the Joint Lead Managers' prior written consent, allot or agree to allot (or indicate that it may or will do so), any equity securities of Smartgroup entities (or securities that are convertible into equity) at any time after the date of the Underwriting Agreement and before the expiration of 180 days after the date of issue and transfer of Shares under the Offer (with the exception of the Shares issued under the Offer and certain other limited exceptions (including potential issues of Shares contemplated by this Prospectus)).

9.3.3 Indemnity

The Company and SaleCo each agree to indemnify the Joint Lead Managers (and certain of their affiliated parties) against certain claims, demands, losses, costs, expenses or liabilities incurred by them in connection with the Offer or the Underwriting Agreement (subject to limited exclusions, including (among other things) the wilful misconduct or fraud of the relevant indemnified party).

9.3.4 Termination events

Each Joint Lead Manager may terminate its obligations under the Underwriting Agreement on the occurrence of a number of customary termination events, including (among others):

- + ASIC issues a stop order in relation to the Offer;
- + ASX refuses to quote the Shares on ASX;
- + certain delays in the Offer timetable;
- + any person withdraws their consent to be named in this Prospectus;
- + the Company or SaleCo withdraws this Prospectus or the Offer;
- + the Joint Lead Manager forms the view (acting reasonably) that a supplementary prospectus is required under section 719(1) of the Corporations Act;
- + a specified fall in the S&P/ASX 200 Index;
- + the insolvency of a Smartgroup entity; and
- + certain changes in the executive management team of the Company

Certain of these events will only give rise to a right to terminate if in the reasonable opinion of the Joint Lead Manager the event is material and adverse and makes it impracticable to proceed with the Offer, sale or delivery of the Shares as contemplated by the Underwriting Agreement and this Prospectus, or if the event has or is likely to have a material adverse effect on the ability of the Joint Lead Manager to market or promote or settle the Offer on the terms contemplated by the Underwriting Agreement and this Prospectus, the willingness of investors to subscribe under the Offer or the likely market price of Shares offered under the Offer, or if the event gives rise to or is likely to give rise to the Joint Lead Manager contravening applicable laws or incurring a liability. If this occurs, the Joint Lead Manager who validly terminates will no longer be a joint lead manager (or Sole Global Coordinator and Underwriter, in the case of Macquarie). Under the Underwriting Agreement, if one Joint Lead Manager terminates, the other Joint Lead Manager may give notice in writing to the Company and SaleCo stating whether they assume the obligations of the terminating Joint Lead Manager (or a further joint lead manager may be appointed). If the remaining Joint Lead Manager fails to give such notice, then the remaining Joint Lead Manager's obligations under the Underwriting Agreement will be terminated.

The Underwriting Agreement may also be terminated by the Company or SaleCo if the Offer is withdrawn.

9. Additional Information

9.4 Description of the syndicate

Macquarie is the Sole Global Coordinator and Underwriter of the Offer. The Joint Lead Managers and Joint Bookrunners to the Offer are Macquarie and CIMB.

See Section 9.3 for information on the fee which the Joint Lead Managers will receive for their services.

9.5 Ownership restrictions

The sale and purchase of shares in Australia is regulated by a number of laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section 9.5 contains a general description of these laws.

9.5.1 Foreign Acquisitions and Takeovers Act 1975 (Cth)

Generally, the Foreign Acquisitions and Takeovers Act 1975 (Cth) applies to acquisitions of shares and voting power in a company, of 15% or more by a single foreign person and its associates (substantial interest), or 40% or more by two or more unassociated foreign persons and their associates (aggregate substantial interest). Where an acquisition of a substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Federal Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

9.5.2 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply. The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the company.

9.6 Legal proceedings

Smartgroup may, from time to time, be party to various disputes and legal proceedings incidental to the conduct of its business.

As at the Prospectus Date, so far as the Directors are aware, there are no legal proceedings to which Smartgroup is a party that is likely to have a material adverse impact on its business, operations or future financial results, and the Directors are not aware of any such legal proceedings that are pending or threatened.

9.7 Taxation considerations

The following tax comments provide a general summary of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus.

The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation entities that hold their Shares on capital account.

This summary does not consider the consequences for foreign tax resident Shareholders, insurance companies, banks, Shareholders that hold their Shares on revenue account or carry on a business of trading in shares or Shareholders who are exempt from Australian tax. This summary also does not cover the consequences for Shareholders who are subject to Division 230 of the ITAA97 (the Taxation of Financial

9. Additional Information

Arrangements or “TOFA” regime). Shareholders who are subject to TOFA should obtain their own tax advice as to the implications under TOFA (if any).

This summary is based on the Income Tax Assessment Act 1936 (Cth), the ITAA97, the A New Tax System (Goods and Services Tax) Act 1999, applicable case law and published ATO rulings, determinations and administrative practice in force at the Prospectus Date. This summary does not take into account the tax law of countries other than Australia.

This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. Australian tax laws are complex. The taxation laws of Australia or their interpretation may change. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder’s specific circumstances. Shareholders should seek professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

9.7.1 Taxation of dividends to Australian tax resident Shareholders

Where dividends on a Share are paid by the Company, those dividends will constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credit attached to that dividend. The rate of tax payable by each Australian investor that is an individual will depend on the individual circumstances of the investor and his/her prevailing marginal rate of income tax. Such Shareholders should be entitled to a tax offset equal to the franking credit attached to the dividend subject to being a ‘qualified person’ (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder’s taxable income. Where the tax offset exceeds the tax payable on the Shareholder’s taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by the Company is unfranked, the Shareholder will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

Corporate Shareholders

Australian tax resident corporate Shareholders are also required to include both the dividend and associated franking credit in their assessable income. A tax offset is then allowed up to the amount of the franking credit on the dividend.

The Shareholder should be entitled to a credit in its own franking account to the extent of the franking credit on the dividend received.

Such corporate Shareholders can then pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.

Excess franking credits received cannot give rise to a refund, but may in certain circumstances be converted into carry forward tax losses.

Trusts and partnerships

Australian tax resident Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the dividend and franking credit in determining the net income of the trust or partnership. A trustee or partner may be entitled to a tax offset equal to the beneficiary’s or partner’s share of the net income of the trust or partnership as the case may be.

Shares held at risk

The benefit of franking credits can be denied where a Shareholder is not a ‘qualified person’ in which case the Shareholder will not be able to include an amount for the franking credits in its assessable income and will not be entitled to a tax offset.

Broadly, to be a qualified person, a Shareholder must satisfy the holding period rule and, if necessary, the related payment rule. The holding period rule requires a Shareholder to hold the Shares ‘at risk’ for more than 45 days continuously, measured as the period commencing the day after the Shareholder acquires the Shares and ending on the 45th day after the Shares become ex-dividend. The date the Shares are acquired and disposed of are ignored for the purposes of determining the 45 day period. Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (e.g. through

9. Additional Information

transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) should generally not be counted as a day on which the Shareholder held the Shares at risk.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed A\$5,000. Special rules apply to trusts and beneficiaries.

Under the related payment rule, a different testing period applies where the Shareholder has made, or is under an obligation to make, a related payment in relation to a dividend paid by the Company. The related payment rule requires the Shareholder to have held the Shares at risk for a period commencing on the 45th day before, and ending on the 45th day after, the day the Shares become ex-dividend. Practically, this should not impact Shareholders who continue to hold Shares and also do not pass the benefit of the dividend to another person. Shareholders should obtain their own tax advice to determine if these requirements have been satisfied.

On 14 May 2013, the Commonwealth Government announced changes that will apply to 'dividend washing' arrangements and the amendments are proposed to be made through the 45 day holding period rule. No legislation has yet been released in respect of this change. Shareholders should consider the impact of this proposed change given their own personal circumstances.

9.7.2 Capital gains tax (CGT) implications for Australian tax resident Shareholders on a disposal of Shares

The disposal of a Share by a Shareholder will be a CGT event. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the Share (broadly, the amount paid to acquire the Share plus any transaction costs incurred in relation to the acquisition or disposal of the Shares). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds received from the sale of the Shares.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for more than 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

A capital loss will be realised where the reduced cost base of the Share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income.

9.7.3 Tax file numbers (TFNs)

Shareholders are not required to quote their TFN to the Company. However, if a valid TFN or exemption details are not provided, Australian tax will be required to be deducted by the Company from distributions and/or dividends at the maximum marginal tax rate plus the Medicare levy in respect of unfranked dividends. Australian tax should not be required to be deducted by the Company in respect of fully franked dividends. A Shareholder that holds Shares as part of an enterprise may quote its Australian Business Number instead of its TFN.

9.7.4 GST implications

Shareholders should not be liable for GST in respect of their acquisition of the Shares. Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect relevant to their particular circumstances.

9. Additional Information

9.7.5 Stamp duty

Shareholders should not be liable for stamp duty in respect of the acquisition of the Shares, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in the Company. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of the Shares. Separate stamp duty advice should be sought by Shareholders in this respect relevant to their particular circumstances.

9.8 ASIC relief

The Company has applied for certain relief from the following provisions of the Corporations Act:

+ relief so that the takeover provisions of the Corporations Act will not apply to certain relevant interests that:

- SaleCo and the Company would otherwise acquire under the Share Sale Deed (described in Section 9.2); and
- the Company would otherwise acquire in the escrowed Shares by reason of the voluntary escrow arrangements in relation to those Shares (described in Section 7.7).

9.9 Consent to be named and statement of disclaimers of responsibility

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by each of the Directors and SaleCo Directors.

Written consents to be named in this Prospectus in the capacity indicated below, and in the forms and context in which each is named, have been given by, and, at the time of lodgement of this Prospectus have not been withdrawn:

- a) Macquarie as Sole Global Coordinator and Underwriter, Joint Lead Manager and Joint Bookrunner to the Offer;
- b) CIMB Capital Markets (Australia) Ltd as Joint Lead Manager and Joint Bookrunner to the Offer;
- c) Macquarie Equities Limited, Morgans Financial Limited and Ord Minnett Limited as Co-Managers of the Offer;
- d) King & Wood Mallesons as Australian legal adviser (other than in relation to taxation matters) to the Company in relation to the Offer;
- e) PwC as Investigating Accountant of the Company (in relation to Historical Financial Information and the Forecast Financial Information);
- f) PricewaterhouseCoopers as auditor of the CY2012 statutory financial statements of Smartsalary Group and the CY2013 statutory financial statements of the Company;
- g) Ernst & Young as tax adviser to the Company in relation to the Offer and as auditor of the CY2011 statutory financial statements of Smartsalary Group;
- h) Link Market Services Limited ABN 54 083 214 537 as the Share Registry. Link Market Services Limited has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to the Company;
- i) Aon Hewitt in respect of the Aon Hewitt employee engagement scores contained in this Prospectus; and
- j) CSIA, in respect of the CSIA audit scores contained in this Prospectus.

9. Additional Information

Except as indicated below, none of the above listed companies or firms has caused, authorised, or otherwise has responsibility for the issue of this Prospectus or the preparation of any part of this Prospectus:

- a) PwC – in relation to the inclusion in this Prospectus of the Independent Limited Assurance Report in the form and context in which they are included.

References are made in this Prospectus to entities that have certain dealings with Smartgroup, including counterparties to material contracts referred to in this Prospectus. These entities have been referred to for information purposes only. Those entities did not authorise or cause the issue of this Prospectus and have had no involvement in the preparation of any part of this Prospectus. None of these entities makes any offer of Shares.

9.10 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications under this Prospectus are governed by the laws applicable in New South Wales, Australia, and each Applicant and bidder under this Prospectus submits to the exclusive jurisdiction of the courts of that jurisdiction.

9.11 Statement of directors

This Prospectus is authorised by each Director and SaleCo Director, who consent to its lodgement with ASIC and its issue.

Glossary

Appendix A: Glossary

Term/abbreviation	Explanation
A-IFRS	Australian equivalents to International Financial Reporting Standards
ANZ	Australia and New Zealand Banking Group
Aon Hewitt	Hewitt Associates Pty Ltd, a division of Aon Corporation Australia
Applicant	A person who submits an Application
Application	An application made to subscribe for Shares offered under this Prospectus
Application Form	The application form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility)
Application Monies	The amount accompanying an Application Form submitted by an Applicant
ASIC	Australian Securities and Investments Commission
ASPIA	Australian Salary Packaging Industry Association
ASX	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691), as the context requires
ASX Listing Rules	The official listing rules of ASX
ASX Settlement Operating Rules	The operating rules of ASX Settlement Pty Limited (ABN 49 008 504 532)
ATO	Australian Taxation Office
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board
BBSY	Bank Bill Swap Bid Rate
benefit items	Items available for salary packaging by the employee which have been approved by their employer
Board	The board of directors of the Company
Broker(s)	Any one or all ASX participating organisation(s) agreed by Macquarie, the Issuer and CIMB
Broker Firm Offer	The offer of Shares under this Prospectus to Australian resident clients of Brokers who have received a firm allocation of Shares from their Broker
Business Day	ASX business day in terms of the operating rules of the ASX markets and clearing and settlement facilities
CAGR	Compound annual growth rate
CHESS	Clearing House Electronic Subregister System operated in accordance with the Corporations Act
CGT	Capital gains tax
CIMB	CIMB Capital Markets (Australia) Ltd (ABN 17 000 757 111)
Closing Date	The date at which the Broker Firm Offer, the Priority Offer and the Employee Offer closes
Co-Manager	Each of Macquarie Equities Limited, Morgans Financial Limited and Ord Minnett Limited

Appendix A: Glossary

Term/abbreviation	Explanation
Company	Smartgroup Corporation Ltd (ACN 126 266 831)
Completion	Completion in respect of the allotment of Shares in accordance with the Underwriting Agreement
Conditions	The conditions to Completion of the Offer, being: + release of security held by ANZ in respect of the Existing Shares under Smartgroup's financing arrangements; and + ASX's approval of the Company's listing application
Constitution	The constitution of the Company
Corporations Act	Corporations Act 2001 (Cth)
CSIA	Customer Service Institute of Australia
CY	Calendar year beginning 1 January and ended or ending 31 December
Director(s)	The director or directors of the Company
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
Eligible Employee(s)	Full time and part time employee(s) of Smartgroup invited by the Company to participate in the Employee Offer
Employee(s)	A person or persons employed by Smartgroup
Employee Benefit Cards	Cards which allow employees working for Public Benevolent Institutes, charities and health sectors to pay for the purchases of items such as petrol, clothing, eating out and weekly groceries on a tax-free basis without the need for paperwork. PBI Solutions provides marketing and administrative services for the cards. The cards are issued by an Australian bank and are either Visa or MasterCard. The cards allow employees to access tax-free expense payments while eliminating the need to file paperwork and make reimbursement claims
Employee Customer	A person employed by an Employer Client
Employee Offer	The invitation to Eligible Employees to apply for Shares
Employer Client	An employer who has engaged Smartgroup to provide salary packaging administration, novated lease administration or fleet management services
Escrow Shareholders	The Existing Shareholder, Gentilly Holdings 2 Pty Limited (as trustee of the Carapiet Family Trust) and the Management Shareholders
Existing Shareholder	Smart Packages, which has executed a Share Sale Deed in favour of, and for the benefit, of SaleCo under which it offers to sell a portion of Existing Shares to SaleCo free from encumbrances and third party rights and conditional upon Listing
Existing Shares	Shares held by the Existing Shareholder as at the Prospectus Date
Exposure Period	The period specified in section 723(3) of the Corporations Act, being a minimum of seven days from the Prospectus Date, during which an Application must not be accepted. ASIC may extend this period by up to a further seven days after the end of this period

Appendix A: Glossary

Term/abbreviation	Explanation
Facilities Agreement	Facilities Agreement originally dated 21 May 2012 pursuant to which ANZ provided facilities with an aggregate value of just under A\$58,725,000
FBT exemption	An exemption from paying FBT in relation to a specific benefit type under specific circumstances (all employers)
FBT exemption cap	An exemption, applicable to a specific employer type, from paying FBT on taxable benefits with a combined value that does not exceed a set threshold (or 'Cap') amount
Fringe Benefits Tax (FBT)	An indirect tax paid by employers on the grossed-up taxable value of benefits provided to employees (or their associates) in respect of their employment
FBT rebate	A concession, applicable to a specific employer type, under which a rebate is paid by the ATO in relation to fringe benefits tax paid on benefits with a combined value that does not exceed a set threshold (or 'Cap') amount. The rebate is currently set at 48% of the FBT payable on the affected benefits
FBTAA	Fringe Benefits Tax Assessment Act 1986 (Cth)
Finance lease	Similar to an operating lease, a finance lease is a rental arrangement where the financier owns the vehicle, and a customer leases it from them for an agreed term. Under a finance lease, the customer maintains control over the servicing and maintenance of their business fleet. The customer pays a fixed monthly payment that covers the lease payment and basic fleet management services. A finance lease transfers the risk of ownership to the customer without transferring legal ownership. At the conclusion of the lease, the fleet manager may extend the lease term for a further term, or allow the customer to pay out the lease and enter into a new lease agreement on another vehicle
Fleet managed	The provision of a range of fleet management services, where the fleet manager does not fund the vehicle
Forecast Financial Information	Has the meaning given in Section 4
Forecast Period	Calendar year ending 31 December 2014
Government	The Australian Government
GST	Goods and services or similar tax imposed in Australia
GSTA	A New Tax System (Goods and Services Tax) Act 1999
Guaranteed Minimum	Guaranteed minimum allocation for the Employee Offer of \$1,500 under the Offer
Historical Financial Information	Has the meaning given in Section 4
IFRS	International Financial Reporting Standards
Independent Limited Assurance Report	The report in Section 8
Institutional Investors	An investor to whom offers or invitations of Shares can be made without the need for a lodged prospectus, including in Australia persons to whom offers or invitations of Shares can be made without the need for a lodged prospectus under Section 708 of the Corporations Act

Appendix A: Glossary

Term/abbreviation	Explanation
Institutional Offer	The invitation to Institutional Investors in Australia and a number of overseas jurisdictions, made pursuant to this Prospectus, as described in Section 7
Investigating Accountant	PwC
IPO	Initial Public Offering
IPO Shares	The New Shares and Existing Shares that are offered under this Prospectus
ITAA97	Income Tax Assessment Act 1997
Joint Bookrunners	Macquarie and CIMB
Joint Lead Managers	Macquarie and CIMB
Listing	The listing of the Company on ASX following Completion of the Offer
Macquarie	Macquarie Capital (Australia) Limited (ABN 79 123 199 548)
Management Shareholders	Deven Billimoria, Tim Looi, Dave Adler, Michael Ellies and Houda Lebbos
Net Promoter Score	A measure of customer loyalty. Customers are asked to answer a series of questions using a 0-10 scale. Under the customer loyalty framework, a 9 or 10 is necessary to be counted as net promoters. A score of 6 or less is counted as a detractor and will cancel out a positive 9 or 10. The net number of promoters (promoters less detractors) is then divided by the total survey respondents to calculate the percentage of net promoters
New Banking Facilities	The Facilities described in Section 4.6.3.2
New Shareholders	Persons acquiring Shares under the Offer
New Shares	Shares to be issued by the Company pursuant to this Prospectus
Novated lease	A finance or operating lease with the employer agreeing to meet the financial obligations of the lease. The employer is responsible for lease payments on behalf of the employee for so long as the employee is employed. The employee is responsible for the residual value indemnity if it is a finance lease
NPAT	Net profit after tax
NPATA	NPAT adjusted for the non-cash tax effected amortisation. It reflects the add-back of amortisation of intangibles net of the associated non-cash tax credit. The associated tax credit is lower than that implied by the corporate tax rate of 30%, reflecting that a proportion of the intangible amortisation is deductible for tax purposes and a portion is not deductible for tax purposes. The amortisation (net of tax) that has been added back to NPAT is only adjusted for the non-deductible portion and is consequently higher by the amount of the cash tax benefit. See Section 4.2.4 for further details
Offer	The offer under this Prospectus of 23.5 million New Shares by the Company and 47.0 million Existing Shares by SaleCo
Offer Period	The period from the Opening Date and ending on the Closing Date

Appendix A: Glossary

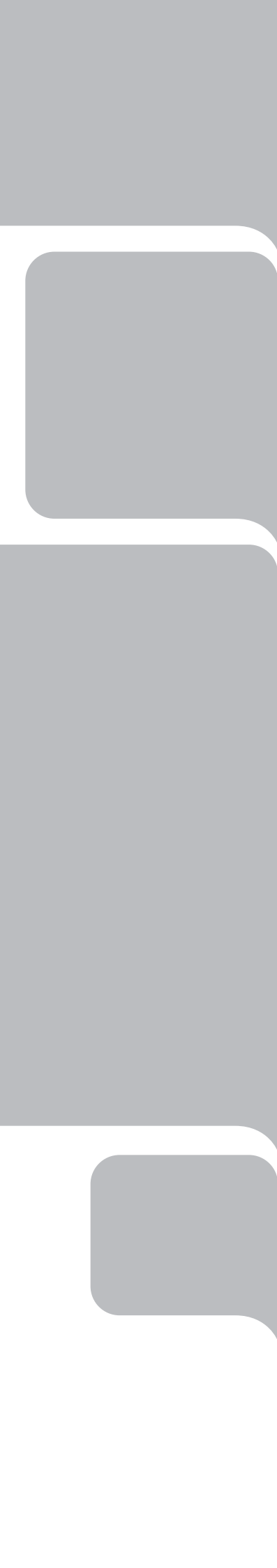
Term/abbreviation	Explanation
Offer Price	The price per Share that all Successful Applicants will pay for Shares under the Offer, being \$1.60 per Share
Official List	The official list of entities that ASX has admitted and not removed from listing
Opening Date	The date on which the Broker Firm Offer, the Priority Offer and the Employee Offer opens, expected to be 24 June 2014
Operating lease	An operating lease is an off balance sheet asset funding option where the fleet manager retains ownership of the vehicle, and thus also the residual and maintenance risk. It is a contract that allows for the use of an asset, but does not convey rights of ownership of the asset. The customer may choose any or all of the fleet management services as part of their monthly payment
PBI Solutions	A Smartgroup business unit which provides marketing and administrative services for Employee Benefit Cards to Public Benevolent Institutes on behalf of a major Australian bank to enable their Employee Customers to salary package eligible expenses
PBT	Profit before tax
PE	Price to earnings
Post-tax income	The salary received by the employee after income tax has been deducted
Pre-tax income	The salary received by the employee prior to income tax being deducted
Pricewaterhouse-Coopers	PricewaterhouseCoopers (ABN 52 780 433 757)
Priority Offer	The component of the Offer under which investors who have received a Priority Offer Invitation are invited to apply for Shares, as described in Section 7.4
Priority Offer Invitation	The invitation to selected investors in Australia to participate in the Priority Offer
Pro Forma Historical Cash Flows	Has the meaning given in Section 4
Pro Forma Forecast Cash Flows	Has the meaning given in Section 4
Pro Forma Forecast Result	Has the meaning given in Section 4
Pro Forma Historical Balance Sheet	Has the meaning given in Section 4
Pro Forma Historical Financial Information	Has the meaning given in Section 4
Pro Forma Historical Results	Has the meaning given in Section 4
Prospectus	This document dated 16 June 2014 (including the electronic form of this document), and any replacement or supplementary prospectus in relation to this document
Prospectus Date	The date of this Prospectus, being 16 June 2014

Appendix A: Glossary

Term/abbreviation	Explanation
Public Benevolent Institute (PBI)	One of the categories of charity that can register with the Australian Charities and Not-for-profits Commission. It is a charitable institution that provides benevolent relief to people in need
PwC	PricewaterhouseCoopers Securities Ltd (ACN 003 311 617, ABN 54 003 311 617, the holder of Australian Financial Services Licence No. 244572)
Redeemable Preference Shares	Mandatory Redeemable Preference Shares in the capital of the Company
Salary packaging	An agreement between the employee and the employer which allows an employee's salary to be taken as benefits before tax (payments made by the employer on behalf of the employee for benefits instead of salary), in accordance with ATO guidelines expressed in Taxation Ruling TR 2001/10
SaleCo	Smartgroup SaleCo Limited (ACN 168 715 562)
SaleCo Director(s)	The director or director(s) of SaleCo
Seqoya	A Smartgroup business unit which licenses a proprietary salary packaging software solution under the 'Seqoya' brand to organisations to assist them in managing salary packaging services
Settlement	Settlement in respect of the Shares the subject of the Offer, occurring as described in the Underwriting Agreement
Share	A fully paid ordinary share in the capital of the Company
Share Registry	Link Market Services Limited (ABN 54 083 214 537)
Share Sale Deed	The Share Sale Deed dated 13 June 2014 between the Existing Shareholder, SaleCo and the Company
Shareholder	The registered holder of a Share
Smart Packages	Smart Packages Pte Ltd
Smartfleet	A Smartgroup business unit which offers a fleet management solution via a proprietary web-based fleet management system as well as a comprehensive suite of vehicle management services
Smartgroup	Collectively, the Company and its subsidiaries
Smartgroup Offer Information Line	1800 237 687 (toll free within Australia) or +61 1800 237 687 (outside Australia) in each case, open from 8.30am to 5.30pm (Sydney time) Monday to Friday until Completion
Smartleasing	A Smartgroup business unit which offers novated leasing services including the procurement of vehicles, vehicle financing and other associated products
Smartsalary	Smartsalary Pty Limited, the Smartgroup business unit which offers outsourced salary packaging administration services to employers with whom there is a contractual relationship, and their employees as the context requires
Smartsalary Group	Smartsalary Group Pty Ltd (ACN 119 344 740)
Sole Global Coordinator and Underwriter	Macquarie

Appendix A: Glossary

Term/abbreviation	Explanation
Statutory Forecast Cash Flows	Has the meaning given in Section 4
Statutory Forecast Result	Has the meaning given in Section 4
Statutory Historical Balance Sheet	Has the meaning given in Section 4
Statutory Historical Cash Flows	Has the meaning given in Section 4
Statutory Historical Financial Information	Has the meaning given in Section 4
Statutory Historical Results	Has the meaning given in Section 4
STIP	Short Term Incentive Plan
Successful Applicant(s)	Any one or all Applicant(s) or Institutional Investor who is issued or transferred Shares under the Offer
Tailored Automotive Insurances (TAINS)	A Smartgroup business unit which distributes automotive insurance products to other Smartgroup business units as well as to third party wholesale customers
TFN	Tax file number
Total Proceeds	The number of IPO Shares to be issued or transferred under the Institutional Offer and the Broker Firm Offer multiplied by the Offer Price
Underwriting Agreement	The agreement of that name between the Company, SaleCo and the Joint Lead Managers dated on or about the Prospectus Date
United States or US	United States of America
US Person	Has the meaning given in Regulation S under the US Securities Act
US Securities Act	United States Securities Act of 1933, as amended, supplemented or modified from time to time
Usaha Tegas	Usaha Tegas Sdn Bhd
Working Group	Not-for-profit Sector Tax Concession Working Group

The left side of the page features several overlapping gray shapes with rounded corners, creating a modern, layered background effect.

Significant Accounting Policies

Appendix B: Significant Accounting Policies

The principal accounting policies adopted in the preparation of the Financial Information are set out below.

(A) Basis of preparation

a. Accounting standards

The Financial Information has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act. The Financial Information also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

b. Historical cost convention

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(B) Principles of consolidation

a. Subsidiaries

The Financial Information incorporates the assets and liabilities of all subsidiaries of the Company and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are derecognised from the date that control ceases.

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

(C) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Board has appointed executive management to assess the financial performance and position of Smartgroup, and makes strategic decisions on an ongoing basis.

The chief operating decision maker has been identified as the Chief Executive Officer and the Chief Financial Officer.

(D) Foreign currency translation

a. Functional and presentation currency

Items included in the financial statements of each of Smartgroup's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency', being Australian dollars). The Financial Information is presented in Australian dollars, which is Smartgroup's functional and presentation currency.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(E) Revenue recognition

a. Rendering of services and commissions

Revenue from the rendering of services and commissions is recognised upon delivery of the service to the customer. The amount recognised is net of contract management fees and other commissions collected on behalf of third parties.

Appendix B: Significant Accounting Policies

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.

Smartgroup recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of Smartgroup's activities. Smartgroup bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

b. Finance

Finance revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Interest earned from cash held on behalf of customers is recognised as revenue from rendering of services and commissions.

(F) Income tax

The income tax expense for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Australia where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Smartgroup has implemented the tax consolidation legislation. As a consequence, the relevant entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(G) Business combinations

The acquisition method of accounting, including common control transactions, which applies *AASB 3 Business Combinations* by analogy, is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by Smartgroup. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially

Appendix B: Significant Accounting Policies

at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Smartgroup recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(H) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's 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 that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(I) Cash and cash equivalents

For the purpose of presentation in the Financial Information, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(J) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that Smartgroup will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments may be considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent year, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(K) Property and equipment

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

Appendix B: Significant Accounting Policies

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Smartgroup and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased property and equipment, the shorter lease term. The estimated useful life of the assets is as follows:

- + Motor vehicles – 3 years;
- + Office equipment – 3 to 6 years;
- + Computer equipment – 2 to 3 years; and
- + Furniture, fixtures and fittings – 5 to 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(L) Goodwill and identifiable intangible assets

Intangible assets acquired separately or in a business combination are initially recognised at cost. The cost of an intangible asset acquired by Smartgroup in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses by Smartgroup. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the income statement in the year in which the expenditure is incurred

a. Goodwill

Goodwill acquired in a business combination is included in intangible assets. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b. Software and website intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll-related costs of employees' time spent on the project.

Software and website costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Smartgroup has an intention and ability to use the asset.

c. Brand name and logos

Brand names and logos acquired in a business combination are recognised separately to goodwill and included in other intangible assets. They have been assessed as having an indefinite useful life on the basis that the asset is allocated to businesses that are expected to continue into perpetuity.

Appendix B: Significant Accounting Policies

d. Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are recognised separately to goodwill and included in other intangible assets. Amortisation is calculated based on the timing of projected cash flows of the contracts.

(M) Trade and other payables

These amounts represent liabilities for goods and services provided to Smartgroup prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(N) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings, using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawdown, the fee is capitalised as a prepayment for liquidity services and amortised over the years of the facility to which it relates.

Redeemable Preference Shares, which are mandatorily redeemable at the option of the holder, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless Smartgroup has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(O) Provisions

Provisions for legal claims, service warranties, make good obligations and other operating liabilities are recognised when Smartgroup has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(P) Employee entitlements

a. Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the reporting period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

b. Long term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service, is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Appendix B: Significant Accounting Policies

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

c. Bonus plans

Smartgroup recognises a liability and an expense for bonuses. Smartgroup recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(Q) Contributed equity

Shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each fully paid share is entitled to one vote. Shares have no par value and the Company does not have a limited amount of authorised capital.

(R) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting year.

(S) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

The Closing Date under the Broker Firm Offer is 5:00pm (Sydney time) on 30 June 2014.

SIQ BRO001

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are Smartgroup Corporation Ltd (“Smartgroup”) Shares. Further details about the Shares are contained in the Prospectus dated 16 June 2014 issued by Smartgroup and SaleCo. No Shares will be sold on the basis of this Prospectus later than 13 months after the date of the Prospectus. While the Prospectus is current, Smartgroup will send paper copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

The Corporations Act prohibits any person from passing onto another person the Application Form in relation to the Offer, unless the Application Form is attached to or accompanies a complete and unaltered copy of the Prospectus (or an electronic copy of this Prospectus). A person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary or replacement prospectus. Applications for Shares will only be accepted if made on an Application Form that was attached to or accompanies the Prospectus (or in its paper copy form which may be downloaded in its entirety with the electronic form of the Prospectus, at www.smartgroup.com.au).

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

- A** Insert the number of Shares you wish to apply for. The minimum Application under the Broker Firm Offer is A\$2,000 worth of Shares or as otherwise directed by your Broker and there is no maximum value of Shares that may be applied for under the Broker Firm Offer. You may be allocated all of the Shares applied for or a lesser number.
- B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the Offer Price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
- C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title. Applicants using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in CHES.
- D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of

TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Smartgroup will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

- E** Please enter your postal address for all correspondence. All communications to you from Smartgroup and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Smartgroup’s issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.

If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

ACKNOWLEDGEMENTS

I/we declare that by submitting this Application Form, I/we represent and warrant that I/we have read and understood the Prospectus to which this Application Form relates. By lodging this Application Form, I/we represent, warrant and agree that I/we am/are and each person on whose behalf I am/we are submitting this Application Form is named on the front of this Application Form and has a registered address in Australia and is not located in the United States and is not acting for the account or benefit of any person in the United States. I/we understand that the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States, and accordingly, the Shares may not be offered, sold or resold in the United States or in any other jurisdiction outside Australia except in transactions exempt from or not subject to registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which such Shares are offered and sold. I/we have not, and I/we agree that I/we will not, send this Application Form or any materials relating to the Offer to any person in the United States; and I/we hereby authorise the Company to complete and execute any documents necessary to effect transfer or issue of any Shares.

DECLARATION

By submitting this Application Form, I/we declare, represent and warrant that this Application Form is completed and lodged in accordance with the Prospectus and subject to the declarations/statements in the Prospectus and this Application Form and declare that all declarations, details and statements made by me/us are complete and accurate. I/we agree to be bound by the Constitution of the Company and the terms of the Offer and agree to the allocation to me/us of any number of Shares equal to or less than the value indicated above which may be allocated to me/us pursuant to the Prospectus including, without limitation, the terms set out in Section 7. It is not necessary to sign an Application Form. Any application may be rejected without giving reasons, including where the Application Form is not properly completed or where a cheque submitted with the Application Form is dishonoured. If your Application Form is not completed correctly, is late or if the accompanying payment is for the wrong amount, it may still be traded as valid. The Company’s decision as to whether to treat your application as valid, and how to construe, amend or complete it, is final. An application may be accepted in part only and applicants may be allocated fewer Shares than the applicant applied for. The Company’s decision on the number of Shares to be allocated to you is final. An applicant will not, however, be treated as having offered to subscribe for a higher dollar value of Shares than as indicated on the Application Form. If an Application Form is rejected, or is accepted in part only, the applicant will receive a refund of the relevant Application Monies without interest (as applicable). No refunds pursuant to rounding will be provided.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company’s full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners’ personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

The Closing Date under the Broker Firm Offer is 5:00pm (Sydney time) on 30 June 2014.

SIQ BRO001

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are Smartgroup Corporation Ltd (“Smartgroup”) Shares. Further details about the Shares are contained in the Prospectus dated 16 June 2014 issued by Smartgroup and SaleCo. No Shares will be sold on the basis of this Prospectus later than 13 months after the date of the Prospectus. While the Prospectus is current, Smartgroup will send paper copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

The Corporations Act prohibits any person from passing onto another person the Application Form in relation to the Offer, unless the Application Form is attached to or accompanies a complete and unaltered copy of the Prospectus (or an electronic copy of this Prospectus). A person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary or replacement prospectus. Applications for Shares will only be accepted if made on an Application Form that was attached to or accompanies the Prospectus (or in its paper copy form which may be downloaded in its entirety with the electronic form of the Prospectus, at www.smartgroup.com.au).

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

- A** Insert the number of Shares you wish to apply for. The minimum Application under the Broker Firm Offer is A\$2,000 worth of Shares or as otherwise directed by your Broker and there is no maximum value of Shares that may be applied for under the Broker Firm Offer. You may be allocated all of the Shares applied for or a lesser number.
- B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the Offer Price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
- C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title. Applicants using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in CHES.
- D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of

TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Smartgroup will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

- E** Please enter your postal address for all correspondence. All communications to you from Smartgroup and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Smartgroup’s issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.

If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

ACKNOWLEDGEMENTS

I/we declare that by submitting this Application Form, I/we represent and warrant that I/we have read and understood the Prospectus to which this Application Form relates. By lodging this Application Form, I/we represent, warrant and agree that I/we am/are and each person on whose behalf I am/we are submitting this Application Form is named on the front of this Application Form and has a registered address in Australia and is not located in the United States and is not acting for the account or benefit of any person in the United States. I/we understand that the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States, and accordingly, the Shares may not be offered, sold or resold in the United States or in any other jurisdiction outside Australia except in transactions exempt from or not subject to registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which such Shares are offered and sold. I/we have not, and I/we agree that I/we will not, send this Application Form or any materials relating to the Offer to any person in the United States; and I/we hereby authorise the Company to complete and execute any documents necessary to effect transfer or issue of any Shares.

DECLARATION

By submitting this Application Form, I/we declare, represent and warrant that this Application Form is completed and lodged in accordance with the Prospectus and subject to the declarations/statements in the Prospectus and this Application Form and declare that all declarations, details and statements made by me/us are complete and accurate. I/we agree to be bound by the Constitution of the Company and the terms of the Offer and agree to the allocation to me/us of any number of Shares equal to or less than the value indicated above which may be allocated to me/us pursuant to the Prospectus including, without limitation, the terms set out in Section 7. It is not necessary to sign an Application Form. Any application may be rejected without giving reasons, including where the Application Form is not properly completed or where a cheque submitted with the Application Form is dishonoured. If your Application Form is not completed correctly, is late or if the accompanying payment is for the wrong amount, it may still be traded as valid. The Company’s decision as to whether to treat your application as valid, and how to construe, amend or complete it, is final. An application may be accepted in part only and applicants may be allocated fewer Shares than the applicant applied for. The Company’s decision on the number of Shares to be allocated to you is final. An applicant will not, however, be treated as having offered to subscribe for a higher dollar value of Shares than as indicated on the Application Form. If an Application Form is rejected, or is accepted in part only, the applicant will receive a refund of the relevant Application Monies without interest (as applicable). No refunds pursuant to rounding will be provided.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company’s full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners’ personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.



Smartgroup Corporation Ltd

National Head Office

Level 8, 133 Castlereagh Street

Sydney NSW 2000