

Smartgroup Corporation Ltd

(Formerly Smartgroup Investments Ltd)

Interim financial report

For the half-year ended 30 June 2014

ABN 48 126 266 831



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Corporate directory

Directors

Michael Carapiet
Deven Billimoria
John Prendiville
Gavin Bell
Andrew Bolam

Company secretaries

Timothy Looi
Amanda Morgan

Principal registered office

Smartgroup Corporation Ltd
Level 8, 133 Castlereagh Street
Sydney Australia, 2000
Tel: 1300 855 538

Share registry

LINK Market Services
Level 12, 680 George Street
Sydney Australia, 2000
Tel: 1300 554 474

Auditor

PricewaterhouseCoopers
Darling Park, Tower 2
201 Sussex Street
Sydney Australia, 2000

Solicitors

Minter Ellison Lawyers
Level 23, 525 Collins Street
Melbourne 3000
Tel: 03 8608 2000

Website

www.smartgroup.com.au

Directors' Report

The directors of Smartgroup Corporation Ltd (formerly Smartgroup Investments Ltd, the Company) present their report on the consolidated entity, consisting of the Company and the entities that it controlled at the end of, and during, the half-year ended 30 June 2014 (the Group).

Directors

The names of the Company's directors in office during the half-year and to the date of this report are as follows. Directors were in office for this entire half-year, unless otherwise stated.

Michael Carapiet (appointed 18 February 2014)
Deven Billimoria (appointed 13 March 2014)
John Prendiville (appointed 18 February 2014)
Gavin Bell (appointed 18 February 2014)
Tarcisio Medalla (resigned 18 February 2014)
Lim Ghee Keong (resigned 18 February 2014)
Jeremy Paul Abson (resigned 18 February 2014)
Maureen Toh Siew Guat (resigned 18 February 2014)
Andrew Bolam

Company secretaries

Timothy Looi
Amanda Morgan (appointed 26 June 2014)

Operating and financial review

A review of the operations of the consolidated entity during the half-year ended 30 June 2014 and the results of these operations are set out in the attached Report on Operations.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Auditor independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Signed in accordance with a resolution of the directors.



Michael Carapiet
Director
Sydney, Australia
26 August 2014



Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Smartgroup Corporation Ltd and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to be 'Scott Walsh'.

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
26 August 2014

Financial Statements

For the half-year ended 30 June 2014

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Smartgroup Corporation Ltd (formerly Smartgroup Investments Ltd) is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is as follows:

Smartgroup Corporation Ltd
Level 8, 133 Castlereagh Street
Sydney Australia, 2000

These financial statements were authorised for issue by the directors on 26 August 2014. The directors have the power to amend and reissue the financial statements.

Consolidated statement of comprehensive income

For the half-year ended 30 June 2014

		Half-year ended 30 Jun 2014	Half-year ended 30 Jun 2013
	Notes	\$'000	\$'000
Rendering of services and commissions		34,780	31,140
Finance revenue		286	179
Revenue		35,066	31,319
Employee benefits expense		(16,226)	(14,021)
Administration and corporate costs		(3,196)	(2,430)
Advertising and marketing expenses		(1,049)	(1,169)
Occupancy expenses		(931)	(905)
Other expenses		(1,118)	(1,398)
Transaction costs	A2	(10,636)	-
Depreciation expense		(550)	(603)
Amortisation expense		(6,304)	(6,485)
Finance costs		(1,835)	(2,011)
(Loss)/Profit before income tax		(6,779)	2,297
Income tax expense	A2	1,755	(935)
(Loss)/Profit after tax		(5,024)	1,362
Total comprehensive income for the half-year		(5,024)	1,362
(Loss)/Profit for the half-year attributable to the members of the parent		(5,024)	1,362
(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the company			
Basic (loss) earnings per share		\$ (0.06)	\$ 0.05
Diluted (loss) earnings per share		\$ (0.06)	\$ 0.05

The above Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 31 December 2013

	Notes	30 Jun 2014 \$'000	31 Dec 2013 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		18,021	16,850
Trade and other receivables		8,030	7,909
Other current assets		1,275	1,121
Deferred transaction costs	A2	1,727	-
Income tax receivable		697	-
Total Current Assets		29,750	25,880
Non-current Assets			
Deferred tax asset		3,487	346
Property and equipment		2,660	3,020
Goodwill and intangible assets		68,684	74,988
Total Non-current Assets		74,831	78,354
TOTAL ASSETS		104,581	104,234
LIABILITIES			
Current Liabilities			
Trade and other payables (excluding those in relation to transaction costs)		13,371	13,972
Payables for transaction costs		7,128	-
Provisions		2,839	2,595
Income tax payable		-	261
Interest-bearing loans and borrowings	A3	53,461	5,000
Other liabilities		999	642
Total Current Liabilities		77,798	22,470
Non-current Liabilities			
Provisions and other liabilities		830	785
Other liabilities		17	17
Derivative financial instrument		95	95
Interest-bearing loans and borrowings	A3	-	50,902
Total Non-current Liabilities		942	51,799
TOTAL LIABILITIES		78,740	74,269
NET ASSETS		25,841	29,965
EQUITY			
Contributed equity	A4(a)	26,000	26,000
Retained earnings		(1,059)	3,965
Reserves	A4(c)	900	-
TOTAL EQUITY		25,841	29,965

The above Consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 30 June 2014

	Attributable to the owners of the parent			
	Contributed equity \$'000	Retained earnings \$'000	Reserves \$'000	Total equity \$'000
At 31 December 2012	26,000	992	-	26,992
Profit for the half-year ended 30 June 2013	-	1,362	-	1,362
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	1,362	-	1,362
Balance at 30 June 2013	26,000	2,354	-	28,354
At 31 December 2013	26,000	3,965	-	29,965
Loss for the half-year ended 30 June 2014	-	(5,024)	-	(5,024)
Other comprehensive income	-	-	-	-
Net movement in share-based payments reserve	-	-	2,825	2,825
Net movement in other reserves	-	-	(1,925)	(1,925)
Total comprehensive income for the year	-	(5,024)	900	(4,124)
Balance at 30 June 2014	26,000	(1,059)	900	25,841

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

Consolidated statement of cash flows

For the half-year ended 30 June 2014

	Half-year ended 30 Jun 2014 \$'000	Half-year ended 30 Jun 2013 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	37,555	33,670
Payments to suppliers and employees (inclusive of goods and services tax)	(24,127)	(22,325)
Payments to suppliers in relation to transaction costs (inclusive of goods and services tax)	(4,871)	-
Interest received from operations	364	376
Interest paid	(3,419)	(1,069)
Income taxes paid	(1,604)	(3,141)
Net cash inflows from operating activities	3,898	7,511
Cash flows from investing activities		
Interest received from investments	286	179
Payments for the purchase of property and equipment	(190)	(41)
Payment for business combinations	-	(1,016)
Net cash in/(out) flows from investing activities	96	(878)
Cash flows from financing activities		
Payments for qualifying transaction costs in relation to the issue of shares	(203)	-
Repayments of bank borrowings	(2,620)	(2,500)
Net cash outflows from financing activities	(2,823)	(2,500)
Net increase in cash and cash equivalents	1,171	4,133
Cash and cash equivalents at beginning of year	16,850	7,347
Cash and cash equivalents at end of year	18,021	11,480

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

Notes to the financial statements

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Notes to the financial statements

A1 Segment Information

(a) Description of segments

The Group's chief operating decision maker examines the Group's performance from a product perspective and has identified two reportable segments of its business:

1. Salary packaging: This part of the business provides outsourced salary packaging services, novated leasing financing and management, salary packaging software solutions, and the marketing of salary packaging debit cards.
2. Fleet management: This part of the business provides end-to-end fleet management services.

(b)

	Salary Packaging \$'000	Fleet Management \$'000	Total \$'000
Half year ended 30 June 2014			
Total segment revenue	31,180	4,235	35,415
Inter-segment revenue	-	(635)	(635)
Revenue from external customers (i)	31,180	3,600	34,780
Depreciation	(510)	(41)	(551)
EBITA (ii)	10,201	2,208	12,409
Finance costs	-	(84)	(84)
Finance revenue	340	27	367
Amortisation	(284)	(308)	(592)
Income tax expense	(3,085)	(553)	(3,638)
Half year ended 30 June 2013			
Total segment revenue	29,064	2,710	31,774
Inter-segment revenue	-	(634)	(634)
Revenue from external customers (i)	29,064	2,076	31,140
Depreciation	(561)	(41)	(602)
EBITA (ii)	9,681	1,209	10,890
Finance revenue	140	36	176
Amortisation	(316)	(468)	(784)
Income tax expense	(2,870)	(234)	(3,104)
Total segment assets (iii)			
31 December 2013	78,952	11,421	90,373
30 June 2014	51,372	10,755	62,127
Total segment liabilities (iv)			
31 December 2013	11,952	8,777	20,729
30 June 2014	12,201	6,821	19,022

(c) Understanding the segment results

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the income statement.

	Half-year ended 30 Jun 2014 \$'000	Half-year ended 30 Jun 2013 \$'000
<i>Segment revenue reconciles to total revenue from continuing operations as follows:</i>		
Total segment revenue	35,415	31,774
Inter-segment eliminations	(635)	(634)
Finance revenue	286	179
Total revenue	35,066	31,319

How our numbers are calculated (continued)

(c) Understanding the segment results (continued)

(ii) EBITA

EBITA is calculated as profit before income tax, amortisation expense, finance costs and finance revenue. This is the primary measure of profitability of each segment used by the Group.

	Half-year ended 30 Jun 2014 \$'000	Half-year ended 30 Jun 2013 \$'000
<i>EBITA reconciles to the profit before tax as follows:</i>		
Total segment EBITA	12,409	10,890
EBITA attributable to corporate activities	(11,335)	(276)
Finance revenue	286	179
Finance costs	(1,835)	(2,011)
Amortisation	(6,304)	(6,485)
(Loss)/Profit before income tax	(6,779)	2,297

(iii) Segment assets

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment.

	30 Jun 2014 \$'000	31 Dec 2013 \$'000
<i>Segment assets reconcile to total assets as follows:</i>		
Segment assets	62,127	90,373
Assets attributable to corporate activities		
Cash and cash equivalents	14,601	183
Other current assets	70	-
Deferred transaction costs	1,727	-
Goodwill and identifiable intangible assets	58,538	64,250
Deferred tax asset (liability) *	679	(2,085)
Inter-segment eliminations	(33,161)	(48,487)
Total assets as per the consolidated balance sheet	104,581	104,234

* As at 31 December 2013, the Group had a net deferred tax asset position (30 June 2014: asset). However, for the deferred tax position attributable to the Corporate activities, the net balance is a liability position at 31 December 2013. Therefore this deferred tax liability position has been allocated in the assets above.

(iv) Segment liabilities

Segment liabilities are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment.

<i>Segment liabilities reconcile to total liabilities as follows:</i>		
Segment liabilities	19,022	20,729
Liabilities attributable to corporate activities		
Trade and other payables	1,194	2,891
Payables for transaction costs	7,128	-
Provisions	2	-
Derivative financial instruments	95	95
Income tax payable	-	261
Interest bearing loans and borrowings	53,461	75,902
Inter-segment eliminations	(2,162)	(25,609)
Total liabilities as per the consolidated balance sheet	78,740	74,269

(d) Accounting policy for segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The board of the Group has appointed executive management to assess the financial performance and position of the Group, 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.

How our numbers are calculated (continued)

A2 Significant items

(a) Costs in relation to the initial public offering

On 2 July 2014, Smartgroup Corporation Ltd (formerly Smartgroup Investments Ltd) undertook an initial public offering on the Australian Stock Exchange. In the half-year ended 30 June 2014, the Group incurred qualifying transaction costs of \$2,467,000 in anticipation of the issuance of ordinary shares under the initial public offering. The qualifying transaction costs have been measured as being the portion of transaction costs that relate to the issue of new shares under the initial public offering.

The Group has elected to defer the qualifying transaction costs of \$1,727,000, net of income tax, on the balance sheet as at 30 June 2014 until the shares are issued on the date of the initial public offering. The deferred costs will be subsequently reclassified as a deduction from equity when the shares are recognised as required under AASB 132. The cash outflows that relate to these qualifying transaction costs has been recognised as a Cashflow from financing activities in the Consolidated statement of cash flows.

The Group has also incurred several transaction costs which are not considered to be qualifying assets. These have been classified as Transaction costs in profit and loss for the half-year ended 30 June 2014, a total of \$10,636,000. The portion of cash outflows that relate to other expenses incurred in relation to the initial public offering have been classified as Cashflow from operating activities in the Consolidated statement of cash flows.

(b) Income tax expense

Income tax expense is recognised based on management's estimate of the actual income tax expected for the half-year. The income tax position for the half-year to 30 June 2014 is 26%, compared to 41% for the six months ended 30 June 2013. The lower tax rate in the current half-year is the result of a \$900,000 non-deductible expense related to a share-based payment. The tax rate for the half-year ended 30 June 2013 is above the company tax rate of 30% due to a tax adjustment in relation to acquisitions made in prior years.

A3 Borrowings

	30 Jun 2014 \$'000	31 Dec 2013 \$'000
<i>Current</i>		
Bank loans (secured) (i)	33,461	5,000
Mandatory redeemable preference shares (ii)	20,000	-
	53,461	5,000
<i>Non-current</i>		
Bank loans (secured) (i)	-	30,902
Mandatory redeemable preference shares (ii)	-	20,000
	-	50,902
Total borrowings	53,461	55,902

(i) Borrowings

In May 2014, the Group renegotiated its existing loan facility, with an effective date of 2 July 2014. Under the Amended Facility Agreement, the existing facility, comprising of Tranches A to F, totalling \$57,000,000 was extinguished on 2 July 2014. The amended facility will be the equivalent of \$30,000,000 and the key features of the facility include:

- Tranche A: \$22,000,000, three-year bullet revolving term facility
- Tranche B: \$5,000,000, three-year revolving working capital facility
- Tranche C: \$3,000,000, three-year letter of credit facility
- Ancillary facilities: \$1,850,000, being credit card and electronic pay away facilities

Whilst the new loan is not effective at 30 June 2014, the Amended Facility Agreement has resulted in a reclassification of the interest-bearing loan from non-current (as at 31 December 2013) to current as at 30 June 2014. The existing loan has been extinguished through a combination of funds raised from the initial public offering on 2 July 2014 and the drawdown of the amended facility on the same date.

As at 30 June 2014 there have been no changes to loan covenants or interest rate risk since the last reporting date. The facility is guaranteed and secured by the Company and certain of the Company's subsidiaries.

Compliance with loan covenants

The Group has complied with the financial covenants of its borrowing facilities during the half-year ended 30 June 2014 and the financial year ended 31 December 2013.

How our numbers are calculated (continued)

(ii) Mandatory redeemable preference shares

The Mandatory redeemable preference shares (MRPS) are redeemable at the option of the holder at any time before their maturity on 6 June 2021. The holder of the MRPS, Smart Packages Pte Ltd (SPPL), a related party, issued a letter to the Directors of the Company on 21 May 2014 in anticipation of the initial public offering with redemption requested for 2 July 2014. As such, the MRPS has been classified as a current liability at 30 June 2014.

A4 Equity

(a) Contributed equity

On 30 April 2014, a share-split of 1 to 3 shares took place for the contributed equity of Smartgroup Corporation Ltd (formerly Smartgroup Investments Ltd).

	No. of shares	Value per share	Total value of shares \$'000
At 31 December 2013	26,000,000	\$ 1.00	26,000
Share split on 30 April 2014	78,000,000	\$ 0.33	26,000
Balance at 30 June 2014	78,000,000		26,000

(b) Dividends

No dividend was paid or declared in the half-year ended 30 June 2014 (half-year ended 30 June 2013: nil).

There is no provision for an interim dividend in respect of the half-year ended 30 June 2014. Provisions for dividends to be paid by the Company are recognised in the Consolidated balance sheet as a liability and a reduction in retained earnings when the dividend has been declared.

(c) Reserves

A Share-based payments reserve has been recognised at 30 June 2014 reflecting share based payments awarded to the Chairman and senior management of the Company in association with the initial public offering. The Other reserve reflects the payment for shares made prior to balance date which have been issued to directors and senior management subsequent to balance date. On issuance of these shares, amounts in this reserve will be netted from contributed equity.

	30 Jun 2014 \$'000	31 Dec 2013 \$'000
Share-based payments reserve	2,825	-
Other reserves	(1,925)	-
	900	-

A5 Events occurring after the reporting period

On 2 July 2014, Smartgroup Corporation Ltd (formerly Smartgroup Investments Ltd) undertook an initial public offering on the Australian Stock Exchange. In the initial public offering, 23,461,150 new shares were issued for a value of \$37,537,840. Subsequent to the initial public offering, the Group extinguished in full the borrowing facility on 2 July 2014 and subsequently made a drawdown of \$22,000,000 under the Amended Facility Agreement (as referred to in section A3). The MRPS principal of \$20,000,000 and related accrued interest of \$790,000 was also repaid to Smartpackages Pte Ltd on 2 July 2014.

The financial effects of the above transactions have not been brought to account at 30 June 2014 and have been brought to account on 2 July 2014 and will be presented in the annual financial report in for full year ended 31 December 2014.

Other than the matters noted above, no other matters or circumstances have arisen since 30 June 2014 that have significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

A6 Related party transactions

During the half-year ended 30 June 2014, a related party, being SPPL, was paid \$2,569,000 of interest on the outstanding MRPS, and a share-based payment to directors and senior management was recognised of \$2,825,000. Under the terms of these arrangements equity was assigned and/or issued to directors and senior management subsequent to balance date. There were no other transactions with related parties in the period (2013: nil).

How our numbers are calculated (continued)

A7 Basis of preparation

This condensed consolidated Interim financial report for the half-year reporting period ended 30 June 2014 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This Interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2013 and any public announcements made by Smartgroup Corporation Ltd (previously Smartgroup Investments Ltd) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Going concern

As at 30 June 2014, the Company had net current liabilities of \$48,048,000 (31 December 2013: net current assets of \$3,410,000) and reported a loss for the half-year ended 30 June 2014 of \$5,024,000 (half-year ended 30 June 2013: profit after tax of \$1,362,000). At 30 June 2014, due to the planned initial public offering and associated refinancing, the interest bearing loans have been reclassified as current (as detailed in section A3). The MRPS has also been classified as current due to a redemption option available to the holders. On 2 July 2014, the MRPS (\$20,000,000) has been repaid using funds received from the initial public offering, and amounts drawn under the existing borrowing facility (\$33,461,000) was repaid and a new borrowing facility was drawn-down at a value of \$22,000,000 with a three year term. Therefore, the interest bearing loans have been classified as non-current from 2 July 2014. On this basis, the Directors of the Company believe that the Company will be able to pay its debts as and when they fall due, and accordingly have prepared the financial report on a going concern basis.

(b) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There is not expected to be any changes to the disclosures in the 31 December 2014 annual report as a consequence of these amendments.

(c) Impact of standards issued but not yet applied by the Group

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard was re-issued in December 2010 to include the accounting requirements for classifying and measuring financial liabilities and the derecognition requirements for financial assets and liabilities. The amendments to AASB 9 are applicable to annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

When adopted, the Standard is not anticipated to affect the Group as the changes are largely focused around accounting for available-for-sale financial assets, whereby AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the Group's accounting for financial liabilities, as all of its financial liabilities are classified at amortised cost.

In addition to the above accounting standard which is applicable in future years, the Group notes there are several other accounting standards and interpretations to be made applicable in future years for which the Group does not expect to materially affect the Group's financial results upon adoption.

Directors declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 15 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as, and when they become due and payable.

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



Michael Carapiet
Director
Sydney, Australia
26 August 2014



Independent auditor's review report to the members of Smartgroup Corporation Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Smartgroup Corporation Ltd (the Company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Smartgroup (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Smartgroup Corporation Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A blue ink signature, likely of a PricewaterhouseCoopers representative, written in a cursive style.

PricewaterhouseCoopers

A blue ink signature, likely of Scott Walsh, written in a cursive style.

Scott Walsh
Partner

Sydney
26 August 2014

Review of Operations First Half 2014

1 Overview

Fig 1.1 Financial and Operational Metrics

	H1 2014 Proforma	H1 2013 Statutory	% Change	Full year 2014 Prospectus	H1 2014 % of Prospectus
Operating revenue \$m	34.8	31.1	12%	69.6	50%
EBITA \$m	11.5	10.6	8%	22.6	51%
NPATA \$m	8.5	6.5	31%	16.5	52%
Cashflow from operations \$m	11.3	7.5	51%	18.9	60%

	H1 2014	H1 2013	% Change	Full year 2014 Prospectus
Packages	111,889	95,663	17%	118,457
Novated leases under management	30,755	29,216	5%	
Fleet managed vehicles	13,950	12,395	13%	
Employees	346	296	17%	347

(1) Refer to Section 3, Figure 3.1 for the reconciliation between H1 2014 statutory and H1 2014 proforma

(2) EBITA is earnings before interest, tax and amortisation

(3) NPATA is net profit after tax adjusted to exclude the non-cash tax effected amortisation of intangibles

(4) All operational metrics count is at period end

The Group's performance for the reporting period has shown strong growth with reported revenues and EBITA of \$34.8m and \$11.5m respectively¹. These represent increases of 12% and 8% on the prior corresponding period. The H1 2014 proforma NPATA of \$8.5m is approximately 52% of the full year prospectus target of \$16.5m.

At 30 June, the Group managed salary packaging for 111,889 employee customers, representing an increase of 16,226 customers or 17% growth from the prior corresponding period. The increase in customers is attributable primarily to three new public health sector clients. Two of these clients transitioned from in-house salary packaging solutions, with the other client moving over from another outsourced salary packaging provider. All three new clients are part of the NSW Local Health District (LHD) network.

The number of novated lease vehicles under management was 30,755 at 30 June. This is an increase of 1,539 or 5% growth from the prior corresponding period.

Total employees by headcount increased to 346, representing an increase of 50 or 17% growth from the prior corresponding period. This increase in employees is due to additional staffing to service the new contracts as well as to ensure an increased uptake of packaging employees.

This is the first reporting period in which the Group has operated as a listed entity.

¹ After adjusting for IPO-related costs and certain normalisation to reflect the capital structure post-IPO. A reconciliation of H1 2014 statutory results to H1 2014 proforma results is in section 3

2 Highlights

2.1 Initial Public Offering (IPO) and prospectus target

The Group was listed on the Australian Securities Exchange on 2 July 2014 with an initial market capitalisation of \$162m. The majority shareholder, Smartpackages Pte Ltd sold 47,561,655 shares at \$1.60 each and \$37.5m was raised through the issue of 23,461,150 new shares at \$1.60 each through the IPO process. The funds raised were used primarily to retire Redeemable Preference Shares, satisfy the IPO transaction costs and partially pay down bank debt. At IPO, Smartpackages had 30% of the share capital and agreed to a voluntary escrow of its holdings until the release of the full year 2014 results.

The prospectus forecasted a proforma NPATA result of \$16.5m for the 12 months to 31 December 2014. Smartgroup is on track to achieve its prospectus forecast with an NPATA result of \$8.5m², or 52% of the full year target, after the first six months.

2.2 NSW Health

Our results since H1 2013 include the implementation of three significant client contract wins as outlined below:

- North Sydney Local Health District (Dec-13, c.6,000 employee customers)
- Northern NSW Local Health District (Apr-14, c.3,000 employee customers)
- St Vincent's Sydney (Apr-14, c.3,000 employee customers)

2.3 Melbourne Health

Melbourne Health has been a long-standing client of Smartsalary since 2003. Following an open tender process Smartsalary was selected as the preferred tenderer, and in July 2014 signed an agreement with Melbourne Health for the provision of salary packaging services for an initial term of 2 years. Melbourne Health has approximately 8,000 employees with around 6,400 employees packaging with Smartsalary.

2.4 Operations

a) Net Promoter Score

Smartgroup believes that the best proponent of its services comes from word-of-mouth customer referrals. As such, Smartsalary introduced Net Promoter Score (NPS) in 2009 as a key metric to measure the quality of customer employee engagement. NPS ranges from -100% to +100%. Smartsalary's NPS score at July 2014 was 50%, a level attained by few organisations nationally and indeed globally.

b) Aon Hewitt Best Employer

People are at the foundation of our strategy and in 2013 and again in 2014 Smartsalary was one of only a handful of companies in Australia and New Zealand to be accredited as an Aon Hewitt Best Employer. The accreditations recognise (a) employee engagement, (b) committed leadership, (c) high-performance culture and (d) differentiated employment branding.

2.5 Customer service

Smartsalary was first accredited by the Customer Service Institute of Australia (CSIA) in 2008. It was the NSW State Winner of the Australian Service Excellence Award (Medium Business Category) in 2011, 2012 and 2013 and was the National Winner of the Australian Service Excellence Award (Medium Business Category) in 2012. The CSIA recognises excellence in relation to the following customer perspectives: (a) service, (b) financial, (c) operational and (d) learning and growth.

² After adjusting for IPO-related costs and certain normalisation to reflect the capital structure post-IPO. A reconciliation of H1 2014 statutory results to H1 2014 proforma results is in section 3

3 Reconciliation of statutory half year 2014 to proforma half year results

Fig 3.1 Reconciliation of earnings

	\$ millions	Statutory H1 2014	Adjustments IPO costs	Proforma	Proforma H1 2014
Total operating revenue		34.8	-	-	34.8
Total operating expenses		22.0	-	-	22.0
Operating EBITDA		12.8	-	-	12.8
Depreciation expense		0.6	-	-	0.6
Operating EBITA		12.2	-	-	12.2
Operating EBITA Margin		35.1%			35.1%
Corporate costs		0.5	-	0.2	0.7
Transaction costs		10.6	(10.6)	-	-
EBITA		1.1	10.6	(0.2)	11.5
EBITA Margin		3.2%			33.0%
Amortisation expense		6.3	-	-	6.3
EBIT		(5.2)	10.6	(0.2)	5.2
Net finance costs		1.6	-	(1.3)	0.3
PBT		(6.8)	10.6	1.1	4.9
Tax expense		(1.8)	2.9	0.3	1.4
NPAT		(5.0)	7.7	0.8	3.5
NPAT Margin		-14.4%			10.1%
Add: amortisation of intangibles		6.3	-	-	6.3
Less: Tax effect of amortisation		(1.9)	-	-	(1.9)
Add: Cash benefit of tax-deductible amortisation		0.6	-	-	0.6
NPATA		0.0	7.7	0.8	8.5
NPATA Margin		0.0%			24.4%

Adjustments

IPO Costs: An adjustment to remove the one-off costs of the initial public offer incurred in H1 2014 of \$10.6m pre-tax and \$7.7m post-tax.

Proforma: Adjustments to reflect full costs for the half year for being a listed entity. These costs include director remuneration, additional compliance, listing and share registry costs. A further adjustment is made for net interest of \$1.3m pre tax and \$0.9m post-tax reflecting the lower net debt profile of the group following the amended debt arrangements effective 2 July 2014.

Fig 3.2 Reconciliation of cashflow from operations

This reconciliation from the statutory reported position is to show the cashflow from operations associated with the proforma P&L and excluding the impact of any IPO transaction and RPS payments

\$ millions	Statutory H1 2014	Adjustments			Proforma H1 2014
		IPO costs	RPS payment	P&L proforma	
Receipts from customers	37.6	-	-	-	37.6
Payments to suppliers and employees	(24.1)	-	-	(0.2)	(24.3)
Payments for transaction costs	(4.9)	4.9	-	-	-
Interest paid (net of interest revenue received)	(3.1)	-	2.5	0.5	(0.1)
Net income tax paid	(1.6)	-	-	(0.3)	(1.9)
Cashflow from operations	3.9	4.9	2.5	(0.0)	11.3
Payments for property and equipment	(0.2)				
Finance revenue	0.3				
Cashflow from investing activities	0.1				
Payments to suppliers for transaction costs	(0.2)				
Repayments of borrowings - other	(2.6)				
Cashflow from financing activities	(2.8)				
Cashflow for the period	1.2				
Opening cash and cash equivalent balance	16.8				
Closing cash and cash equivalent balance	18.0				

Adjustments

IPO Costs: An adjustment to remove the one-off costs paid in H1 2014 in relation to the initial public offering of \$4.9m.

RPS payment: An adjustment to remove interest paid on the Redeemable Preference Shares in relation to the pre-listing net debt profile of the Company. On 2 July 2014, the Redeemable Preference shares were settled and will not have an ongoing impact to the business.

P&L proforma: Reflecting the cashflow impact of the P&L adjustments for company costs and net interest expense

Fig 3.3 Reconciliation of balance sheet

This reconciliation from the statutory reported position is to show the proforma balance sheet as if the IPO had occurred at 30 June 2014.

\$ millions	Statutory		Adjustments		Proforma
	30 June 2014	IPO costs	P&L	Capital structure	Equity issue
ASSETS					
Cash and cash equivalents	18.0	(7.1)	0.8	(32.7)	37.5
Trade and other receivables	8.0	-	-	-	-
Other current assets	1.3	-	-	-	-
Deferred transaction costs	1.7	(1.7)	-	-	-
Income tax receivable	0.7	-	-	0.1	-
Current Assets	29.7	(8.8)	0.8	(32.6)	37.5
Deferred tax	3.5	-	-	(0.1)	-
Property, plant and equipment	2.6	-	-	-	-
Goodwill and intangible assets	68.7	-	-	-	-
Non-current Assets	74.8	-	-	(0.1)	-
TOTAL ASSETS	104.5	(8.8)	0.8	(32.7)	37.5
LIABILITIES					
Trade and other payables	20.5	(7.1)	-	(0.8)	-
Provisions	2.8	-	-	-	-
Interest-bearing loans and borrowings	53.5	-	-	(53.5)	-
Other liabilities current	1.0	-	-	-	-
Current Liabilities	77.8	(7.1)	-	(54.3)	-
Provisions	0.8	-	-	-	-
Derivative financial instruments liability	0.1	-	-	-	-
Interest-bearing loans and borrowings	-	-	-	21.9	-
Non-current Liabilities	0.9	-	-	21.9	-
TOTAL LIABILITIES	78.7	(7.1)	-	(32.4)	-
NET ASSETS	25.8	(1.7)	0.8	(0.3)	37.5

Adjustments

IPO Costs: An adjustment to remove the one-off costs payable in H1 2014 in relation to the initial public offering of \$7.1m.

P&L proforma: Reflecting the balance sheet impact of the P&L adjustments for company costs and net interest expense

Capital structure: An adjustment to recognise the new debt structure of the Company that was effective on 2 July 2014.

Equity issue: An adjustment to recognise the issue of new shares in the initial public offering on 2 July 2014.