Market **Release**

22 February 2017

ASX Market Announcements Office
ASX Limited
20 Bridge Street
Sydney, NSW, Australia, 2000

Smartgroup Corporation Ltd - Results for announcement to the market

In accordance with the Listing Rules, Smartgroup Corporation Ltd encloses for immediate release the following information:

1. Appendix 4E, and
2. Smartgroup Corporation Ltd Annual Report 2016.

Smartgroup Corporation Ltd will conduct a briefing on the results from 9.00am (Sydney time) on 23 February 2017.

Amanda Morgan
General Counsel and Joint Company Secretary.

Appendix 4E
Preliminary final report

1. Company Details

Name of entity:	Smartgroup Corporation Ltd
ABN:	48 126 266 831
Reporting period:	For the year ended 31 December 2016
Previous period:	For the year ended 31 December 2015

2. Results for Announcement to the Market

				$'000
Revenues from ordinary activities	up	57.3%	to	144,361
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up	62.3%	to	32,788
Profit for the year attributable to the owners of Smartgroup Corporation Ltd	up	62.3%	to	32,788

Dividends	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2015 (paid on 31 March 2016)	8.7	8.7
Interim dividend for the year ended 31 December 2016, (paid on 30 September 2016)	9.8	9.8

On 22 February 2017 the Directors declared a fully-franked dividend of 15.0 cents per ordinary share. The final dividend will be paid on 31 March 2017 to shareholders registered on 15 March 2017. There is no dividend reinvestment plan.

Comments
The profit for the Group after providing for income tax amounted to $32,788,000 (31 December 2015: $20,203,000).

Refer to Chairman's Report and CEO's Report of Operations for detailed commentary of the results.

3. Net Tangible Assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(76.90)	(40.31)

4. Control Gained Over Entities

On 4 July 2016, the Group acquired 100% of the ordinary shares of Autopia Group Pty Ltd. On 2 August 2016, the Group acquired 100% of the ordinary shares of Selectus Pty Ltd.

Refer to note 22 to the financial statements for further details of acquisitions.

5. Details of Associates and Joint Venture Entities

	Reporting entity's percentage holding		Contribution to profit	
Name of Associate/Joint Venture	**Reporting period %**	**Previous period %**	**Reporting period $'000**	**Previous period $'000**
Health-e Workforce Solutions Pty Ltd	50.00%	50.00%	513	29
Group's aggregate share of associates and joint venture entities' profit				
Profit from ordinary activities after income tax	-	-	513	29

6. Audit Qualification or Review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

7. Attachments

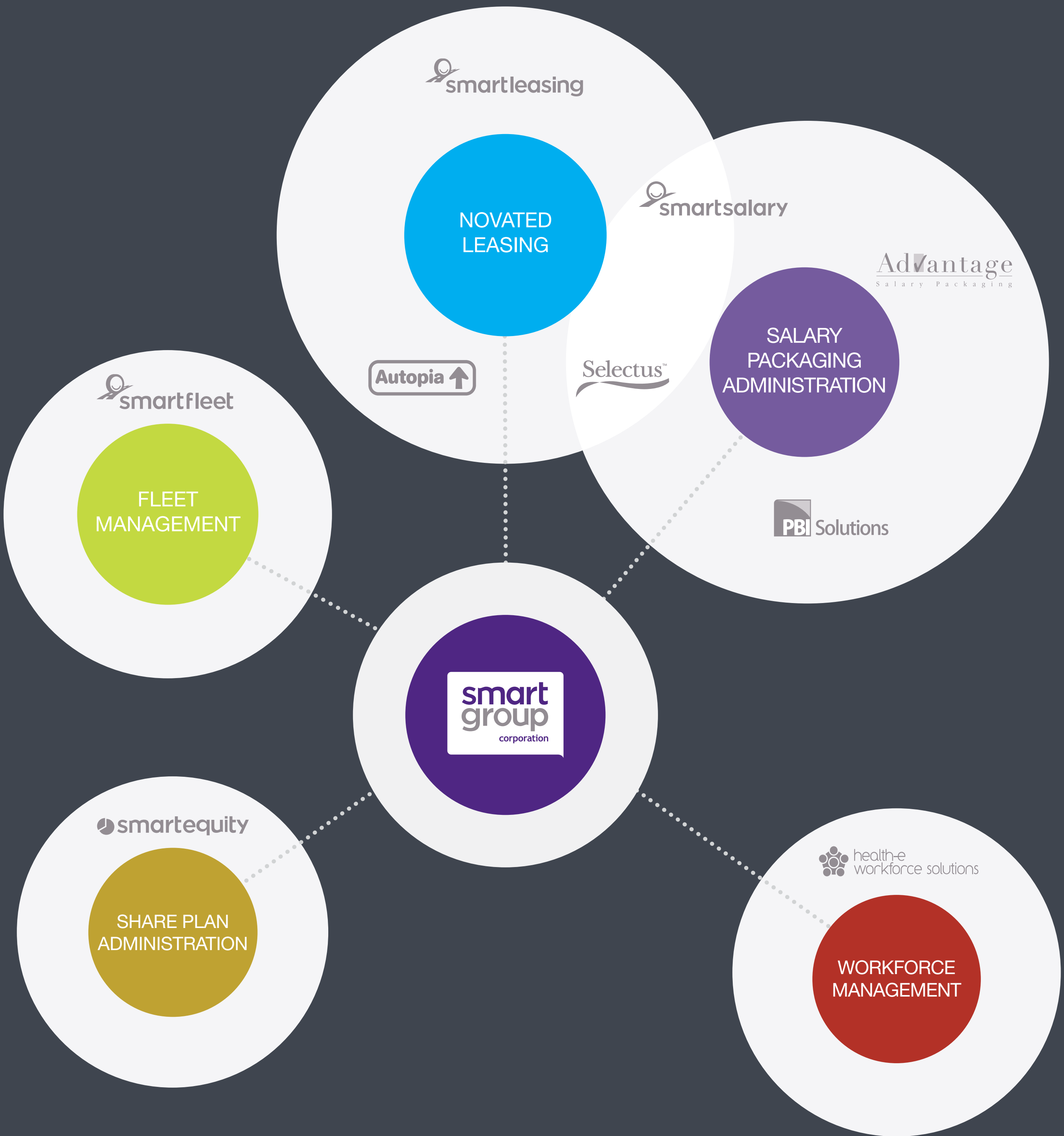
Additional Appendix 4E disclosure requirements can be found in the attached Directors' Report and Financial Report.

2016 // ANNUAL REPORT

About Smartgroup

Smartgroup is an award-winning, ASX-listed company that delivers industry-leading expertise and service in a variety of specialty sectors. The Group's employee benefits brands deliver efficient and easy-to-access solutions in salary packaging, novated leasing and share plan administration. Smartgroup also helps organisations to become more efficient through innovative fleet management services and workforce-modelling software.

Smartgroup was established in 2001 and is widely recognised for an innovative approach and its commitment to customer service.



In this Annual Report

Chairman's **Report**

Smartgroup has enjoyed another year of strong growth, with Group revenues growing 57% to $144.4 million and after-tax profits, represented by NPATA[1], growing 68% to $44.0 million.

Smartgroup has continued to expand its activities through organic growth and acquisitions. Our two most recent acquisitions of salary packaging and novated leasing providers – Autopia and Selectus – deepened the Group's offering and market presence.

Smartgroup attracted a number of new major clients during 2016, re-affirming our capabilities across the corporate, health and government sectors. Smartgroup continues to diversify its revenue, with the top five clients now accounting for less than 30% of Group revenue, improved from 51% in December 2013.

Autopia has developed a strong brand in the corporate market through the provision of a focussed novated leasing solution and a high level of client service.

Prior to acquisition, Selectus was Australia's largest remaining privately owned salary packaging and novated leasing business, with specialist capabilities in the private school sector.

"Smartgroup attracted a number of new major clients during 2016, re-affirming our capabilities across the corporate, health and government sectors.

Smartgroup experienced good growth and the Board has declared a fully franked dividend for the second half of 2016 of 15.0 cents per share, taking total dividends declared for the 2016 year to 24.8 cents, an increase of 49% from 2015.

On behalf of the Board, I would like to thank our customers and shareholders for their continued support. I would also like to thank our employees upon whom our success as a business depends. We have always set high standards for our staff and they continue to deliver.

Smartgroup has entered 2017 in a strong position and we expect to continue providing exceptional service to our customers, value to our shareholders and a focussed and supportive workplace for our staff.

Michael Carapiet
Chairman

2016
Financial Highlights

The following highlights represent the financial performance of Smartgroup for the year ended 31 December 2016.

REVENUE
$144.4m
up 57%

EBITDA[2]
$64.3m
up 71%

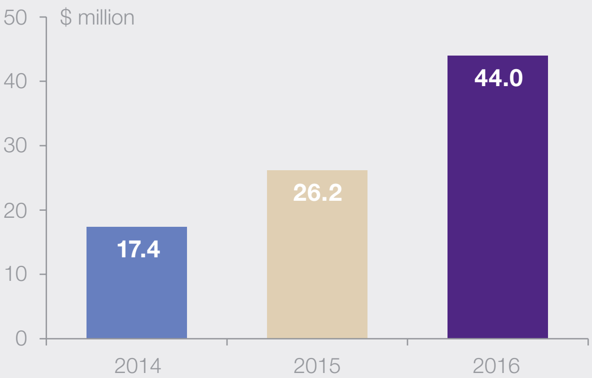
NPATA
$44.0m
up 68%

OPERATING CASH FLOW[3]
103%
As a % of NPATA

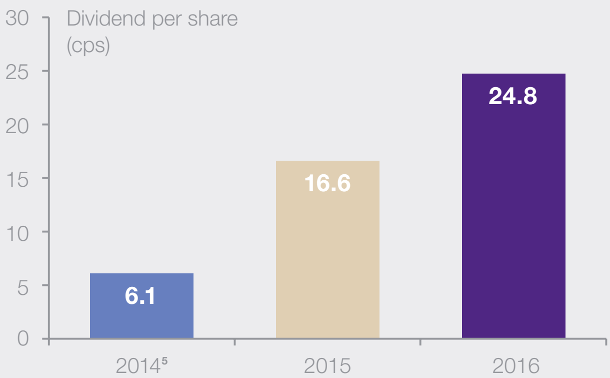
NET DEBT[4]
$72.0m

DIVIDENDS DECLARED
24.8cps
up 49%

AFTER TAX PROFITS (NPATA)



DIVIDEND PER SHARE DECLARED (FULLY FRANKED)



The 2016 Financials are presented on an adjusted basis and have been reconciled to the statutory 2016 Financial Report.

[1] NPATA is Net Profit After Tax, adjusted to exclude the non-cash tax effected Amortisation of intangibles and significant non-operating items.

[2] EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.

[3] Operating cash flow excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.

[4] Net Debt is cash and cash equivalents less borrowings, adjusted to exclude capitalised borrowing costs.

[5] Represents dividend declared only for H2 2014.

CEO's Report **of Operations**

Thanks to the efforts of our talented and hard working team and our loyal customers, Smartgroup was able to deliver another year of financial and operational success.

Overview

A number of significant and positive outcomes were achieved in 2016, as Smartgroup worked to realise synergies from its acquisition of businesses in 2015 and 2016. These acquisitions have expanded our capabilities and broadened our reach across our core salary packaging and novated leasing markets.

Our high level of customer focus was again a highlight this year. We finished 2016 with an average Net Promoter Score (NPS) of +46 on a scale of -100 to +100. A company's NPS measures the likelihood that its customers will provide word-of-mouth referrals. This places us among the leading service providers globally and is a tremendous credit to our team.

Meanwhile, 2016 proved to be our most successful year ever in terms of winning awards, with several Smartgroup brands receiving accolades. Smartleasing, Smartfleet and Health-e Workforce Solutions each received awards for innovation, while Smartsalary received awards for customer service.

Acquisitions

In early July, Smartgroup acquired 100% of Autopia, expanding our novated leasing capabilities within the corporate sector. Autopia manages some 3,000 vehicles and provides novated leasing to a corporate client base that includes over 300 employer clients across Australia.

Later in July, we entered into an agreement to acquire 100% of Selectus. At the time of acquisition, Selectus was the largest privately owned national provider of novated leasing and salary packaging, as well as the market leader in salary packaging for private schools. Selectus manages over 13,000 vehicles and has a client base that includes over 500 employer clients across Australia.

“2016 proved to be our most successful year ever in terms of winning awards, with several Smartgroup brands receiving accolades.

With the benefit of these acquisitions, as at 31 December 2016 Smartgroup services:

- c221,000 (2015 c182,500) employee customers;
- c53,000 (2015 c34,000) managed novated car leases.

These acquisitions also bring opportunities for the sharing of expertise and relationships across Smartgroup with a view to improving our service offering to customers as well as returns to shareholders.

Outlook

Our shareholders and employees can be proud of our success in 2016 and they can look forward to the opportunities ahead. The business is both financially and operationally in a strong position for continued growth and expansion and I am confident about the future.

On behalf of the executive team, I would like to thank our customers for rewarding our hard work with their loyalty and our staff for their efforts in building one of Australia's leading customer-centric organisations.

Deven Billimoria
Managing Director and
Chief Executive Officer

Our Awards in 2016

Our commitment to providing exceptional customer experience was rewarded with a record number of awards for the Group in 2016.

AFR 50 Most Innovative Companies

Both Smartgroup (ranked #11) and Smartfleet (ranked #31) were recognised as being among the most innovative companies in Australia in the *Australian Financial Review's* annual ranking.

Best Call Centre (NSW & National) 50 – 149 FTE

Smartsalary customer-facing teams were awarded the highest honour in their category at the Auscontact National Awards. The prize was a reflection of their commitment, leadership and innovation in delivering exceptional service.

Winner – Viatek Innovation Award

Health-e Workforce Solutions' workforce-modelling software was recognised for excellence in innovation at the Ballarat Business Excellence Awards. The software has enabled hospitals to save millions of dollars in staffing costs.

Service Champion – Medium Business

With an aggregate score of 8.58 out of 10, Smartsalary achieved the highest score in the history of the CSIA Australia Service Excellence Awards. This score represents the ninth consecutive year of improvement for Smartsalary.

It's wonderful to see so many Smartgroup brands receiving awards and our people being acknowledged for their outstanding contribution. We're continuing to strive to reciprocate our customers' loyalty with what might be Australia's best customer experience.

Our Brands
in Review

Smartgroup provides industry-leading expertise and service in a variety of specialty sectors. Our employee benefits brands deliver efficient and easy-to-access salary packaging services, novated leasing and share plan administration. Other brands within the portfolio provide organisational efficiencies through innovative fleet management and hospital workforce-modelling software.

smartsalary

Provides award-winning salary packaging solutions for medium to large organisations, both on an in-house and outsourced basis

One of the key strategic initiatives for Smartsalary in 2016 was to identify processes that could be made more efficient. This work involved streamlining and simplifying workflows, with a view to improving customer service. One outcome was that the number of interactions the typical customer service consultant resolved each day rose by 32% between Q2 and Q4 in 2016.

smartleasing

Provides easy-to-access, highly awarded novated leasing solutions for the not-for-profit, health, government and corporate sectors

The Smartleasing team continued to excel in customer service delivery in 2016. A focus on delivering a superior customer experience also saw Smartleasing grow the number of vehicles under management to record levels and attract new clients.

smartfleet

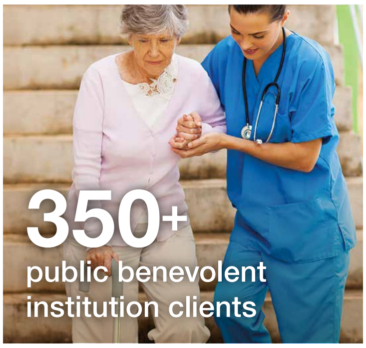
Provides forward-thinking, efficiency based fleet solutions for the corporate, government and not-for-profit sectors

Smartfleet took a leading position in fleet mobility and the car-sharing economy in 2016 and attracted new clients. The brand's award-winning Pool Vehicle Booking system manages over 1,000 bookings per business day.

PBI Solutions

Distributes Meal and Entertainment and Everyday Purchase cards to not-for-profit organisations

PBI Solutions is the market leader in the distribution of salary packaging cards to the not-for-profit sector. The total number of employer clients is in excess of 500, with the reach of PBI Solutions expanding into the health and charitable sectors, as well as into the indigenous business community.



Advantage Salary Packaging

The largest specialist provider of salary packaging solutions to employers in the aged-care, disability and health sectors

A focus on refining an already strong customer service offering enabled Advantage to maintain its high customer retention rate and achieve strong growth in package uptake.

health-e workforce solutions | 50% acquired

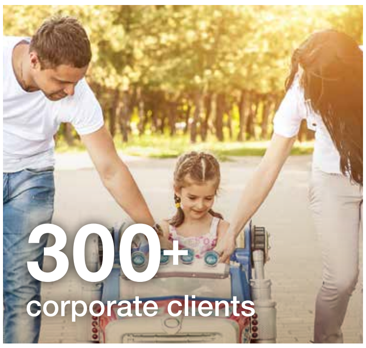
Provides workforce-modelling and consultancy services that drive staffing efficiencies within health organisations

Health-e Workforce Solutions (HWS) added five new clients in 2016, including three brand new hospitals. At the close of 2016, HWS had a team based in Darwin working with project teams to staff the new $170 million Palmerston Regional Hospital, the Northern Territory's first new public hospital in almost 40 years.

smartequity | 2016 acquisition

Provides flexible equity plan administration for private, public, start-up and international companies

Smartequity undertook significant behind the scenes work in 2016 to help it transition to being a part of Smartgroup and to launch as a new brand. The team also launched a new online self-service portal for share plan participants, all while delivering the exceptional personalised service that has become a hallmark of Smartequity.



Autopia | 2016 acquisition

A novated leasing specialist serving the corporate sector, from small boutique operations to large corporations

A targeted development strategy has proven successful for this recent Smartgroup acquisition. The Autopia team closed the year with a number of new business wins, increasing their share of large corporate organisations, while maintaining high customer satisfaction levels.

Selectus™ | 2016 acquisition

Provides salary packaging and complete vehicle management solutions, with specialist capabilities in the private education sector

The Selectus team launched a new customer relationship management system consisting of a powerful suite of digital tools, including a self-service option that was quickly adopted by customers.

Our Achievements **in 2016**

Smartgroup continued to diversify and improve its customer offering in 2016, ever striving to be a more innovative and customer-focussed company that gives back to the community.

Customer Focus

Striving for happier customers

Smartgroup has long used the **Net Promoter Score (NPS)** to gauge customer loyalty and to continuously improve its customer service. In 2016, a deeper analysis of customer feedback led to several improvement projects, resulting in Smartsalary and Smartleasing finishing the year with an average NPS of +46 on a scale of -100 to +100, placing us among the leading service providers globally.

Face-to-face service, countrywide

Smartleasing has appointed local consultants to its **Mobile Leasing Team** in the Northern Territory, Queensland, Western Australia and Victoria with a particular focus on strengthening its service delivery in high growth regional and remote areas. The stronger local presence has been warmly welcomed by customers.

Connecting clients with industry leaders

Smartgroup was delighted to secure the services of **Dr Daniel Kraft MD** to deliver talks on the future of healthcare and medicine. A number of Australia’s most influential healthcare executives and decision makers attended exclusive Smartgroup events in Sydney and Melbourne. Dr Kraft is a Stanford and Harvard trained physician-scientist, innovator and entrepreneur.

A shared passion for success

Smartgroup partnered with six-time V8 Supercar Champion **Jamie Whincup** for a second year in 2016 – a partnership that coincided with Jamie's 100th race win. Jamie’s warmth and diligence are a great match with the Group’s values and he continues to draw crowds to the Smartleasing tent at race events around Australia.

Giving Back

Do Good

Making it easier to make a difference

Enabling employees to contribute to causes that matter to them is a key feature of the Smartgroup workforce engagement strategy. In 2016, the Group launched **Do Good**, a program that helps employees to play a role in addressing issues including homelessness, childhood cancer, animal welfare and the environment. Over $11,000 was raised through participation in the program in 2016.

Continuous Innovation

New face, new functionality

A new **Smartleasing website** was launched in 2016, combining maximum functionality with rich, informative content and easy navigation. The number of visitors to the site rose in the month following the launch, as did the number of enquiries and requests for quotes.

Creating more time for people

A number of innovative approaches for managing recurring administrative tasks were implemented in 2016. This streamlining of complex processes has helped to reduce the administrative burden on Smartgroup staff, allowing them to invest more time in delivering the one-on-one service that customers have come to expect.

Online self-service reaches a new audience

Smartequity boosted its online capabilities in 2016 through the introduction of a new portal. The Smartequity team was able to draw on its exceptional, long term relationships with customers, collaborating with clients in creating the portal. Share plan participants now have secure access to manage their accounts and transactions via a fresh, new website.

Giving customers the power to choose

Smartgroup has demonstrated its appreciation of customers' time and privacy through the launch of an industry-leading **Marketing Communications Preference Centre**. Smartsalary customers can now choose the types of communications they wish to receive, as well as the frequency and channels through which they receive them. The service is easy to access and managed via customers' online accounts.

UN WOMEN NATIONAL COMMITTEE AUSTRALIA

#DrivingGenderDiversity

Autopia is working to drive gender diversity through a partnership with the **UN Women** National Committee Australia. In 2016, Autopia also helped raise over $58,000 for the EOFY Syria Appeal and published two white papers – *Re-thinking Return* and *Re-thinking Culture*. The papers were aimed at stimulating thought, discussion, debate and, most importantly, bringing about action to eliminate gender inequality.

Greenfleet

Maximising savings, minimising impact

The Smartgroup partnership with Greenfleet continued in 2016, with leasing customers offsetting over 99% of their annual vehicle emissions for about the price of a tank of fuel per customer. Since 2009, Greenfleet has planted more than 1.4 million trees on behalf of Smartgroup customers, removing over 393,000 tonnes of CO2 from the atmosphere, preserving waterways and improving Australian wildlife habitats.

Employee engagement with our share plan is undeniably high thanks to working with Smartequity.

Gordon Ewart
Ignite Energy Resources

We have been very impressed by the professional, friendly service provided by Advantage. They have always been very responsive, attentive and helpful with our staff. They are a pleasure to deal with.

Mark Burke
beyondblue

In my experience, the folk at Autopia are people who you can trust to deal with your employees and who will make your organisation a better place to work.

Jairus Ashworth
Aon Hewitt

Smartgroup delivers software and leasing solutions that allow us to provide a quality program and service to our employees. The Smartgroup team is always willing to go the extra mile and has proven over the years to be the right partner to help us reach our goals.

Belinda Couch
Eastern Health

I like that the team at Smartfleet always listen to what we need and are always striving to improve systems and processes.

Karen Roco
Supagas

Since partnering with Selectus, their ongoing dedication to servicing and educating our staff has been exceptional. We see Selectus as a true partner in delivering a first-class benefits program to our employees.

Marcus Marenghi
Ventia Pty Limited

Together with Smartsalary, we have developed a highly collaborative and responsive partnership that has delivered one of the best performing salary packaging services for revenue generation in the state. I'm exceedingly pleased.

Phoebe Ng
Northern Sydney Local Health District

Our global experience suggests that no other tool will drive workforce optimisation in the way Health-e Workforce Solutions' analytical tool is able to do.

Health Care Advisory
KPMG Canada

2016 // FINANCIAL REPORTS

Reconciliation of Statutory Results **to Proforma Results**

$ Mill	Statutory Financials CY 2016	Reclassify: Equity share investments	Add back: Acquisition costs	Less: Fair value gain	Adjusted CY 2016	Add: Pro-forma adjustment [1]	Pro-forma CY 2016
Revenue	144.4	-	-	-	144.4	24.3	168.7
Operating EBITDA	64.2	1.0	-	-	65.2	11.0	76.2
Corporate interest revenue	(0.9)	-	-	-	(0.9)	-	(0.9)
Equity share of investments	0.5	(0.5)	-	-	-	-	-
M&A transaction costs	(2.1)	-	2.1	-	-	-	-
Fair value adjustment	1.6	-	-	(1.6)	-	-	-
EBITDA	63.3	0.5	2.1	(1.6)	64.3	11.0	75.3
Depreciation	(1.4)	-	-	-	(1.4)	(0.1)	(1.5)
Software amortisation	(7.2)	(0.3)	-	-	(7.5)	(1.9)	(9.4)
Contracts amortisation	(5.3)	-	-	-	(5.3)	(1.6)	(6.9)
Net finance costs	(3.3)	-	-	-	(3.3)	(2.3)	(5.6)
PBT	46.1	0.2	2.1	(1.6)	46.8	5.1	51.9
Income tax expense	(13.4)	(0.2)	(0.4)	-	(14.0)	(1.5)	(15.5)
NPAT	32.7	-	1.7	(1.6)	32.8	3.6	36.4
Add back:							
Amortisation (tax effected)	8.8	0.2	-	-	9.0	2.5	11.5
Cash tax benefit	2.2	-	-	-	2.2	0.6	2.8
NPATA	43.7	0.2	1.7	(1.6)	44.0	6.7	50.7
Shares (#m) [2]					121.5		121.5
NPATA/Share ($)					0.36		0.42
Weighted average shares (#m) [2]					111.6		121.5
NPATA/Weighted average share ($)					0.39		0.42

(1) Pro-forma adjustment includes pre-acquisition 2016 earnings of Autopia and Selectus.

(2) Includes loan funded share plan shares.

Financial Report

Smartgroup Corporation Ltd

31 December 2016
ABN 48 126 266 831

Contents

Directors' Report

For the year ended 31 December 2016

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Smartgroup Corporation Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2016.

Directors

The following persons were Directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Michael Carapiet

Deven Billimoria

John Prendiville

Gavin Bell

Andrew Bolam

Ian Watt

Deborah Homewood (appointed 9 May 2016)

Principal activities

During the financial year the principal activities of the Group consisted of outsourced administration, being primarily salary packaging, novated leasing, software, distribution and Group services, and fleet management services.

Dividends

Dividends paid during the financial year were as follows:	Consolidated 2016 $'000	Consolidated 2015 $'000
Final dividend for the year ended 31 December 2015 of 8.7 cents (2015: 6.1 cents) per ordinary share	9,022	6,189
Interim dividend for the year ended 31 December 2016 of 9.8 cents (2015: 7.9 cents) per ordinary share	11,901	8,192
	20,923	14,381

On 22 February 2017, the Directors declared a fully franked dividend of 15.0 cents per ordinary share. The final dividend will be paid on 31 March 2017 to shareholders registered on 15 March 2017 with an expected financial distribution of $18,223,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2016 Financial Report and will be recognised in subsequent financial reports.

Review of operations

The profit for the Group after providing for income tax amounted to $32,788,000 (2015: profit of $20,203,000).

Refer to the Chairman's Report and CEO's Report of Operations for further commentary on the results.

Business objectives and cash use

The Company has used cash and cash equivalents to fund its day to day operations, pay down debt and to acquire shares and assets of three new businesses.

Significant changes in the state of affairs

<u>Acquisitions</u>

Acquisition of Trinity Management Group ('TMG') assets

On 29 January 2016, Smartequity Pty Ltd, a 100% owned subsidiary of the Group, acquired selected assets of TMG. Smartequity provides and manages tailored equity plans on behalf of over 50 corporate clients.

Acquisition of Autopia Group Pty Ltd ('Autopia')

On 4 July 2016, the Group acquired a 100% interest in Autopia. Autopia provides novated leasing services to the corporate sector, servicing over 300 employer clients. Autopia has a recognised brand in the corporate market and manages approximately 3,000 vehicles across Australia.

Acquisition of Selectus Pty Ltd ('Selectus')

On 2 August 2016, the Group acquired a 100% interest in Selectus. At the time of its acquisition, Selectus was the largest privately owned national provider of novated leases and salary packaging administration services. Selectus is based in Melbourne and manages over 13,000 vehicles across Australia. Its client base includes over 500 employer clients, including organisations in the government and rebatable sectors.

Equity issuance, placement and new debt facilities

The acquisition of Autopia was funded by new debt facilities of $32,500,000, cash from the balance sheet and the issuance of 44,015 shares (issue price of $5.68 at the 20 day volume-weighted average price) to the Autopia shareholders.

The acquisition of Selectus was funded through the issuance of 4,573,169 shares (issue price of $6.56 at the 5 day volume-weighted average price) to Selectus shareholders, $70,000,000 of new debt facilities and a placement to institutional investors of 7,650,000 shares (issue price of $7.00).

In August 2016, the Group offered its existing shareholders the opportunity to subscribe for new shares pursuant to a share purchase plan, issuing a further 1,909,236 shares (issue price of $7.00).

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2016 that has significantly affected or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Group and the expected results of those operations are contained in the CEO's Report of Operations.

Environmental regulation

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

Board of **Directors**

The following persons were Directors of Smartgroup Corporation Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Michael Carapiet
Chairman and Non-Executive Director

Qualifications: Michael holds a Master of Business Administration from Macquarie University.

Experience and expertise: Michael has more than 30 years' experience in the financial sector. Michael is the Chair of both iCare NSW and Adexum Capital Limited. Michael is also a Board Member of Infrastructure Australia. Previously Michael held numerous senior roles at Macquarie Group, where he worked until 2011.

Other current directorships: Chairman of the Board of Link Administration Holdings Limited (ASX: LNK) (appointed in 2015)

Former directorships (last 3 years): Non-Executive Director of Southern Cross Media Limited (ASX: SXL) (2010 to 2014)

Special responsibilities: Member of Human Resources and Remuneration Committee and Member of IT and Innovation Committee. Member of Audit and Risk Committee until 1 May 2016.

Interests in shares: 2,022,816

Interests in options: None

Deven Billimoria
Managing Director and Chief Executive Officer

Qualifications: Deven holds 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.

Experience and expertise: Deven has worked with Smartgroup for 17 years. He was appointed Managing Director and CEO of Smartgroup Corporation in 2014. Prior to that, Deven was Managing Director and CEO of Smartsalary Pty Ltd, a position he held from 2001. Deven began his career as an engineering consultant, before transitioning to management consulting with Booz Allen Hamilton.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: None

Interests in shares: 2,002,142

Interests in options: 1,386,101

John Prendiville
Non-Executive Director

Qualifications: 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.

Experience and expertise: John is currently a Director of the University of Notre Dame (and Member of the University's Audit and Finance Committee) and Chairman-elect of the privately owned Global Advanced Metals Limited (and Member of the company's Audit and Finance Committee). Previously John held numerous senior roles at Macquarie Group, where he worked until 2011.

Other current directorships: None

Former directorships (last 3 years): Chairman of Kina Petroleum Limited (ASX: KPL) (2011 to 2014)

Special responsibilities: Chairman of Audit and Risk Committee and Member of Human Resources and Remuneration Committee

Interests in shares: 852,902

Interests in options: None

Gavin Bell
Non-Executive Director

Qualifications: Gavin holds a Bachelor of Laws from the University of Sydney and Master of Business Administration (Executive) from the Australian Graduate School of Management.

Experience and expertise: Gavin is a Board Member of iCare NSW and a Director of IVE Group Limited. Gavin was Managing Partner and Chief Executive Officer of law firm Herbert Smith Freehills (formerly Freehills). He retired from this position in 2014.

Other current directorships: Director of IVE Group Limited (ASX: IGL) (appointed in 2015)

Former directorships (last 3 years): None

Special responsibilities: Chairman of Human Resources and Remuneration Committee and Member of Audit and Risk Committee

Interests in shares: 74,850

Interests in options: None

'Other current directorships' quoted above are current directorships for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.
'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

Andrew Bolam
Non-Executive Director

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

Experience and expertise: Andrew has more than 20 years of experience in financial and general management. He is currently the Chief Financial Officer of Fetch TV Pty Ltd. He was previously the Chief Financial Officer of Usaha Tegas, a private investment holding company based in Malaysia. He was also Commercial Director of Bumi Armada Berhad, an associate of Usaha Tegas group. Andrew 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.

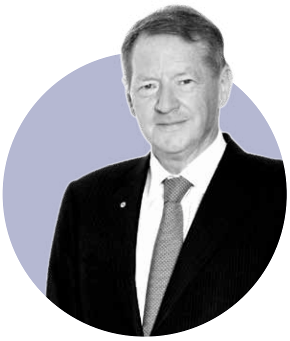
Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Member of Audit and Risk Committee and Member of IT and Innovation Committee. Member of Human Resources and Remuneration Committee until 1 May 2016.

Interests in shares: 159,284

Interests in options: None



Ian Watt AC
Non-Executive Director

Qualifications: Ian holds a Bachelor of Commerce from the University of Melbourne and a Master of Economics and PhD in Economics from La Trobe University. He has also completed the Advanced Management Program at Harvard Business School.

Experience and expertise: Ian has worked for nearly 20 years at senior levels of the Australian public service. His most recent appointment was as Secretary of the Department of Prime Minister and Cabinet and head of the Australian Public Service, from 2011 to 2014. Prior to that, he was Secretary of the Departments of Defence, Finance, and Communications, Information Technology and the Arts. Before that, Ian was Deputy Secretary of the Department of the Prime Minister and Cabinet. Ian is the Chair of the National Innovation and Science Agenda Implementation Committee, the International Centre for Democratic Partnerships, BAE Systems Australia Pty Ltd and the Smart Infrastructure Facility of the University of Wollongong. Ian is on the boards of Citigroup Australia, CEDA, the Grattan Institute (University of Melbourne) and O'Connell Street Associates Pty Ltd and is a member of the Australian National Audit Office Audit Committee. Ian is also a member of Male Champions of Change.

Other current directorships: None

Former directorships last 3 years): None

Special responsibilities: Chairman of IT and Innovation Committee and Member of Audit and Risk Committee

Interests in shares: 52,142

Interests in options: None

Deborah Homewood
Non-Executive Director
(Appointed 9 May 2016)

Qualifications: Deborah completed her registered nurse training at St Andrews, as well as a Master of Management from Macquarie Graduate School of Management.

Experience and expertise: Deborah has many years of experience in management in various sectors, including retail, medical industry and communications. She is currently Managing Director of MAX Solutions. Prior to working for MAX Solutions, Deborah was CEO for Pacnet, Australia and New Zealand, an Asian-headquartered telecommunications carrier. She was with Pacnet for 10 years and held various senior roles including Vice President Sales, South Asia. She is a current member of Chief Executive Women, and chaired the Membership Committee from 2010 to 2012.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Member of IT and Innovation Committee and Member of Human Resources and Remuneration Committee.

Interests in shares: None

Interests in options: None

Company Secretaries

General Counsel and Joint Company Secretary

Amanda Morgan was appointed General Counsel and Company Secretary in June 2014. Amanda previously worked for IRESS Limited as General Counsel and prior to that for King & Wood Mallesons as a Senior Associate. Prior to that, she worked at Minter Ellison. Amanda holds a Bachelor of Laws and Bachelor of Commerce from the University of Melbourne, a Graduate Diploma of Applied Finance from the Securities Institute of Australia and a Certificate of Governance Practice from the Governance Institute of Australia.

Chief Financial Officer and Joint Company Secretary

Timothy Looi joined the Group in 2009 and is responsible for the finance and corporate development functions. Timothy previously worked for Aristocrat Leisure Limited in various senior management roles and prior to that for PricewaterhouseCoopers in Sydney and London. Timothy holds a Bachelor of Economics from the University of Sydney and is a member of Chartered Accountants Australia and New Zealand. Timothy resigned from the position of Joint Company Secretary on 13 December 2016 while continuing in the position of Chief Financial Officer.

Group General Counsel and Joint Company Secretary

Sophie MacIntosh was appointed Group General Counsel on 7 November 2016 and was appointed Joint Company Secretary on 13 December 2016. Sophie previously worked for Ashurst as a Senior Associate. Prior to that, she worked at DLA Phillips Fox. Sophie holds a Master of Laws from the University of Sydney and a Bachelor of Business and a Bachelor of Laws from the University of Technology Sydney.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('Board') and of each Board committee held during the year ended 31 December 2016, and the number of meetings attended by each Director were:

	Full Board		**Human Resources and Remuneration Committee (HRRC)**		**Audit and Risk Committee (ARC)**		**IT and Innovation Committee (IIC)**	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Michael Carapiet	18	18	3	3	1	1	2	2
Deven Billimoria	18	18	-	-	-	-	-	-
John Prendiville	17	18	3	3	4	5	-	-
Gavin Bell	18	18	3	3	5	5	-	-
Andrew Bolam	18	18	1	1	5	5	2	2
Ian Watt	18	18	-	-	5	5	2	2
Deborah Homewood	11	12	2	2	-	-	2	2

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

On 1 May 2016, the Board established the IT and Innovation Committee, the members of which are Ian Watt (Chairman), Michael Carapiet, Andrew Bolam and Deborah Homewood. On the same date, in order to share the workload and responsibilities amongst the Directors, Andrew Bolam resigned from the HRRC, Deborah Homewood was appointed to the HRRC and Michael Carapiet resigned from the ARC.

Remuneration Report

(Audited)

The Remuneration Report, which has been audited, describes the remuneration arrangements for the Key Management Personnel ('KMP') of the Group, in accordance with the requirements of the Corporations Act 2001 and its regulations.

Introduction

The Remuneration Report is designed to provide shareholders with an understanding of Smartgroup's remuneration policies and how these are linked to the Group's remuneration philosophy and strategy. The Remuneration Report specifically focusses on the Smartgroup remuneration arrangements for 2016.

At the Annual General Meeting ('AGM') held in May 2016, the remuneration framework received strong support from shareholders, with a strong majority vote in favour of the resolution to adopt the 2015 Remuneration Report.

The Remuneration Report is set out under the following main headings:

- Principles Used to Determine the Nature and Amount of Remuneration;
- Details of Remuneration;
- Service Agreements;
- Share-based Compensation; and
- Additional Disclosures Relating to KMP.

Principles Used to Determine the Nature and Amount of Remuneration

The Board ensures that executive remuneration satisfies the following key criteria for good governance practices:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage / alignment of executive compensation; and
- Transparency.

The Company has a Human Resources and Remuneration Committee ('HRRC'), the role of which is to assist the Board in fulfilling its corporate governance responsibilities and to review and make recommendations in relation to the remuneration arrangements for its Directors and executives. The HRRC must have at least three members, a majority of whom must be independent non-executive Directors.

The HRRC has structured an executive remuneration framework that is competitive with the market and complementary to the reward strategy of the Group. In early 2016, the Board commissioned Towers Watson to conduct a benchmarking review in relation to executive remuneration and non-executive Director fees. The review showed that the Group's executive remuneration arrangements were appropriate, and that increases at that stage should be directed into the Long Term Incentive Plan ('LTIP'), which is subject to rigorous performance conditions. This further achieves the goal of linking reward to the achievement of the Group strategy, whilst incentivising executives' long-term tenure.

The Group's remuneration policies and practices are designed to align the interests of staff and shareholders, while attracting and retaining staff members who are critical to the organisation's growth and success.

The remuneration strategy:

- Focusses on sustained growth with targets for Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items ('EBITDA') and Net Profit After Tax, adjusted to exclude the non-cash tax effected Amortisation of intangibles and significant non-operating items ('NPATA'), as well as focussing the executive on key non-financial drivers of value;
- Is intended to attract, motivate and retain high-calibre executives;
- Rewards capability and experience;
- Reflects competitive rewards for contribution to growth in shareholder wealth; and
- Provides a clear structure for earning rewards.

As the Group has grown, there has been a need to review and re-design the organisational structure to support and facilitate delivery of the current and future strategic goals. Korn Ferry Hay Group was engaged to assist with the review of the organisational structure. The new structure will assist in managing the business and integrating the recent acquisitions.

A number of key roles have been created within the new structure that will be critical in moving the business to a Group model. These include: Group Chief Operating Officer; Group General Counsel; Group Executive, Health; and Group Chief Information Officer.

In accordance with best-practice corporate governance, separate structures apply to the remuneration of non-executive Directors and executives.

A. Non-Executive Directors' Remuneration

Fees and payments to non-executive Directors reflect the demands that are made on, and the responsibilities of, these Directors. 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.

The aggregate remuneration for non-executive Directors was fixed in 2014 at $1,000,000. From 1 May 2016, the fees paid are $210,000 per annum for the Chairman and $100,000 per annum for each non-executive Director (previously $200,000 and $90,000 respectively). In addition to the above, the Chairmen of the IT and Innovation Committee and Human Resources and Remuneration Committee respectively are paid $20,000 annually for services provided to each of those committees. Each member of those two standing committees (other than the Chairman) is paid $10,000 annually for the services provided to that committee. From 1 May 2016, the Chairman of the Audit and Risk Committee is paid $25,000 (previously $20,000) and each other Member of that committee is paid $12,500 (previously $10,000) per annum.

In addition to the fees, superannuation contributions and Goods and Services Tax, if applicable, are paid in each case. There are no retirement benefit schemes for non-executive Directors, other than statutory superannuation contributions.

Any change to the aggregate annual sum referred to above must 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. 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. Shareholder approval will be sought at the Annual General Meeting in May 2017 to increase the non-executive Director aggregate remuneration by $150,000 to $1,150,000. This will provide the Company with the flexibility to expand the Board or committees as may be required. This will be important as the Company continues to grow.

B. Executive Remuneration

The Group aims to reward executives with a level and mix of remuneration based on their position and responsibility. This remuneration has both fixed and variable components.

The executive remuneration and reward framework consists of four components:

- Current base pay and non-monetary benefits;
- Short-term performance incentives;
- Long-term performance incentives; and
- Other statutory entitlements such as superannuation and long-service leave.

In combination, these comprise an executive's total remuneration.

a) Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the HRRC, based on individual and business unit performance, the overall performance of the Group and comparable market remuneration.

b) Short term incentive plan ('STIP')

The Managing Director and Chief Executive Officer (CEO) and the executive KMP are eligible to participate in the STIP in a manner determined by the Board. The STIP puts a proportion of the remuneration 'at risk' subject to meeting specific, pre-determined performance measures linked to the Company's objectives. This aligns employee interests with the Group's financial performance, as well as the Group's organisational values. As with fixed remuneration, the Board and the HRRC rely on comparative data from companies of a similar size. In addition, data from competitors has been considered, to ensure that the STIP remains competitive and to incentivise the executive team to stay and to strive for exceptional performance.

Participants in the STIP have a target cash payment that is set every year as a percentage of their total fixed annual remuneration. In 2016, it was subject to a maximum target of 60% for the CEO and 30% for each other executive KMP. Payments under the STIP in any given year depend on the achievement of a range of financial and non-financial key performance indicators and objectives ('KPIs') as approved by the Board on an annual basis. These KPIs are tested annually after the end of the relevant year. The 2016 STIP provided for financial and non-financial KPIs to be weighted at 50% each.

Financial KPI:

The financial KPI is required to be met by all members of the executive KMP. In 2016, the percentage of the payment was set to vary depending on the NPATA achieved by the Group. Table 1 below describes the arrangement.

Table 1: Financial KPI

	NPATA for 2016	% of STIP
1.	$40m or more	50%
2.	$39m or more but less than $40m	25%
3.	$38m or more but less than $39m	12.5%
4.	Less than $38m	0%

The financial performance of the Group in 2016 saw a growth of 68% from 2015. NPATA for the year ended 31 December 2016 was $44.0m compared to $26.2m in 2015. As a result, 50% of the STIP was paid out in total to the CEO and executive KMP in relation to this KPI.

Unless NPATA was at least $38m (see number 4 in the table above), no STIP was payable for the non-financial KPIs below.

Non-financial KPIs:

The non-financial KPIs are performance objectives that apply to the executive KMP and are listed in Table 2 below. Actual performance against objectives has also been provided.

The Board approved a three-year Strategic Plan in 2014. Through the KPIs, all members of the executive KMP are responsible and accountable for the continued successful implementation of the Strategic Plan, in various different ways.

Since 2015, the Board has refined these KPIs and how they are measured, with the intention of ensuring a more direct connection between the KPI and the desired business outcome. Some new KPIs have been introduced (for example, Risk and Audit Controls).

For some KPIs, such as the staff engagement result (and also the Financial KPI above), the Board has introduced a range of indicators to allow for individual KPIs to be partially met. The aim of this approach is to maintain their desired motivational effect where the full KPI is close to being achieved, while reducing the need for discretionary decisions by the Board. The Board recognises that shareholders expect to see a high degree of objectivity in measurement.

Where a non-financial KPI has only been partially satisfied (see Table 2), the Board may determine that no part of the STIP element for that KPI will be paid.

The Board's assessment of performance against KPIs in 2016 is presented in the following table.

Table 2: List of non-financial KPIs

Who is subject to them, how they are measured and to what extent they were achieved			
Non-financial KPI	**Relevant executive**	**How it is measured**	**Actual achievement**
1. Achievement of Strategic Plan (overall):	CEO, CFO, CCO	• CEO/CFO: Good progress in implementing 2016-18 Strategic Plan; • CCO: Delivery of Smartfleet Strategic Plan	Fully satisfied
a) New business	COO, CCO	Measured by: • Large clients won; • Employee and product uptake.	Partially satisfied
b) Current clients	COO, CHRO	Measured by the number of large clients retained (or lost).	Fully satisfied
c) Operational efficiency	COO, CHRO	Measured by the number of packages signed up per full time team member	Fully satisfied
d) Health-e Workforce Solutions	CEO, CFO, CHRO, COO, CCO	Delivery of Strategic Plan initiatives	Fully satisfied
e) Advantage Salary Packaging	COO, CCO	• COO: Maintain operational efficiency (same measure as c)) • CCO: Achieve forecast leasing volume	Fully satisfied
f) Smartequity	CFO, CHRO	Delivery of strategic plan initiatives	Partially satisfied
2. M&A	CEO, CFO, CCO	Approved by Board	Fully satisfied
3. Staff engagement:			
a) Achieve staff engagement of 65-70% or more	CEO, CFO, CHRO, COO, CCO	Measured by Aon Hewitt Annual Engagement Survey.	Unlikely to be satisfied
b) Delivery of HR Plan	CHRO	Delivery of key HR projects and initiatives	Fully satisfied
4. Stakeholder engagement	CEO, CFO	Good relations with stakeholders	Fully satisfied
5. Risk and audit controls	CEO, CFO, COO	Ensure delivery of Risk and Audit plan for 2016	Partially satisfied

Key:

CEO: Managing Director and Chief Executive Officer
CFO: Chief Financial Officer
CCO: Chief Commercial Officer
COO: Chief Operating Officer
CHRO: Chief Human Resources Officer

Payment of STIP

Any amount that may be paid to the participants under the STIP is subject to the absolute discretion of the Board. Such amount 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 to its discretion including, without limitation, the participant's conduct. As at the date of this report, the Aon Hewitt Employee Engagement Survey had not been conducted. However, management expects that, once conducted, the survey will show that staff engagement is less than 65%, and as a result no amount would be payable for this STIP element.

Note, as at the date of the 2015 Annual Report, the result of the Aon Hewitt Employee Engagement Survey was not known. The survey result for 2015 was 69% (as compared to a KPI of 70%). At the Board's discretion, half of that STIP element was paid to the relevant executive KMP.

A total of $566,013 of the 2016 STIP will be paid to the CEO and other executive KMP upon finalisation of the Financial Report for the year ended 31 December 2016. Of this amount, $275,783 will be paid to the CEO.

The table below shows the actual STIP outcome for each executive as a percentage of their maximum STIP opportunity.

Table 3: 2016 STIP outcomes

Name of Executive	2016
Deven Billimoria – *Managing Director and Chief Executive Officer*	85%
Timothy Looi – *Chief Financial Officer*	80%
Dave Adler – *Chief Commercial Officer*	80%
Michael Ellies – *Chief Operating Officer*	80%
Houda Lebbos – *Chief Human Resources Officer*	85%

c) Long term incentive plan ('LTIP')

In early 2015 the Board established a LTIP for the CEO and executive KMP, which was approved for adoption by shareholders at the 2015 AGM. At the Company's AGM in May 2016, the shareholders again overwhelmingly approved the issue of shares to the CEO pursuant to that plan.

The LTIP aligns reward with shareholder value by tying this component of executive remuneration to the achievement of performance hurdles that underpin sustainable long-term growth. It is proposed that LTIP grants will be made once a year. Each year the grant of LTIP shares to the CEO will be put to a shareholder vote at the Company's AGM.

The LTIP is a loan-funded share ('LFS') plan. Shares are purchased by the participant and funded by a loan provided by the Company. The shares are held by the participant until they vest, or are forfeited, and are eligible for dividends. All dividends paid or distributions made by the Company to the participant are applied to repay the loan and to meet the tax liability on those dividends or distributions.

The loan is for a period of five years from issue, is subject to limited recourse and is interest-free, as required by ASIC Class Order CO14/1000 and consistent with ASIC's policy published in Regulatory Guide 49. The loan is repayable in full on the earlier of the termination date of the loan or the date on which the shares are sold. In the event that the vesting/performance conditions are not met and shares do not vest for any other reason, the shares will be acquired by the Company for the value of the outstanding loan.

The shares are forfeited in the event that the performance hurdles are not met or the participant ceases employment prior to vesting. It is not proposed that the performance hurdles be re-tested. Where there is a change of control event, the Board may, at its discretion, make a determination that some or all of a participant's unvested shares may vest.

The Board may consider amending the vesting terms and the performance hurdles, from time to time, to ensure that they are aligned to market practices and to ensure the best outcomes for the Company. It is envisaged that each year the LTIP grant will have an Earnings Per Share ('EPS') and a Total Shareholder Return ('TSR') hurdle. The Board has the absolute discretion to replace the LTIP in any one or more years with an equivalent STIP or any other program.

2016 Grant Under the LTIP

The number of shares granted is based on a proportion of the relevant executive's fixed remuneration. For 2016, the LTIP grant to the CEO and the executive KMP was 88% and between 46% and 53% of fixed remuneration respectively, as measured by the fair value of the shares on the grant allocation date (i.e. when the number of shares to be issued was determined).

Under the 2016 LTIP grant, the executive KMP and the CEO purchased shares at $4.42 and $4.76 respectively, being the market value on the date of issue. 'Market value' for the CEO's shares was the 20-day volume-weighted average price ('VWAP') of shares, up to and including the trading day immediately prior to the date of issue. 'Market value' for the executive KMP shares was the 20-day VWAP of shares, up to and including the trading day immediately prior to the date of issue, where in calculating the VWAP, the VWAP for the period prior to the declared cum dividend date was reduced by the amount of the declared dividend relating to that cum dividend date. Under the 2016 LTIP grant, the vesting period was three years ending on 31 December 2018. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle (based on NPATA per share) and a total shareholder return hurdle.

The two performance hurdles are described below in relation to the 2016 grant, and were set out in the 2016 Notice of Annual General Meeting, and subsequently approved by shareholders.

As the shares awarded under the LTIP are economically equivalent to options, the principal value to the CEO and executive KMP comes through the increase in value of the shares above market value at the time of issue. This provides further alignment with shareholder return and further links executive remuneration with Company performance.

Earnings Per Share (EPS) Performance Hurdle

The EPS performance hurdle applies to 75% of the total number of LTIP shares that may vest at the end of the vesting period. The Board's view is that the 2016 EPS performance hurdle set out below is a sufficiently challenging target. In addition, the majority benefit of the LTIP shares requires share price growth.

The following method was used to determine the EPS hurdle. It is based on achievement of the Compound Annual Growth Rate ('CAGR') of EPS (measured on the Company's NPATA per share) from the 2015 audited financial results, and adjusted to include the 2015 full year earnings of the acquisitions of Advantage Salary Packaging and 50% of Health-e Workforce Solutions.

Table 4: EPS performance hurdle

EPS Performance Hurdle Applies to a maximum of 75% of the total number of shares issued under the 2016 LTIP grant				
Measure	**Vesting period**	**EPS CAGR**	**EPS target**	**Loan-Funded Shares subject to vesting**
EPS CAGR	The period of 3 calendar years ending 31 December 2018*	Below 10.0%		NIL
		10.0%	$0.41	50%
		Between 10.0% – 15%	>$0.41 and <$0.47	Straight line between 50% – 100%
		15% or greater	$0.47	100% (capped)

*Or such other date on which the Board makes a determination as to whether the vesting condition has been met.

Total Shareholder Return (TSR) Performance Hurdle

The TSR performance hurdle applies to 25% of the total number of LTIP shares that may vest at the end of the relevant vesting period.

TSR measures the growth in the price of the shares plus cash distributions notionally reinvested in shares. Each of the companies in the S&P/ASX Small Ordinaries Index are ranked from highest to lowest based on their TSR over the performance measurement period (which is the same as the vesting period). For the purpose of calculating the TSR hurdle, the relevant share prices are determined by reference to the volume-weighted average share price over the 20 trading days up to and including 1 January 2016 (the performance measurement period start-date for the 2016 grant) and the 20 trading days up to and including the performance measurement period end-date (as specified in Table 5).

Accordingly, the TSR hurdle is based on the TSR performance (ranking) of the Company as determined over the vesting period compared to the TSR of companies in the S&P/ASX Small Ordinaries Index (S&P-/-ASX 300 Index excluding S&P-/-ASX 100 Index) as explained in Table 5.

The Board believes it is appropriate to have a proportion of the shares awarded under the LTIP to be subject to a TSR performance hurdle to provide a market based hurdle. In 2016 it was restricted to 25% of the LTIP shares.

Note, the Small Ordinaries Index contains a number of companies outside the Company's industry. The Board will continue to monitor whether it is the most appropriate comparator group for the TSR performance hurdle. Ideally, a comparator group should contain between 10 and 20 companies, but there are only a few companies with direct relevance to the Company that would logically be included in such a group. Accordingly, the Company's view is that the Small Ordinaries Index currently represents an appropriate comparator group. This was confirmed by Minter Ellison in 2017, an independent remuneration consultant engaged by the Company. The engagement of Minter Ellison was arranged and supervised by the Chairman of the HRRC.

Table 5: Relative TSR performance hurdle

TSR Performance Hurdle Applies to a maximum of 25% of the total number of shares issued under the 2016 LTIP grant			
Measure	**Vesting period**	**Smartgroup TSR performance compared to Index**	**Loan-Funded Shares subject to vesting**
Relative TSR (ranking)	The period of 3 calendar years ending 31 December 2018*	0 to 49th percentile	NIL
		50th percentile	50%
		51st to 74th percentile	Straight line between 50% – 100%
		75th to 100th percentile	100%

*Or such other date on which the Board makes a determination as to whether the vesting condition has been met.

The fair value used for grant allocation purposes included an estimate of the impact of the performance hurdles. For the shares subject to the EPS performance hurdle, the best estimate of the vesting percentage for the shares subject to the 10% and 15% EPS CAGR hurdles was assumed to be 100% and 75% respectively. For the shares subject to the TSR hurdle, a discount of approximately 10% applied.

2015 Grant Under the LTIP – Shares Vesting as at 31 December 2016

The 2015 LTIP grant was split into two tranches, the first tranche (Tranche A) with a vesting period ending on 31 December 2016. The vesting of that tranche of shares is subject to the achievement of an EPS hurdle and a TSR hurdle.

EPS hurdle: The EPS hurdle applies to 75% of Tranche A shares, and is based on achievement of CAGR of EPS (measured on the Company's NPATA per share) from the 2014 audited financial results (adjusted to exclude the once-off expenses arising from the initial public offer of shares in the Company). As at 31 December 2016, the EPS was 39.4 cents per share and therefore the EPS target of 19.6 was exceeded by more than 100%. Under the terms of the 2015 LTIP grant, that result entitles the relevant executives to receive 100% of that parcel of LTIP shares.

TSR hurdle: The TSR hurdle applies to 25% of the LTIP shares in Tranche A. The Company's TSR performance was measured to be in the top percentile (i.e. 100th percentile) of the index. Under the terms of the 2015 LTIP grant, that result entitles the relevant executives to receive 100% of that parcel of LTIP shares.

The Company engaged Minter Ellison as remuneration consultants to provide external verification of the above calculations.

Accordingly, all five executives participating in the 2015 grant had Tranche A of their 2015 LTIP shares vest in full in accordance with the column headed '% Vested at 31 December 2016' in Table 12.

2016 Remuneration Structure

The 2016 remuneration structure for the executive KMP was as follows:

Table 6: 2016 remuneration structure

	Fixed remuneration $	STIP $	LTIP $
Chief Executive Officer			
Deven Billimoria	540,750	324,450	474,450
Executive Management Team			
Timothy Looi – *Chief Financial Officer & Joint Company Secretary**	324,450	97,335	172,335
Dave Adler – *Chief Commercial Officer*	314,150	94,245	144,245
Michael Ellies – *Chief Operating Officer*	314,150	94,245	144,245
Houda Lebbos – *Chief Human Resources Officer*	309,000	91,500	142,700

*Timothy Looi resigned from the position of Joint Company Secretary on 13 December 2016 while continuing in the position of Chief Financial Officer.

Details of Remuneration

Amounts of remuneration

Details of the remuneration of the KMP of the Group are set out in the following tables.

Table 7: 2016 actual remuneration

	Short-term benefits		Post-employment benefits	Long-term benefits		
	Cash salary and fees $	Bonus $	Superannuation $	Change in employee benefit provisions $	Options $	Total $
2016						
Non-Executive Directors:						
Michael Carapiet	226,667	-	21,533	-	-	248,200
John Prendiville	130,000	-	12,350	-	-	142,350
Gavin Bell	128,333	-	12,192	-	-	140,525
Andrew Bolam	118,333	-	11,242	-	-	129,575
Ian Watt	121,667	-	11,558	-	-	133,225
Deborah Homewood*	77,419	-	7,355	-	-	84,774
Executive Directors:						
Deven Billimoria	515,387	275,783	22,727	(13,839)	342,642	1,142,700
Other Key Management Personnel:						
Timothy Looi	299,801	77,868	22,727	23,427	98,665	522,488
Dave Adler	288,939	75,396	25,000	15,337	88,114	492,786
Michael Ellies	278,939	75,396	32,579	13,024	88,114	488,052
Houda Lebbos	283,792	77,775	25,000	18,925	86,938	492,430
Total	2,469,277	582,218	204,263	56,874	704,473	4,017,105

* Represents remuneration from 9 May 2016 (the date of appointment) to 31 December 2016.

Table 8: 2015 remuneration

	Short-term benefits		Post-employment benefits	Long-term benefits		
	Cash salary and fees $	**Bonus $**	**Superannuation $**	**Change in employee benefit provisions $**	**Options $**	**Total $**
2015						
Non-Executive Directors:						
Michael Carapiet	220,000	-	20,900	-	-	240,900
John Prendiville	120,000	-	11,400	-	-	131,400
Gavin Bell	117,231	-	11,400	-	-	128,631
Andrew Bolam	107,231	-	10,450	-	-	117,681
Ian Watt*	52,956	-	4,750	-	-	57,706
Executive Directors:						
Deven Billimoria	500,000	315,000	25,000	33,225	135,947	1,009,172
Other Key Management Personnel:						
Timothy Looi	289,423	94,500	25,000	(1,448)	35,693	443,168
Dave Adler	279,808	91,500	25,000	(2,781)	34,560	428,087
Michael Ellies	269,808	91,500	35,000	10,285	34,560	441,153
Houda Lebbos	275,000	90,000	25,000	17,008	33,993	441,001
Total	2,231,457	682,500	193,900	56,289	274,753	3,438,899

* Represents remuneration from 15 July 2015 (the date of appointment) to 31 December 2015.

The proportion of remuneration linked to performance is as follows:

Table 9: Proportion of remuneration

	Fixed remuneration		At risk – STIP		At risk – LTIP	
Name	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Non-executive Directors:						
Michael Carapiet	100%	100%	-%	-%	-%	-%
John Prendiville	100%	100%	-%	-%	-%	-%
Gavin Bell	100%	100%	-%	-%	-%	-%
Andrew Bolam	100%	100%	-%	-%	-%	-%
Dr Ian Watt	100%	100%	-%	-%	-%	-%
Deborah Homewood	100%	n/a	-%	n/a	-%	n/a
Executive Directors:						
Deven Billimoria	46%	56%	24%	31%	30%	13%
Other Key Management Personnel:						
Timothy Looi	66%	71%	15%	21%	19%	8%
Dave Adler	67%	71%	15%	21%	18%	8%
Michael Ellies	67%	71%	15%	21%	18%	8%
Houda Lebbos	67%	72%	15%	20%	18%	8%

Service Agreements

Non-executive Directors

Non-executive Directors do not have fixed-term contracts with the Company. On appointment to the Board, all Non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation.

Remuneration and other terms of employment for the Managing Director and Chief Executive Officer (also Executive Director) are formalised in an employment contract. Details of this agreement are as follows:

Name:	Deven Billimoria
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	1 June 2014
Term of agreement:	Open ended
Details:	Deven Billimoria is entitled to:

- Receive fixed annual remuneration of $540,750 inclusive of superannuation contributions, and
- Participate in the STIP with target participation under the STIP capped at a maximum of 60% of his fixed annual remuneration. Payments under the STIP in any given year depend on the achievement of a range of financial and non-financial KPIs as approved by the Board on an annual basis.

The employment contract may be terminated by either party giving 12 months' written notice or in the case of the Group by payment in lieu of notice. The Group may terminate the employment contract immediately and without payment for notice or payment in lieu of notice in the event of serious misconduct or other specified circumstances. There is no entitlement to termination payments in the event of termination. Non-compete provisions upon termination of employment exist for a period of 12 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.

Other Key Management Personnel

Other executive KMP have employment agreements setting out the terms and conditions of their employment. The agreements are not of a fixed duration. These agreements provide for:

- Total compensation inclusive of a base salary and superannuation contribution;
- Eligibility to participate in the STIP, with target participation in the STIP capped at a maximum of 30% of total fixed annual remuneration;
- Termination by either party giving three months' written notice, or in the case of the Group, payment in lieu of notice;
- Immediate termination by the Group without payment in lieu of notice, in the event of serious misconduct or other specific circumstances;
- No entitlement to termination payments in the event of termination; 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.

Share-based Compensation

Bonus shares and cash offers

Details of bonus shares and cash offers issued to Directors and other executive KMP as part of compensation during the year ended 31 December 2016 are set out below:

Table 10: Bonus shares and cash offers

2016	2015
Nil	Nil

LTIP or Loan Funded Share Plan

As described above, the Board established a LTIP for the CEO and the executive KMP. The loan funded shares (LFS) issued under the LTIP are not options. However, the terms of the LTIP are such that the benefits to participants are similar to the benefits that would be received, had the participant been granted options. That is, the participant benefits from the increase in the market price over the purchase price of LFS. Accordingly, the Company provides a summary as below, of the terms of the LTIP, for the purposes of compliance with the Corporations Act, in relation to the disclosure of details of options granted during 2016.

The terms and conditions of each LTIP grant affecting remuneration, in the current or a future reporting period, are disclosed in Table 11 and Table 12.

Table 11: Terms and conditions of the shares granted under the LTIP in 2016

Issue date of LFS	Vesting period	Exercise date	Expiry date	Number of shares granted	Price of shares granted	Value of option at grant date	Performance achieved	% Vested at 31 December 2016
18 March 2016	3 calendar years to 31 December 2018	1 January 2019	17 March 2021	449,866	$4.42	$1.55	To be determined	n/a
9 May 2016	3 calendar years to 31 December 2018	1 January 2019	8 May 2021	353,652	$4.76	$1.65	To be determined	n/a

As noted above, the LFS issued under the LTIP are not options. However, for the purposes of compliance with the Corporations Act, the Company provides a summary below of the LFS issued under the LTIP in 2015 that have a vesting period ending on 31 December 2016.

Table 12: LTIP shares with a vesting period ending on 31 December 2016

Issue date of LFS	Vesting period (first tranche)	Exercise date	Expiry date	Number of shares vesting (first tranche)	Price of shares granted	Value of option at grant date	Performance achieved	% Vested at 31 December 2016*
18 March 2015	2 calendar years to 31 December 2016	1 January 2017	17 March 2020	602,263	$1.60	$0.31	Yes	100%
27 April 2015	2 calendar years to 31 December 2016	1 January 2017	26 April 2020	516,225	$1.65	$0.40	Yes	100%

*As determined by the Board on 15 February 2017.

Table 13: Shares granted under the LTIP

Name and grant dates	Balance at the start of the year (unvested)	Granted as compensation	Vested	Exercised	Forfeited	Balance at end of the year: Vested and exercisable	Balance at end of the year: Unvested
Deven Billimoria	1,032,449	353,652	516,225	-	-	516,225	869,876
Timothy Looi	309,735	128,458	154,868	-	-	154,868	283,325
Dave Adler	299,902	107,520	149,951	-	-	149,951	257,471
Michael Ellies	299,902	107,520	149,951	-	-	149,951	257,471
Houda Lebbos	294,986	106,368	147,493	-	-	147,493	253,861

There were no options over ordinary shares issued to Directors and other KMP as part of compensation as at 31 December 2016.

Additional Disclosures Relating to KMP

In accordance with Class Order 14/632 issued by the Australian Securities and Investment Commission, relating to 'Key management personnel equity instrument disclosures', the following disclosures relate only to the equity instruments in the Company and its subsidiaries.

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of KMP, including their personally related parties, is set out below:

Table 14: Director and KMP shareholding

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Michael Carapiet	1,907,116	-	115,700	-	2,022,816
John Prendiville	846,476	-	6,426	-	852,902
Gavin Bell	72,708	-	2,142	-	74,850
Andrew Bolam	155,000	-	4,284	-	159,284
Ian Watt	10,000	-	42,142	-	52,142
Deborah Homewood	-	-	-	-	-
Deven Billimoria	2,000,000	-	2,142	-	2,002,142
Timothy Looi	358,611	-	25,695	-	384,306
Dave Adler	323,020	-	-	293,022	29,998
Michael Ellies	195,611	-	64,284	-	259,895
Houda Lebbos	164,361	-	-	-	164,361
Total	6,032,903	-	262,815	293,022	6,002,696

This excludes shares from the LTIP as part of remuneration, that have not yet vested.

This concludes the Remuneration Report, which has been audited.

Shares Under Option

There were 3,040,492 shares issued to employees under the LTIP over the course of 2015 and 2016. The LTIP shares are legally held by the employees, however they cannot deal in the shares until the vesting conditions are satisfied and the loan is fully repaid. These have been treated as options in accordance with AASB 2 'Share-based Payment' issued by the Australian Accounting Standards Board.

Shares Issued on the Exercise of Options

There were no ordinary shares of Smartgroup Corporation Ltd issued on the exercise of options during the year ended 31 December 2016 and up to the date of this report.

Indemnity and Insurance of Officers

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith. During the financial year, the Group paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on Behalf of the Company

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

Non-audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 38 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in note 38 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company Who are Former Partners of the Auditors

There are no officers of the Company who are former partners of PricewaterhouseCoopers.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

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

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.
This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Michael Carapiet, Chairman
22 February 2017, Sydney

Auditor's Independence Declaration

As lead auditor for the audit of Smartgroup Corporation Ltd for the year ended 31 December 2016, 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
22 February 2017

PricewaterhouseCoopers, ABN 52 780 433 757
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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	Consolidated 2016 $'000	Consolidated 2015 $'000
Revenue	6	144,361	91,758
Share of after tax profits of joint ventures accounted for using the equity method		513	29
Fair value gain on revaluation of financial liabilities	18	1,569	-
Expenses			
Employee benefits expense		(56,323)	(37,507)
Administration and corporate expenses		(17,721)	(11,325)
Depreciation expense	7	(1,412)	(1,003)
Amortisation expense	7	(12,512)	(5,586)
Advertising and marketing expenses		(2,667)	(2,666)
Occupancy expenses		(3,152)	(2,294)
Other expenses		(2,376)	(1,554)
Finance costs	7	(4,106)	(776)
Profit before income tax expense		46,174	29,076
Income tax expense	8	(13,386)	(8,873)
Profit after income tax expense for the year attributable to the owners of Smartgroup Corporation Ltd		32,788	20,203
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		264	-
Other comprehensive income for the year, net of tax		264	-
Total comprehensive income for the year attributable to the owners of Smartgroup Corporation Ltd		33,052	20,203
		Cents	**Cents**
Basic earnings per share	15	29.80	19.88
Diluted earnings per share	15	29.37	19.80

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

Statement of Financial Position

As at 31 December 2016

	Note	Consolidated 2016 $'000	Consolidated 2015 $'000
Assets			
Current assets			
Cash and cash equivalents	9	79,990	19,407
Restricted cash and cash equivalents*	37	39,493	749
Trade and other receivables*	17	15,885	11,291
Other current assets*	19	7,025	2,338
Total current assets		142,393	33,785
Non-current assets			
Investments accounted for using the equity method	23	6,751	6,029
Derivative financial instruments	20	307	-
Deferred tax assets*	8	-	1,135
Property and equipment*	33	3,150	3,183
Intangible assets*	5	285,523	123,401
Other non-current assets		508	-
Total non-current assets		296,239	133,748
Total assets		438,632	167,533
Liabilities			
Current liabilities			
Trade and other payables*	34	26,427	21,258
Customer salary packaging liability*	37	39,493	749
Income tax payable*	8	8,848	4,992
Provisions*	35	5,550	3,276
Other current liabilities	21	10,877	708
Total current liabilities		91,195	30,983
Non-current liabilities			
Deferred tax liabilities	8	175	-
Derivative financial instruments	20	-	140
Provisions*	36	1,636	1,149
Borrowings	10	150,118	52,756
Contingent consideration	18	1,244	-
Total non-current liabilities		153,173	54,045
Total liabilities		244,368	85,028
Net assets		194,264	82,505
Equity			
Issued capital	11	170,940	62,013
Reserves	12	2,631	11,664
Retained profits		20,693	8,828
Total equity		194,264	82,505

* Refer to note 22 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

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

Statement of Changes in Equity

For the year ended 31 December 2016

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 January 2015	62,013	900	3,006	65,919
Profit after income tax expense for the year	-	-	20,203	20,203
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	20,203	20,203
Transactions with owners in their capacity as owners:				
Share-based payments (note 13)	-	404	-	404
Shares to be issued on business combinations business (note 22)	-	10,360	-	10,360
Dividends paid (note 14)	-	-	(14,381)	(14,381)
Balance at 31 December 2015	62,013	11,664	8,828	82,505

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 January 2016	62,013	11,664	8,828	82,505
Profit after income tax expense for the year	-	-	32,788	32,788
Other comprehensive income for the year, net of tax	-	264	-	264
Total comprehensive income for the year	-	264	32,788	33,052
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 11)	108,927	(10,360)	-	98,567
Share-based payments (note 13)	-	1,063	-	1,063
Dividends paid (note 14)	-	-	(20,923)	(20,923)
Balance at 31 December 2016	170,940	2,631	20,693	194,264

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

Statement of Cash Flows

For the year ended 31 December 2016

	Note	Consolidated 2016 $'000	Consolidated 2015 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of GST)		154,446	95,133
Payments to suppliers and employees (inclusive of GST)		(94,208)	(62,922)
Transaction costs relating to acquisition of subsidiaries		(2,888)	(395)
Interest received from operations		1,639	1,044
Interest paid		(3,251)	(451)
Income taxes paid		(13,202)	(4,653)
		42,536	27,756
Receipts of restricted cash*		950,862	44,034
Payments of customer salary packaging liability*		(948,644)	(46,716)
Net cash from operating activities	32	44,754	25,074
Cash Flows from Investing Activities			
Payment for business combination (net of cash acquired)*	22	(87,631)	(43,130)
Payments for joint venture capital invested		(175)	(6,000)
Payments for purchase of property and equipment		(674)	(512)
Proceeds from sale of property and equipment		11	-
Interest received from investments		784	401
Net cash used in investing activities		(87,685)	(49,241)
Cash Flows from Financing Activities			
Proceeds from issuance of shares		66,915	-
Share issue transaction costs		(1,088)	-
Proceeds from long term incentive plan		359	129
Proceeds from borrowings (net of borrowing costs)		100,495	52,752
Repayments of borrowings		(3,500)	(22,000)
Dividends paid	14	(20,923)	(14,381)
Net cash from financing activities		142,258	16,500
Net increase/(decrease) in cash and cash equivalents		99,327	(7,667)
Restricted cash and cash equivalents at the beginning of the financial year		749	-
Cash and cash equivalents at the beginning of the financial year		19,407	27,823
Restricted cash and cash equivalents at the end of the financial year	37	39,493	749
Cash and cash equivalents at the end of the financial year	9	79,990	19,407
Total		119,483	20,156

* Refer to the note 22 for the finalisation of prior period balances which has resulted in comparatives being adjusted.

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

Notes to Financial Statements
31 December 2016

Note 1. General Information

The financial statements cover Smartgroup Corporation Ltd (referred to as the 'Company' or 'parent entity') and its subsidiaries (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Smartgroup Corporation Ltd's functional and presentation currency.

Smartgroup Corporation Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 8, 133 Castlereagh Street
Sydney, NSW Australia, 2000

A description of the nature of the Group's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 22 February 2017. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant Accounting Policies

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group for the financial year ended 31 December 2016 (and 31 December 2015).

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been adopted.

Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 25.

Rounding of amounts

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

Note 3. Critical Accounting Judgements, Estimates and Assumptions

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

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 5 and note 39. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Operations provision

The Group exercises judgement in measuring and recognising provisions relating to the operations, including potential customer and supplier disputes. Judgement is necessary in assessing the likelihood that a claim will arise, and to quantify the possible range of financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Contingent consideration

Refer to note 22 for the details of accounting estimates used in valuing the contingent consideration of the Group.

Note 4. Operating Segments

Identification of reportable operating segments

The Group has identified its segments based on the internal reports that are reviewed and used by the Managing Director and Chief Executive Officer, and Chief Financial Officer (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Outsourced administration	This part of the business provides outsourced salary packaging services, which includes salary packaging administration, novated leasing and share plan administration.
Vehicle services	This part of the business provides end-to-end fleet management services.
Software, distribution and group services ('SDGS')	This part of the business provides salary packaging software solutions, distribution of vehicle insurances and information technology services.

Intersegment transactions

Intersegment transactions were made on an arm's length basis in a manner similar to transactions with third parties, and are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Note 4. Operating Segments (Continued)

Major customers

No individual customer's revenue was in excess of 10% of the Group revenues (2015: two customers over 10%, generating revenues of $24,165,000).

Operating segment information

Consolidated – 2016	Outsourced administration $'000	Vehicle services $'000	SDGS $'000	Corporate and intersegment eliminations $'000	Total $'000
Revenue					
Sales to external customers	123,896	4,318	14,895	-	143,109
Intersegment sales	-	2,489	11,954	(14,443)	-
Total sales revenue	123,896	6,807	26,849	(14,443)	143,109
Finance revenue	355	-	-	897	1,252
Total Revenue	124,251	6,807	26,849	(13,546)	144,361
Segment results (EBITDA)	49,473	3,291	18,157	(6,717)	64,204
Depreciation					(1,412)
Amortisation					(12,512)
Finance costs					(4,106)
Profit before income tax expense					46,174
Income tax expense					(13,386)
Profit after income tax expense					32,788
Assets					
Segment assets	145,492	10,245	15,711	267,184	438,632
Total assets					438,632
Liabilities					
Segment liabilities	70,609	7,140	6,317	160,302	244,368
Total liabilities					244,368

Note 4. Operating Segments (Continued)

Consolidated – 2015	Outsourced administration $'000	Vehicle services $'000	SDGS $'000	Corporate and intersegment eliminations $'000	Total $'000
Revenue					
Sales to external customers	74,677	4,033	12,647	-	91,357
Intersegment sales	-	1,397	10,413	(11,810)	-
Total sales revenue	74,677	5,430	23,060	(11,810)	91,357
Finance revenue	-	-		401	401
Total Revenue	74,677	5,430	23,060	(11,409)	91,758
Segment results (EBITDA)	23,884	2,744	14,765	(4,952)	36,441
Depreciation					(1,003)
Amortisation					(5,586)
Finance costs					(776)
Profit before income tax expense					29,076
Income tax expense					(8,873)
Profit after income tax expense					20,203
Assets					
Segment assets	61,545	9,220	14,535	82,233	167,533
Total assets					167,533
Liabilities					
Segment liabilities	22,307	4,834	5,036	52,851	85,028
Total liabilities					85,028

Accounting policy for operating segments

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

Note 5. Non-current Assets – Intangible Assets

	Consolidated 2016 $'000	2015 $'000
Goodwill – at cost	217,453	90,867
Customer contracts and relationships – at cost	51,729	37,029
Less: Accumulated amortisation	(25,045)	(19,730)
	26,684	17,299
Software and websites – at cost	67,100	32,455
Less: Accumulated amortisation	(27,018)	(18,520)
	40,082	13,935
Brand names and logos – at cost	1,304	1,300
	285,523	123,401

Reconciliations

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

Consolidated	Goodwill $'000	Customer contracts and relationship $'000	Software and website $'000	Brand names and logos $'000	Total $'000
Balance at 1 January 2015	52,208	2,817	6,178	1,300	62,503
Additions through business combinations (note 22)	38,659	16,000	11,825	-	66,484
Amortisation expense	-	(1,518)	(4,068)	-	(5,586)
Balance at 31 December 2015	90,867	17,299	13,935	1,300	123,401
Additions through business combinations (note 22)	126,586	14,700	33,344	4	174,634
Amortisation expense	-	(5,315)	(7,197)	-	(12,512)
Balance at 31 December 2016	217,453	26,684	40,082	1,304	285,523

* Refer note 22 for the finalisation of prior year business combinations which has resulted in comparatives being adjusted.

Impairment testing

The Group monitors its business through six cash-generating units (CGU) being outsourced administration, vehicle services, software distribution and group services ('SDGS'), Advantage salary packaging ('Advantage'), Autopia Group Pty Ltd ('Autopia') and Selectus Pty Ltd ('Selectus').

Note 5. Non-current Assets – Intangible Assets (Continued)

Goodwill acquired through business combinations have been allocated to the following CGU:

	Consolidated	
	2016 $'000	2015 $'000
Goodwill		
CGU1: Outsourced administration	42,377	40,647
CGU2: Vehicle services	3,911	3,911
CGU3: SDGS	7,650	7,650
CGU4: Advantage	38,659	38,659
CGU5: Autopia	22,523	-
CGU6: Selectus	102,333	-
Total goodwill	217,453	90,867

Brand names and logos have been allocated to the following cash-generating units:
CGU1: Outsourced administration $1,285,000 (2015: $1,285,000)
CGU2: Vehicle services $15,000 (2015: $15,000); and
CGU6: Selectus $4,000

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

The following key assumptions were used in the discounted cash flow model for different CGUs:

Growth rate:

CGU1: Outsourced administration 2.8% (2015: 2.5%)
CGU2: Vehicle services 2.8% (2015: 2.5%)
CGU3: SDGS 2.8% (2015: 2.5%)
CGU4: Advantage 2.8% (2015: 2.5%)
CGU5: Autopia 2.8%
CGU6: Selectus 2.8%

Discount rate:
CGU1: Outsourced administration 14.4% (2015: 15.0%)
CGU2: Vehicle services 15.8% (2015: 15.1%)
CGU3: SDGS 14.9% (2015: 15.3%)
CGU4: Advantage 11.9% (2015:15.0%)
CGU5: Autopia 12.9%
CGU6: Selectus 14.0%

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the estimated future post-tax cash flows. The equivalent pre-tax discount rates are disclosed above. The recoverable amount of net assets of each CGU is greater than the carrying value of the assets and therefore, the intangible assets are not considered to be impaired.

Sensitivity analysis

For CGUs 1, 3, 4, 5 and 6: any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount. This assessment is on the assumption that there will be no significant changes to legislation for the salary packaging concession. Should the relevant legislation change, depending on the impact of the changes, there may be a different impairment testing conclusion.

For CGU2: Any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

Note 5. Non-current Assets – Intangible Assets (Continued)

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of profit or loss and other comprehensive income in the year in which the expenditure is incurred.

Goodwill

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

Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 to 6 years.

Software and websites

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; and when the Group has sufficient resources and intent to complete the internal development and their costs can be measured reliably. The software costs are amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between 2 to 5 years.

Brand names 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.

Note 6. Revenue

	Consolidated	
	2016 $'000	**2015 $'000**
Sales revenue		
Outsourced administration	123,896	74,677
Vehicle services	4,318	4,033
Software, distribution and services	14,895	12,647
	143,109	91,357
Other revenue		
Finance revenue	1,252	401
Revenue	144,361	91,758

Accounting policy for revenue recognition

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

Outsourced administration

Revenue from the rendering of services is recognised over the period of administration. Revenue from the rendering of services includes interest earned from cash held on behalf of customers not recognised in the statement of financial position. The amount recognised is net of contract management fees and other commissions collected on behalf of third parties. Revenue from commissions and the sale of additional products is recognised in the month in which the product is sold. Share plan administration revenue is recognised over the period of administration. Revenue on customer contributions are recognised when contributions occur.

Note 6. Revenue (Continued)

Vehicle services

Vehicle services revenue is recognised upon delivery of the service to the customer.

Software, distribution and services

Revenue from the provision of software and services is recognised upon delivery of the service to the customer. Revenue from the distribution of vehicle insurance and salary packaging cards are recognised in the month in which the products are sold.

Finance revenue

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. Finance revenue includes interest earned on restricted cash balances.

Note 7. Expenses

	Consolidated	
	2016 $'000	**2015 $'000**
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	789	624
Furniture, fixtures and fittings	176	129
Computer equipment	304	190
Office equipment	135	60
Other assets	8	-
Total depreciation	1,412	1,003
Amortisation		
Customer contracts	5,315	1,518
Software and website	7,197	4,068
Total amortisation	12,512	5,586
Total depreciation and amortisation	13,924	6,589
Finance costs		
Interest and finance charges paid/payable	4,106	776
Rental expense relating to operating leases		
Minimum lease payments	2,908	2,154
Superannuation expense		
Defined contribution superannuation expense	4,151	2,757
Share-based payments expense		
Share-based payments expense	704	275

Note 8. Income Tax Expense

	Consolidated 2016 $'000	Consolidated 2015 $'000
Income tax expense		
Current tax	15,777	9,142
Deferred tax – origination and reversal of temporary differences	(2,391)	(269)
Aggregate income tax expense	13,386	8,873
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax liabilities	(2,391)	(269)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	46,174	29,076
Tax at the statutory tax rate of 30%	13,852	8,723
Tax effect amounts which are not deductible / (not taxable) in calculating taxable income:		
Share-based payments	211	82
Share of profits – joint venture	(154)	(9)
Non-deductible expenses	550	427
Fair value gain on revaluation of financial liability	(471)	-
Sundry items	23	1
	14,011	9,224
Prior year temporary differences not recognised now recognised	(244)	(177)
Prior year tax claims not recognised now recouped	(381)	-
Prior year losses not recognised now recouped	-	(174)
Income tax expense	13,386	8,873

	Consolidated 2016 $'000	Consolidated 2015 $'000
Amounts credited directly to equity		
Deferred tax liabilities	175	-

Note 8. Income Tax Expense (Continued)

	Consolidated 2016 $'000	Consolidated 2015 $'000
Deferred tax liability/(asset)		
Deferred tax liability/(asset) comprises temporary differences attributable to:		
Intangible assets	7,460	4,588
Prepayments	14	9
Accrued revenue	160	-
Derivative financial instruments	205	(42)
Impairment of receivables	(82)	(19)
Property and equipment	(71)	(49)
Employee benefits	(1,645)	(1,045)
Make good provision	(209)	(164)
Accrued expenses	(2,702)	(2,339)
Revenue received in advance	(391)	(251)
Acquisition and transaction costs	(2,472)	(1,859)
Sundry items	83	36
	350	(1,135)
Amounts recognised in equity:		
Share issue transaction costs	(62)	-
Derivative financial instruments	(113)	-
Deferred tax liability/(asset)	(175)	-
	175	(1,135)
Movements:		
Opening (asset) balance	(1,135)	(4,903)
Credited to profit or loss	(2,391)	(269)
Credited to equity	175	-
Additions through business combinations (note 22)	3,526	4,037
Closing liability/(asset) balance	175	(1,135)

	Consolidated 2016 $'000	Consolidated 2015 $'000
Income tax payable		
Income tax payable	8,848	4,992

Accounting policy for 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 to temporary differences, unused tax losses and the adjustment recognised for prior periods, when applicable. Current tax liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and tax laws enacted or substantively enacted at the reporting date.

Deferred tax

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

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

Note 8. Income Tax Expense (Continued)

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

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

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

Current and deferred tax for the year

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.

Tax consolidation group

Smartgroup Corporation Ltd (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime, from 6 June 2012. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 9. Current Assets – Cash and Cash Equivalents

	Consolidated	
	2016 $'000	2015 $'000
Cash at bank	22,528	19,407
Term deposits	57,462	-
	79,990	19,407

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, term 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 change in value.

Note 10. Non-current Liabilities – Borrowings

	Consolidated	
	2016 $'000	2015 $'000
Bank loan	152,000	53,000
Borrowing costs prepaid	(1,882)	(244)
	150,118	52,756

Refer to note 16 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2016 $'000	2015 $'000
Bank loan	152,000	53,000

Note 10. Non-current Liabilities – Borrowings (Continued)

The following bank facilities are available to the Group:

- A three year facility of $152 million;
- A three year working capital facility of $3 million;
- A three year letter of credit facility of $3 million; and
- Ancillary facilities: credit card and electronic payaway facility of $12.5 million.

The banking facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The facilities are subject to a variable interest rate, which is based on BBSY plus a margin. The banking facilities mature on 29 July 2019.

The Group is subject to certain financing covenants and meeting these is given priority in all capital risk management decisions. These covenants include leverage and interest cover ratios with reference to recurring earnings before interest, tax, depreciation and amortisation, and with distribution restrictions on dividends. There have been no events of default on the financing arrangements during the year.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2016 $'000	2015 $'000
Total facilities		
Bank loan	155,00	58,000
Letter of credit facility	3,000	3,000
	158,000	61,000
Used at the reporting date		
Bank loan	152,000	53,000
Letter of credit facility	1,901	1,901
	153,901	54,901
Unused at the reporting date		
Bank loans	3,000	5,000
Letter of credit facility	1,099	1,099
	4,099	6,099

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. 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 drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the years of the facility to which it relates.

Accounting for finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

Note 11. Equity – Issued Capital

	Consolidated			
	2016 Shares	**2015 Shares**	**2016 $'000**	**2015 $'000**
Ordinary shares – fully paid	121,487,051	103,698,124	178,242	65,644
Less: Shares associated with the loan funded share plan ('LFSP')	(3,040,492)	(2,236,974)	(7,302)	(3,631)
	118,446,559	101,461,150	170,940	62,013

Movements in ordinary share capital

Details	**Issue date**	**Shares**	**$'000**
Balance at 1 January 2015		101,461,150	62,013
Shares issued for LFSP	18 March 2015	1,204,525	1,927
	27 April 2015	1,032,449	1,704
Balance at 31 December 2015		103,698,124	65,644
Shares issued for LFSP	18 March 2016	449,866	1,988
	9 May 2016	353,652	1,683
Shares issued	18 March 2016	2,808,989	10,360
	29 July 2016	7,650,000	53,550
	2 August 2016	4,573,169	32,424
	8 September 2016	1,909,236	13,365
	19 September 2016	44,015	250
Share issue transaction costs, net of tax		-	(1,022)
Balance at 31 December 2016		121,487,051	178,242

Movements in loan funded share plan

Details	**Issue date**	**Shares**	**$'000**
Balance at 1 January 2015		-	-
Shares issued for LFSP	18 March 2015	(1,204,525)	(1,927)
	27 April 2015	(1,032,449)	(1,704)
Balance at 31 December 2015		(2,236,974)	(3,631)
Shares issued for LFSP	18 March 2016	(449,866)	(1,988)
	9 May 2016	(353,652)	(1,683)
Balance at 31 December 2016		(3,040,492)	(7,302)

Ordinary shares

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

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

Note 11. Equity – Issued Capital (Continued)

Loan funded share plan ('LFSP')

Shares are granted to the executive Key Management Personnel (KMP) under the LFSP at the market price. The shares purchased as part of the LSFP are eligible for dividends and are held by the participant until they vest or are forfeited. Should the Company pay dividends or make capital distributions in the future, any dividends paid or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions.

The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle based on NPATA (Net Profit After Tax and adjusted to exclude the non-cash tax effected Amortisation of intangibles) per share and a total shareholder return hurdle.

The shares issued under the LFSP have been treated as contingently issuable as they have not been exercised at the balance date. As such, the shares issued under the LFSP are excluded from basic earnings per share and included in calculation of diluted earnings per share.

Share buy-back

There is no current on-market share buy-back of the Company's shares.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group would look to raise capital when an opportunity to invest in a business or company was seen as value-adding relative to the current Company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 31 December 2015 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 12. Equity – Reserves

	Consolidated	
	2016 $'000	**2015 $'000**
Hedging reserve – cash flow hedges	264	-
Share-based payments reserve	2,367	1,304
Deferred share capital reserve	-	10,360
	2,631	11,664

Hedging reserve – cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that are determined to be an effective hedge.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration.

Note 12. Equity – Reserves (Continued)

Deferred share capital reserve

The reserve is used to recognise equity benefits provided to the vendors on an acquisition of business. This includes fair value of shares which are expected to be issued in the future.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Cash flow hedge $'000	Share-based payments $'000	Deferred share capital $'000	Total $'000
Balance at 1 January 2015	-	900	-	900
Share-based payments	-	404	-	404
Shares to be issued on business combinations (note 22)	-	-	10,360	10,360
Balance at 31 December 2015	-	1,304	10,360	11,664
Movement in hedges	397	-	-	397
Deferred tax	(133)	-	-	(133)
Share-based payments	-	1,063	-	1,063
Shares issued to vendors	-	-	(10,360)	(10,360)
Balance at 31 December 2016	264	2,367	-	2,631

Note 13. Share-Based Payments

Loan funded share plan ('LFSP')

The LFSP is a long term incentive for executive KMP of the Group. Refer note 11 for terms of the LFSP. The LFSP shares are legally held by the employees, however they cannot transact on the shares until the vesting conditions are satisfied and the loan is fully repaid. These have been treated as options in accordance with AASB 2 'Share-based payment'.

Set out below are summaries of loan funded shares granted under the Company's LFSP:

2016

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25 February 2015	31 December 2016	$1.60	602,263	-	-	-	602,263
25 February 2015	31 December 2017	$1.60	602,262	-	-	-	602,262
27 April 2015	31 December 2016	$1.65	516,225	-	-	-	516,225
27 April 2015	31 December 2017	$1.65	516,224	-	-	-	516,224
18 March 2016	31 December 2018	$4.49	-	449,866	-	-	449,866
9 May 2016	31 December 2018	$4.66	-	353,652	-	-	353,652
			2,236,974	803,518	-	-	3,040,492
Weighted average exercise price			$1.62	$4.56	$0.00	$0.00	$2.40

Note 13. Share-based Payments (Continued)

2015

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25 February 2015	31 December 2016	$1.60	-	602,263	-	-	602,263
25 February 2015	31 December 2017	$1.60	-	602,262	-	-	602,262
27 April 2015	31 December 2016	$1.65	-	516,225	-	-	516,225
27 April 2015	31 December 2017	$1.65	-	516,224	-	-	516,224
			-	2,236,974	-	-	2,236,974
Weighted average exercise price			$0.00	$1.62	$0.00	$0.00	$1.62

The weighted average share price during 2016 was $5.66 (2015: $2.44).

The loan funded shares have an expiry date of 5 years from the date of issue and their weighted average remaining contractual life outstanding at the end of the financial year was 3.5 years.

For the loan funded shares granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
18 March 2016	31 December 2018	$4.75	$4.49	44.00%	4.40%	1.96%	$1.55
9 May 2016	31 December 2018	$5.03	$4.66	43.00%	4.34%	1.68%	$1.65

Note 14. Equity – Dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2016 $'000	Consolidated 2015 $'000
Final dividend for the year ended 31 December 2015 of 8.7 cents (2014: 6.1 cents) per ordinary share	9,022	6,189
Interim dividend for the year ended 31 December 2016 of 9.8 cents (2015: 7.9 cents) per ordinary share	11,901	8,192
	20,923	14,381

On 22 February 2017 the Directors declared a fully-franked dividend of 15.0 cents per ordinary share. The final dividend will be paid on 31 March 2017 to shareholders registered on 15 March 2017 with an expected total distribution of $18,223,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2016 financial statements and will be recognised in subsequent financial reports.

Note 14. Equity – Dividends (Continued)

Franking credits

	Consolidated 2016 $'000	Consolidated 2015 $'000
Franking credits available at the reporting date based on a tax rate of 30%	31,311	25,316
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	8,848	5,000
Franking credits available for subsequent financial years based on a tax rate of 30%	40,159	30,316

Of the existing franking account balance, $24,130,000 is an exempt credit account and is not available to frank dividends to new Australian shareholders.

Accounting policy for dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Note 15. Earnings per Share

	Consolidated 2016 $'000	Consolidated 2015 $'000
Profit after income tax attributable to the owners of Smartgroup Corporation Ltd	32,788	20,203

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	110,026,709	101,622,763
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,604,137	428,262
Weighted average number of ordinary shares used in calculating diluted earnings per share	111,630,846	102,051,025

	Cents	Cents
Basic earnings per share	29.80	19.88
Diluted earnings per share	29.37	19.80

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Smartgroup Corporation Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding, excluding shares issued under the LFSP, during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares, including shares issued under the LFSP, assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 16. Financial Instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focusses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as interest rate swap contracts to hedge certain risk exposures. Derivatives are exclusively used for risk management purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and rolling cash flow forecasts for analysis of liquidity risk.

Risk management is carried out centrally by management under oversight from the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Management identifies, evaluates and may hedge financial risks within the Group's operating units.

Market risk

Foreign currency risk

The Group is not exposed to any significant foreign currency risk.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings, cash and cash equivalents, and restricted cash and cash equivalents, which are subject to variable interest rates. The exposure to interest rate risk on long-term borrowings is managed through the use of interest rate swaps.

As at the reporting date, the Group had the following variable rate borrowings, cash and cash equivalents, restricted cash and cash equivalents, and interest rate swap contracts outstanding:

	2016		2015	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank loans	3.84%	152,000	3.62%	53,000
Cash and cash equivalents	2.19%	(79,990)	1.94%	(19,407)
Restricted cash and cash equivalents	2.05%	(39,493)	1.44%	(749)
Interest rate swaps (notional principal amount)	2.12%	(77,750)	2.29%	(26,500)
Net exposure to cash flow interest rate risk		(45,233)		6,344

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

Sensitivity

An increase/decrease in interest rates of 100 (2015: 100) basis points would have a favourable/adverse (2015: adverse/favourable) effect on profit before tax and equity of $452,000 (2015: $63,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Derivatives interest rate swap

The Group has entered into interest rate swap contracts with notional/principal value as at 31 December 2016 of $77,750,000 (2015: $26,500,000). The interest rate contracts hedge the Group's risk against an increase in variable interest rates. Weighted average fixed rate is 2.12% (2015: 2.29%).

Sensitivity – derivative valuation

An increase/decrease in interest rates of 100 (2015: 100) basis points would have a favourable/adverse effect on derivative financial instruments value and total equity of $1,739,000 (2015: $616,000).

Note 16. Financial Instruments (Continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has procedures in place to monitor credit risk which includes obtaining references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

At 31 December 2016, the Group had 6 customers (2015: 5 customers) with trade receivables balances greater than $300,000 each accounting for approximately 44% (2015: 55%) of total trade receivables. This balance was within the Group's terms of trade and no impairment was made as at 31 December 2016. There are no guarantees against these receivables but management closely monitors the receivable balance on a monthly basis and is in regular contact with these customers to mitigate risk.

Refer to the note 17 for ageing of receivables past due not impaired.

Liquidity risk

Prudent liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities through continuous monitoring of actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2016 $'000	2015 $'000
Bank loans	3,000	5,000
Letter of credit facility	1,099	1,099
	4,099	6,099

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Note 16. Financial Instruments (Continued)

Consolidated – 2016	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	4,711	-	-	-	4,711
Customer salary packaging liability	39,493	-	-	-	39,493
Contingent consideration on business combinations	9,541	1,244	-	-	10,785
Interest-bearing – variable					
Bank loan	10,835	5,646	149,478	-	165,959
Total non-derivatives	64,580	6,890	149,478	-	220,948

Consolidated – 2015	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	3,887	-	-	-	3,887
Customer salary packaging liability	749	-	-	-	749
Interest-bearing – variable					
Bank loans	1,919	23,452	32,082	-	57,453
Total non-derivatives	6,555	23,452	32,082	-	62,089
Derivatives					
Interest rate swaps net settled	70	61	9	-	140
Total derivatives	70	61	9	-	140

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 17. Current Assets – Trade and Other Receivables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Trade receivables	8,645	7,151
Less: Provision for impairment of receivables	(272)	(63)
	8,373	7,088
Other receivables	7,512	4,203
	15,885	11,291

Note 17. Current Assets – Trade and Other Receivables (Continued)

Impairment of receivables

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

	Consolidated 2016 $'000	2015 $'000
0 to 3 months overdue	197	39
3 to 6 months overdue	45	1
Over 6 months overdue	30	23
	272	63

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

	Consolidated 2016 $'000	2015 $'000
Opening balance	63	164
Additional provisions recognised	458	293
Additions through business combinations	2	-
Unused amounts reversed	(251)	(394)
Closing balance	272	63

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $1,595,000 as at 31 December 2016 ($1,053,000 as at 31 December 2015).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

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

	Consolidated 2016 $'000	2015 $'000
0 to 3 months overdue	1,169	888
3 to 6 months overdue	423	163
Over 3 months overdue	3	2
	1,595	1,053

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 14 days.

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

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

Note 18. Fair Value Measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability.

Consolidated – 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Interest rate swap contracts – cash flow hedges	-	307	-	307
Total assets	-	307	-	307
Liabilities				
Contingent consideration	-	-	10,785	10,785
Total liabilities	-	-	10,785	10,785

Consolidated – 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Interest rate swap contracts	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Interest rate swap contracts	-	140	-	140
Total liabilities	-	140	-	140

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within Level 2 and Level 3
Derivatives – interest rate swap contracts

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Contingent consideration arising on business combinations

Contingent consideration is valued at each reporting date based on the likely settlement amount which is discounted to present value. The fair value is determined using management estimates of future performance and the resultant potential liability. Significant unobservable valuation inputs in relation to contingent consideration include, estimated earnings before interest, tax, depreciation and amortisation adjusted to exclude revenue and expense synergies ('Adjusted EBITDA') and the Company's share price for Selectus, and, profit before tax ('PBT') for Smartequity Pty Ltd.

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Contingent consideration $'000
Balance at 1 January 2015	-
Balance at 31 December 2015	-
Contingent consideration recognised on business combinations (note 22)	(12,354)
Gains recognised in profit or loss	1,569
Balance at 31 December 2016	(10,785)

Note 18. Fair Value Measurement (Continued)

Description	Unobservable inputs	Input used	Sensitivity
Contingent consideration – Selectus	Adjusted EBITDA	$14 million	5% increase/(decrease) in Adjusted EBITDA would increase/(decrease) fair value by $4,362,000.
	The Company's share price	$6.28	5% increase/(decrease) in the Company's share price would increase/(decrease) fair value by $459,000.
Contingent consideration – Smartequity	PBT	$1.2 million	5% increase/(decrease) in PBT would increase/(decrease) fair value by $220,000.

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

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

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

Note 19. Current Assets – Other Current Assets

	Consolidated	
	2016 $'000	**2015 $'000**
Prepayments	5,672	2,278
Other current assets	1,353	60
	7,025	2,338

Note 20. Derivative Financial Instruments

	Consolidated	
	2016 $'000	**2015 $'000**
Non-current assets		
Interest rate swap contracts – cash flow hedges	307	-
Non-current liabilities		
Interest rate swap contracts	-	(140)
	307	(140)

Refer to note 16 for further information on financial instruments.

Refer to note 18 for further information on fair value measurement.

Note 20. Derivative Financial Instruments (Continued)

Accounting policy for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently-remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedge reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, is exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Note 21. Current Liabilities – Other Current Liabilities

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Income received in advance	1,336	708
Contingent consideration (note 18)	9,541	-
	10,877	708

Note 22. Business Combinations

Autopia Group Pty Ltd ('Autopia')

On 4 July 2016, the Group acquired 100% of the ordinary shares of Autopia for the total consideration of $40,430,000. Autopia, based in Sydney, provides novated leasing to a corporate client base that includes over 300 employer clients. Autopia manages approximately 3,000 vehicles across Australia. The goodwill of $22,523,000 represents the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of $6,610,000 and profit after tax of $2,083,000 to the Group for the period from 4 July 2016 to 31 December 2016. If the acquisition occurred on 1 January 2016, the full-year contributions would have been revenues of $12,110,000 and profit after tax of $3,483,000, subject to adjustments arising as a result of purchase price allocation.

Selectus Pty Ltd ('Selectus')

On 2 August 2016, the Group acquired 100% of the ordinary shares of Selectus for the total consideration of $132,800,000. This includes initial consideration of $121,690,000 and contingent consideration of $11,110,000. The final contingent consideration is subject to the year ended 30 June 2017 Adjusted EBITDA and certain performance metrics relating to the future growth of Selectus. Prior to its acquisition, Selectus, based in Melbourne, was the largest privately owned national provider of novated leases and salary packaging administration services. Selectus manages over 13,000 vehicles across Australia. Its client base includes over 500 employer clients, including organisations in the government and rebatable sectors. The acquisition adds another complementary brand to the Group's salary packaging business and provides exposure to the rebatable segment. The goodwill of $102,333,000 represents the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of $13,177,000 and profit after tax of $2,842,000 to the Group for the period from 2 August 2016 to 31 December 2016. If the acquisition occurred on 1 January 2016, the full-year contributions would have been revenues of $31,933,000 and profit after tax of $5,022,000, subject to adjustments arising as a result of purchase price allocation.

Trinity Management Group ('TMG')

On 29 January 2016, the Group acquired selected assets of TMG for the total consideration of $2,952,000. TMG manages equity plans on behalf of over 50 corporate clients both listed and unlisted. The goodwill of $1,730,000 represents the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of $1,253,000 and profit after tax of $137,000 to the Group for the period from 29 January 2016 to 31 December 2016. If the acquisition occurred on 1 January 2016, the full year contributions would have been revenues of $1,253,000 and profit after tax of $137,000, subject to adjustments arising as a result of purchase price allocation.

The values identified for all three acquisitions are provisional as at 31 December 2016.

Note 22. Business Combinations (Continued)

Details of the acquisition are as follows:

	Autopia Fair value $'000	Selectus Fair value $'000	TMG Fair value $'000	Total Fair value $'000
Cash and cash equivalents	6,923	74	-	6,997
Restricted cash and cash equivalents	7,921	28,605	-	36,526
Trade receivables	668	2,699	270	3,637
Other current assets	-	1,757	-	1,757
Property and equipment	139	445	-	584
Other intangible assets	13,897	32,651	1,500	48,048
Trade and other payables	(1,124)	(3,304)	-	(4,428)
Customer salary packaging liability	(7,921)	(28,605)	-	(36,526)
Provision for income tax	(875)	(539)	-	(1,414)
Deferred tax liability	(903)	(2,100)	(523)	(3,526)
Employee benefits	(818)	-	(25)	(843)
Other provisions	-	(1,216)	-	(1,216)
Net assets acquired	17,907	30,467	1,222	49,596
Goodwill	22,523	102,333	1,730	126,586
Acquisition-date fair value of the total consideration transferred	40,430	132,800	2,952	176,182
Representing:				
Cash paid or payable to vendor	40,180	89,266	1,708	131,154
Smartgroup Corporation Ltd shares issued to vendor	250	32,424	-	32,674
Contingent consideration	-	11,110	1,244	12,354
	40,430	132,800	2,952	176,182
Acquisition costs expensed to profit or loss	572	2,293	31	2,896
Cash used to acquire business, net of cash acquired:				
Cash paid to vendor	40,180	89,266	1,708	131,154
Less: cash and cash equivalents	(6,923)	(74)	-	(6,997)
Less: restricted cash and cash equivalents	(7,921)	(28,605)	-	(36,526)
Net cash used	25,336	60,587	1,708	87,631

Contingent consideration – Selectus

In the event that Adjusted EBITDA exceeds $12.5 million for the financial year ended 30 June 2016 and other operational performance metrics are satisfied, additional consideration of up to $50,000,000 may be payable. The fair calue of contingent consideration of $11,110,000 at acquisition date, was estimated by calculating a probability weighted Adjusted EBITDA forecast of between $13,750,000 and $14,250,000.

Contingent consideration – Smartequity

In the event PBT exceeds $864,000 for the year ended 2018 additional consideration may be payable. The fair value of contingent consideration of $1,244,000 at acquisition date was determined by calculating a probability adjusted PBT for 31 December 2018 of between $1,100,000 and $1,300,000 and discounted to present value at acquisition date.

Note 22. Business Combinations (Continued)

Comparative period acquisitions

In the previous year, the Group acquired 100% interest in Salary Packaging Solutions Pty Ltd and National Tax Manager Pty Ltd which together operate as Advantage Salary Packaging (‘Advantage’) for the total consideration of $58,543,000.

The business combination was finalised in the current financial year and has resulted in recognition of customer contracts of $16,000,000, recognition of software and website intangible asset of $11,825,000, recognition of deferred tax liability of $4,897,000, an increase in other net assets of $485,000 and a decrease in goodwill of $23,413,000. The Group recognised restricted cash and cash equivalents of $3,431,000 and a corresponding customer salary packaging liability. Prior to this acquisition the Group did not hold any restricted cash balances. These balances were recognised as adjustments to the statement of financial position as at 31 December 2015. The statement of cash flows was adjusted to reflect the receipt of restricted cash of $44,034,000, payments of customer salary packaging liability of $46,716,000 within the cash flow for operating activities and reduced the payment for business combination by $3,431,000 within the net cash from investing activities, to reflect the restricted cash and cash equivalents acquired.

Finalisation of provisional accounting did not impact the comparative period statement of profit or loss and other comprehensive income or opening retained profits.

Details of the Advantage acquisition are summarised as follows, and have been updated accordingly:

	Fair value $'000
Cash and cash equivalents	1,622
Restricted cash and cash equivalents	3,431
Trade receivables	777
Other current assets	22
Property and equipment	46
Other intangible assets	27,825
Trade payables	(4,555)
Customer salary packaging liability	(3,431)
Provision for income tax	(611)
Deferred tax liability	(4,037)
Employee benefits	(1,205)
Net assets acquired	19,884
Goodwill	38,659
Acquisition-date fair value of the total consideration transferred	58,543
Representing:	
Cash paid or payable to vendor	48,183
Smartgroup Corporation Ltd shares issued to vendor	10,360
	58,543
Cash used to acquire business, net of cash acquired:	
Cash paid to vendor	48,183
Less: cash and cash equivalents	(1,622)
Less: restricted cash and cash equivalents	(3,431)
Net cash used	43,130

Note 23. Non-current Assets – Investments Accounted for Using the Equity Method

	Consolidated	
	2016 $'000	**2015 $'000**
Investment in joint venture – Health-e Workforce Solutions	6,751	6,029

Accounting policy for Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the after tax profits or losses of the joint venture is recognised in the statement of profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the Group is set out below:

		Ownership interest	
Name	**Principal place of business/ Country of incorporation**	**2016 %**	**2015 %**
Health-e Workforce Solutions Pty Ltd	Australia	50.00%	50.00%

	Health-e Workforce Solutions Pty Ltd	
	2016 $'000	**2015 $'000**
Summarised statement of financial position		
Current assets	2,438	2,560
Non-current assets	2,363	4,075
Total assets	4,801	6,635
Current liabilities	548	2,942
Total liabilities	548	2,942
Net assets	4,253	3,693
Summarised statement of profit or loss and other comprehensive income		
Revenue	3,756	266
Amortisation expense	(557)	(23)
Other expenses	(1,732)	(160)
Profit before income tax	1,467	83
Income tax expense	(440)	(25)
Profit after income tax	1,027	58
Other comprehensive income	-	-
Total comprehensive income	1,027	58
Reconciliation of the Group's carrying amount		
Opening carrying amount	6,029	-
Investments during the year	209	6,000
Share of profit after income tax	513	29
Closing carrying amount	6,751	6,029

Contingent liabilities

Share of contingent liabilities relating to joint venture as at 31 December 2016 $nil (2015: $nil)

Commitments

Share of commitments relating to joint venture as at 31 December 2016 $nil (2015: $nil)

Note 24. Related Party Transactions

Parent entity

Smartgroup Corporation Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 26.

Joint ventures

Interests in joint ventures are set out in note 23.

Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 27 and the Remuneration Report included in the Directors' Report.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivables from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 25. Parent Entity Information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2016 $'000	2015 $'000
Profit after income tax	18,713	18,613
Total comprehensive income	18,713	18,613

Summarised statement of financial position

	Parent	
	2016 $'000	2015 $'000
Total current assets	363,273	117,185
Total assets	452,462	206,897
Total current liabilities	107,849	56,887
Total liabilities	257,662	109,783
Equity		
Issued capital	170,940	62,013
Hedging reserve – cash flow hedges (net of tax)	264	-
Share-based payments reserve	2,367	1,304
Deferred share capital reserve	-	10,360
Retained profits	21,229	23,437
Total equity	194,800	97,114

Note 25. Parent Entity Information (Continued)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity and certain of its subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of these subsidiaries. Refer to note 31 for further details.

The parent entity has also provided guarantees in respect of banking facilities provided to the Group.

Contingent liabilities

The parent entity has given bank guarantees as at 31 December 2016 of $316,000 (2015: $316,000).

Capital commitments – Property and equipment

The parent entity had no capital commitments for property and equipment as at 31 December 2016 (2015: nil).

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 26. Interests in Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described throughout the financial statements:

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**2016 %**	**2015 %**
Smartsalary Group Pty Ltd	Australia	100.00%	100.00%
Smartsalary Pty Limited	Australia	100.00%	100.00%
PBI Benefit Solutions Pty Ltd	Australia	100.00%	100.00%
SeQoya Pty Ltd	Australia	100.00%	100.00%
Smartfleet Management Pty Ltd	Australia	100.00%	100.00%
Australian Vehicle Consultants Pty Ltd	Australia	100.00%	100.00%
Smartequity Pty Ltd	Australia	100.00%	100.00%
Smartequity EIS Pty Ltd	Australia	100.00%	100.00%
Salary Packaging Solutions Pty Ltd	Australia	100.00%	100.00%
National Tax Manager Pty Ltd	Australia	100.00%	100.00%
Advantage Leasing Holdings Pty Ltd	Australia	100.00%	100.00%
Autopia Group Pty Ltd	Australia	100.00%	-
Autopia Management Pty Limited	Australia	100.00%	-
Selectus Pty Ltd	Australia	100.00%	-
Selectus Employee Benefits Pty Ltd	Australia	100.00%	-
Selectus Financial Services Pty Ltd	Australia	100.00%	-

Note 27. Key Management Personnel Disclosures

Compensation

The aggregate compensation made to Directors and other members of Key Management Personnel of the Group is set out below:

	Consolidated	
	2016 $	**2015 $**
Short-term employee benefits	3,051,495	2,913,957
Post-employment benefits	204,263	193,900
Long-term benefits	56,874	56,289
Share-based payments	704,473	274,753
	4,017,105	3,438,899

Note 28. Contingent Liabilities

The Group has given bank guarantees as at 31 December 2016 of $2,595,000 (2015: $1,401,000). The Group has given guarantees for performance of contracts to its customers as at 31 December 2016 of $500,000 (2015: $500,000).

Note 29. Commitments

	Consolidated	
	2016 $'000	2015 $'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	3,288	3,285
One to five years	6,616	5,730
More than five years	428	-
	10,332	9,015

Operating lease commitments includes contracted amounts for various offices under non-cancellable operating leases expiring within 1 to 6 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 30. Events After the Reporting Period

Apart from the dividend declared as disclosed in note 14, no other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 31. Deed of Cross Guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Smartsalary Corporation Ltd
Smartsalary Group Pty Ltd
Smartsalary Pty Limited
Salary Packaging Solutions Pty Ltd
Smartfleet Management Pty Ltd
Autopia Group Pty Limited
Autopia Management Pty Limited
Selectus Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare separate financial statements and Directors' reports under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order and as there are no other parties to the deed of cross guarantee that are controlled by Smartgroup Corporation Ltd, they also represent the 'Extended Closed Group'.

Note 31. Deed of Cross Guarantee (Continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2016 $'000
Statement of profit or loss and other comprehensive income	
Revenue	139,120
Employee benefits expense	(55,576)
Administration and corporate expenses	(17,251)
Depreciation expense	(1,412)
Amortisation expense	(11,748)
Advertising and marketing expenses	(2,649)
Occupancy expense	(3,142)
Other expenses	(2,320)
Finance costs	(4,105)
Profit before income tax expense	40,917
Income tax expense	(12,146)
Profit after income tax expense	28,771
Other comprehensive income	
Net change in the fair value of cash flow hedges taken to equity, net of tax	264
Other comprehensive income for the year, net of tax	264
Total comprehensive income for the year	29,035

	2016 $'000
Equity – retained profits	
Retained profits at the beginning of the financial year	3,848
Profit after income tax expense	28,771
Dividends paid	(20,923)
Retained profits at the end of the financial year	11,696

Note 31. Deed of Cross Guarantee (Continued)

Statement of financial position	2016 $'000
Current assets	
Cash and cash equivalents	78,767
Restricted cash and cash equivalents	39,493
Trade and other receivables	16,425
Other current assets	7,024
	141,709
Non-current assets	
Investments	45,361
Derivative financial instruments	307
Deferred tax assets	69
Property and equipment	3,151
Intangible assets	240,871
	289,759
Total assets	431,468
Current liabilities	
Trade and other payables	30,176
Customer salary packaging liability	39,493
Income tax payable	8,848
Provisions	5,518
Other current liabilities	9,631
	93,666
Non-current liabilities	
Provisions	1,623
Borrowings	150,118
Other non-current liabilities	1,244
	152,985
Total liabilities	246,651
Net assets	184,817
Equity	
Issued capital	170,490
Reserves	2,631
Retained profits	11,696
Total equity	184,817

Note 32. Reconciliation of Profit After Income Tax to Net Cash from Operating Activities

	Consolidated 2016 $'000	Consolidated 2015 $'000
Profit after income tax expense for the year	32,788	20,203
Adjustments for:		
Share of profit – joint ventures	(513)	(29)
Share-based payments	704	275
Fair value change to derivative financial instruments	(70)	140
Finance revenue – disclosed under investing activities	(897)	(401)
Amortisation of borrowing costs	368	103
Loss on disposal of property and equipment	28	3
Depreciation	1,412	1,003
Amortisation	12,512	5,586
Fair value change to contingent consideration	(1,569)	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(569)	(2,065)
Increase in deferred tax assets	(658)	(269)
(Increase)/decrease in other current assets	(3,460)	479
Increase/(decrease) in trade and other payables	323	(1,145)
Increase in provision for income tax	2,371	4,488
Decrease in deferred tax liabilities	(1,529)	-
Increase/(decrease) in provisions and other liabilities	1,295	(615)
	42,536	27,756
Increase/(decrease) in customer salary packaging liability	2,218	(2,682)
Net cash from operating activities	44,754	25,074

Note 33. Non-current Assets – Property and Equipment

	Consolidated 2016 $'000	Consolidated 2015 $'000
Leasehold improvements – at cost	4,476	3,682
Less: Accumulated depreciation	(2,659)	(1,590)
	1,817	2,092
Furniture, fixtures and fittings – at cost	991	959
Less: Accumulated depreciation	(594)	(395)
	397	564
Computer equipment – at cost	5,427	2,667
Less: Accumulated depreciation	(4,821)	(2,405)
	606	262
Office equipment – at cost	1,057	488
Less: Accumulated depreciation	(757)	(244)
	300	244
Other assets – at cost	38	21
Less: Accumulated depreciation	(8)	-
	30	21
	3,150	3,183

Note 33. Non-current Assets – Property and Equipment (Continued)

Reconciliations

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

Consolidated	Leasehold improvements $'000	Furniture, fixtures and fittings $'000	Computer equipment $'000	Office equipmentt $'000	Other assets $'000	Total $'000
Balance at 1 January 2015	2,658	648	259	66	-	3,631
Additions	58	20	193	241	-	512
Additions through business combinations (note 22)	-	25	-	-	21	46
Write off of assets	-	-	-	(3)	-	(3)
Depreciation expense	(624)	(129)	(190)	(60)	-	(1,003)
Balance at 31 December 2015	2,092	564	262	244	21	3,183
Additions	493	26	269	29	22	839
Additions through business combinations (note 22)	28	11	379	166	-	584
Disposals	-	(5)	-	(2)	-	(7)
Write off of assets	(7)	(23)	-	(2)	(5)	(37)
Depreciation expense	(789)	(176)	(304)	(135)	(8)	(1,412)
Balance at 31 December 2016	1,817	397	606	300	30	3,150

Accounting policy for property and equipment

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property and equipment over their expected useful lives as follows:

Leasehold improvements	Over unexpired period of lease
Furniture, fixtures and fittings	5-10 years
Computer equipment	2-3 years
Office equipment	3-6 years
Other assets	4-8 years

The residual values, useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

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

An item of property and equipment is de-recognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 34. Current Liabilities – Trade and Other Payables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Trade payables	4,711	3,887
Other payables and accruals	21,716	17,371
	26,427	21,258

Refer to note 16 for further information on financial instruments.

Accounting policy for trade and other payables

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

Note 35. Current Liabilities – Provisions

	Consolidated 2016 $'000	Consolidated 2015 $'000
Employee benefits	3,982	2,336
Make good provision	-	75
Operations provision	1,568	865
	5,550	3,276

Employee benefits

The provision for employee benefits relates to the Group's liability for annual leave and long service leave.

Make good provision

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Operations provision

The provision relates to negative employee salary packaging account balances which may be uncollectible and customer and supplier disputes.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated 2016 $'000	Consolidated 2015 $'000
Employee benefits obligation expected to be settled after 12 months	339	274

Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Note 36. Non-current Liabilities – Provisions

	Consolidated 2016 $'000	Consolidated 2015 $'000
Employee benefits	939	677
Make good provision	697	472
	1,636	1,149

Movements in provisions

Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

Consolidated – 2016	Consolidated Make good provision $'000	Consolidated Operation Provision $'000
Carrying amount at the start of the year	547	865
Additional provisions recognised	150	157
Additions through business combinations (note 22)	75	546
Amounts used	(75)	-
Carrying amount at the end of the year	697	1,568

Note 37. Cash Held on Behalf of Customers and Associated Liabilities

Cash held on behalf of customers recognised in the statement of financial position:

	Consolidated 2016 $'000	Consolidated 2015 $'000
Current assets – Restricted cash and cash equivalents		
Restricted cash and cash equivalents	39,493	749

	Consolidated 2016 $'000	Consolidated 2015 $'000
Current liabilities – Customer salary packaging liability		
Customer salary packaging liability	(39,493)	(749)

The restricted cash accounts are held with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. The Group has recognised finance revenue of $355,000 (2015: $nil) from restricted cash.

Refer note 16 for interest rate sensitivity analysis.

Accounting policy for restricted cash and cash equivalents

The restricted cash and cash equivalents disclosed above and in the statement of cash flows represents funds held by the Group on behalf of certain customers. The use of these funds are restricted to the making of salary packaging payments on behalf of those customers only and therefore not available for general use. The Group recognises a liability for all restricted cash balances to reflect the amounts owing to its customers.

Note 37. Cash Held on Behalf of Customers and Associated Liabilities (Continued)

Cash held on behalf of customers not recognised in the statement of financial position:

	Consolidated			
	2016 weighted average interest rate	**2016 $'000**	**2015 weighted average interest rate**	**2015 $'000**
Accounts established by the Group as for cash held on behalf of customers	1.66%	84,678	2.11%	54,769
Accounts established by customers directly	0.03%	71,368	0.04%	64,972
Total		156,046		119,741

Cash held on behalf of salary packaging and share plan administration customers is deposited by customers into segregated bank accounts to be used only to settle their employees' salary packaging obligations to suppliers or for contributions into share plans. The Group cannot use these funds for any other purpose than as directed by its customers. Customers are liable to ensure adequate funds are kept in the segregated bank accounts for salary packaging and share plan payments. The Group has assessed that these assets are held in a fiduciary capacity rather than being assets of the Group and as such, have excluded them from the statement of financial position.

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. The Group recognised interest revenue of $1,280,000 (2015: $1,018,000) from those accounts established by the Group as cash held on behalf of customers, and $21,000 (2015: $28,000) from those accounts established by customers directly. These amounts are recognised within outsourced administration revenue.

Note 38. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company, and unrelated firms:

	Consolidated	
	2016 $	**2015 $**
Audit services – PricewaterhouseCoopers		
Audit or review of the financial statements	381,000	260,100
Other services – PricewaterhouseCoopers		
Taxation services	37,000	67,065
Risk and governance	121,000	-
	539,000	327,165
Audit services – unrelated firms		
Audit or review of the financial statements	55,000	-
Other services – unrelated firms		
Tax compliance services	12,500	-
	67,500	-

Note 39. Other Accounting Policies

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Smartgroup Corporation Ltd ('Company' or 'parent entity') as at 31 December 2016 and the results of all subsidiaries for the year then ended.

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Current and non-current classification

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

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

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

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

Leases

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

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

The Group does not have any finance leases. Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Impairment of non-financial assets

Goodwill and other 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 non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for long term employee benefits is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- During the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period;
- From the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in the statement of profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum, an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Business combinations

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

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

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

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

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

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

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Comparatives

Comparatives in the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, and notes to the financial statements have been realigned to current year presentation. There has been no effect on the profit for the year.

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

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

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

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

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

New accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been adopted early by the Group for the annual reporting period ended 31 December 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, is set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. The Group expects to adopt this standard from 1 January 2018, but the impact of its adoption is not expected to be material.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is in the process of assessing the impact of this standard which is expected to be adopted from 1 January 2018.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group is in the process of assessing the impact of this standard which is expected to be adopted from 1 January 2019.

Directors' **Declaration**

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 31 to the financial statements.

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

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

On behalf of the Directors

Michael Carapiet
Chairman
22 February 2017
Sydney

Independent auditor's report

To the members of Smartgroup Corporation Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

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

a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended

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

What we have audited

The Group's financial report comprises:

- the statement of financial position as at 31 December 2016;
- the statement of profit or loss and comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

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

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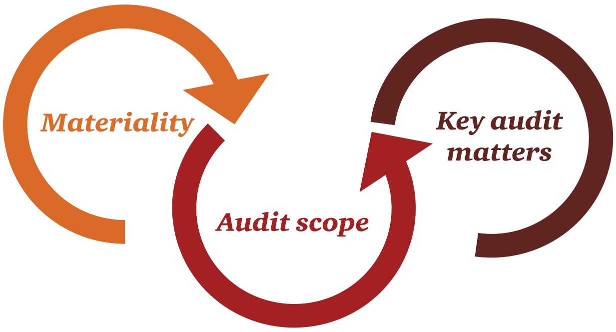
Our audit approach

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

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

Smartgroup's financial report consolidates the businesses of Smartsalary, Smartfleet, Advantage Salary Packaging (Advantage), Autopia, Selectus and other smaller Smartgroup businesses located in Sydney and Melbourne. The Group provides outsourced administration (primarily salary packaging administration and novated leasing), vehicle services (fleet management) and software, distribution and services to a wide range of government, health and corporate customers across Australia. Each business has its own finance function and shared services are being developed across the Group.



Materiality

- For the purpose of our audit, we used overall group materiality of $2.4 million, which represents approximately 5% of the Group's profit before tax, adjusted for business combination related costs.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose profit before tax as the benchmark because, in our view, profit before tax (which is a generally accepted benchmark for profit oriented entities) is a key metric against which the performance of the Group is measured. We adjusted profit before tax for business combination related costs as these were infrequently occurring items impacting the profit before tax. We selected 5% based on our professional judgement, noting that it is within the range of commonly acceptable profit related materiality thresholds.

Audit scope

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We ensured that the audit team possessed the appropriate skills and competencies which are needed for the audit of the Group. This included adequate industry expertise, as well as the involvement of valuation and taxation specialists.

- Due to their financial significance, we performed an audit of the financial information of the main operating entities of the following businesses: Smartsalary, Smartfleet, Advantage and Autopia.
- An audit of the financial information of the main operating entity of Selectus was performed by another auditor under our instructions. We determined the level of involvement we needed to have in the Selectus audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial report as a whole. This included issuing written instructions and maintaining an active dialogue with the other auditor, including receiving written reports, reviewing their work, visiting the business and attending meetings with local management.
- Due to their smaller size and contribution to the Group's results, we performed selected audit procedures over certain balances of non-trading holding entities, and analytical procedures over the other smaller remaining trading entities of the Group. We also performed risk focused audit procedures over the accounting for the acquisition of the Trinity Management Group (TMG) (now trading as Smartequity).
- At the Group level, we performed further audit procedures over the consolidation process and the preparation of the financial report.
- The combination of all these procedures provided us with sufficient and appropriate audit evidence to express an opinion on the Group's financial report as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We communicated the key audit matters to the Audit and Risk Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Business combinations *(Refer to note 22)*	
During the year, the Group acquired three new businesses: TMG, Autopia and Selectus. The Group also finalised the accounting for the acquisition of Advantage, which was acquired in 2015. The acquisition of a business is complex and the accounting standards require the Group to identify all assets and liabilities of the newly acquired businesses and estimate the fair value of each item. We focused on the accounting for these acquisitions due to: • the judgement required to value the software and customer contract assets acquired of Advantage, TMG, Autopia	We read the relevant sale and purchase agreements and due diligence reports in relation to the acquisitions. The accounting for the acquisitions was consistent with the sale and purchase agreements. For the valuation of software and customer contract assets, we performed the following procedures assisted by our valuation specialists: • assessed the competency and objectivity of the external valuers and considered the valuation methodologies adopted and determined that we could use the external valuations as evidence for the purpose of our audit • compared the underlying data used in the valuations, such as historical results, to supporting documentation • assessed the reasonableness of the key

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Key audit matter	How our audit addressed the key audit matter
and Selectus. The Group engaged external valuers to assist them in valuing these assets. Key judgements included: o relevant discount and royalty rates used to value intangible assets o estimates relating to the replacement cost of intangible assets o the useful life of customer and software assets. It can be difficult to estimate the assets' fair values due to their specialised nature. • the judgement required to determine whether funds held on behalf of certain customers represent an asset of the business and thus should be recognised in the statement of financial position. Accounting appropriately for funds held on behalf of customers is complex because it requires detailed consideration of the substance and legal form of relevant factors relating to control and economic benefits of the asset. • the judgement required to estimate the fair value of the contingent consideration for TMG and Selectus. Key judgements included forecasts of TMG's Net Profit Before Tax and Selectus' Earnings Before Interest, Taxation, Depreciation and Amortisation, as well as an assessment of whether certain performance metrics relating to the future growth of the Selectus business were likely to be met. • the significant impact of all of these acquisitions on profit and the statement of financial position.	judgements in the valuations, in particular we: o compared the discount and royalty rates with rates generally observed in the industry o developed an understanding of the basis for estimates used in determining the replacement cost of technology assets o compared the expected useful life of the identified assets to generally observed useful lives for similar assets. In relation to our assessment of the Group's accounting treatment for funds held on behalf of customers, our procedures included: • inspecting a sample of customer contracts and assessing the key characteristics of these contracts in relation to the classification of the funds as either restricted cash or cash held on behalf of customers • developing an understanding of the relevant transaction process flows and the key differences between restricted cash and cash held on behalf of customers • assessing the qualitative and quantitative disclosures made in the financial report in relation to each of the different types of funds held on behalf of customers. In relation to the valuation of the contingent consideration in respect of the TMG and Selectus businesses, and in order to assess whether the conditions required for the contingent consideration to be paid were likely to be met in the future, our procedures included: • assessing if the calculation of the contingent consideration was in accordance with the contractual arrangements and the requirements of accounting standards • assessing the governance supporting the Group's forecasting process • assessing the Group's forecasting accuracy by comparing past forecasts with actual performance and developing an understanding of the causes of differences • developing an understanding of the Group's perspective on the future growth of the TMG and Selectus businesses • considering the sensitivity of the deferred consideration liability to reasonably possible changes in key profit assumptions.

Key audit matter	How our audit addressed the key audit matter
	We considered the adequacy of the business combination disclosures in light of the requirements of Australian Accounting Standards.
Goodwill impairment assessment *(Refer to note 5)* The Group's goodwill is required by Australian Accounting Standards to be tested at year end for impairment at the cash generating unit (CGU) level. We focused on the impairment assessment due to the size of the goodwill balance and the judgement involved in assessing whether an impairment was required. The Group performed an impairment assessment over goodwill by calculating the value in use for each CGU, using discounted cash flow models (the models). Key judgements in the models included discount rates, annual revenue and terminal growth rates and the assumption that there will be no significant changes to the legislation governing the provision of products and services within the salary packaging administration and novated leasing industries in the forecast periods.	Our audit procedures included: • assessing whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines and the level of integration of the newly acquired businesses • evaluating the process by which the cash flow forecasts were developed • comparing the cash flow forecasts to Board approved budgets and confirming that key assumptions in the forecasts were subject to oversight from the directors • assessing the accuracy of the forecasts by comparing previous forecasts with actual business results • comparing these goodwill forecasts with forecasts within the contingent consideration calculations for consistency • considering the sensitivity of the key assumptions in the models by analysing the impact on the recoverable amount from changes in key assumptions. These recalculations did not suggest an impairment was required for the tested CGUs • considering whether there had been any published plans from mainstream Australian political parties relating to any potential changes to legislation governing the provision of products and services within the salary packaging administration and novated leasing industries. We did not identify plans for significant changes in this area. As a final test, we compared the Group's net assets of \$194 million as at 31 December 2016 to its market capitalisation of \$750 million on the same date. We also considered the adequacy of the Group's disclosures on goodwill impairment in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Restricted cash and cash equivalents held on behalf of customers *(Refer to note 37)*	
As described in note 37, the provision of salary packaging services involves the Group holding funds on behalf of certain customers, either as restricted cash or cash equivalents held on behalf of customers. We focused on this area because we considered it a higher risk area as the Group may be responsible for any shortfall in these accounts. There is a significant volume of transactions impacting restricted cash and cash held on behalf of customers' accounts throughout the year, because there is a large volume of accounts and employees under management (EUM).	Our audit procedures included: • performing tests over a sample of key controls in the EUM cash transaction process and assessing whether these controls had been designed appropriately and operated effectively during the year. We determined that we could place reliance on the tested controls for the purposes of our audit • testing a sample of restricted cash and cash held on behalf of customers bank account reconciliations and obtaining confirmations directly from banks of the outstanding balances at year end • testing a sample of salary packaging transactions to check they had been authorised by the relevant EUM • reading board minutes, enquiring with management and obtaining a written description from the Group's lawyers of current legal matters to understand whether there were any material claims from EUMs or employers. We further considered the adequacy of the Group's disclosures in relation to restricted cash and cash held on behalf of customers balances in the light of the requirements of Australian Accounting Standards.
Operations provisions *(Refer to notes 3 and 35)*	
The Group recognises provisions in relation to negative employee salary packaging account balances, where the employees owe the Group funds which may be uncollectible. Provisions are also recognised for any customer and supplier disputes. We focused on this area because judgement is necessary in assessing the collectability of negative employee salary packaging account balances and the likelihood that a customer or supplier dispute will arise. As a result, and because of the inherent uncertainty in the evaluation process, there	Our audit procedures included: • considering the appropriateness of the Group's accounting policy in the light of historical trends in the settlement of previously raised provisions • re-calculating the application of the Group's provisioning policy • where applicable, reading available external communications with third parties on outstanding claims and disputes to assess the potential financial exposure of these matters to the Group at 31 December 2016 • reading board minutes and obtaining a written description from the Group's lawyers of current legal matters to identify customer and supplier disputes.

Key audit matter	How our audit addressed the key audit matter
is a risk that actual exposure due to non-recovery of negative employee salary packaging account balances and disputes with third parties may differ from the originally estimated provisions.	

Other information

The directors are responsible for the other information. The other information comprises the Chairman's report, the 2016 financial highlights, the CEO's report of operations, information on the Group's awards in 2016, information on the Group's brands, information on the Group's achievements in 2016, the shareholder information and the Corporate directory but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

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A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 19 to 30 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of Smartgroup Corporation Ltd for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
22 February 2017

Shareholder **Information**

The shareholder information set out below was applicable as at 30 January 2017.

Distribution of Equitable Securities

Analysis of number of equitable security holders by size of holding.

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	605	-
1,001 to 5,000	893	-
5,001 to 10,000	244	-
10,001 to 100,000	292	-
100,001 and over	48	-
	2,082	-
Holding less than a marketable parcel	79	-

Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below.

	Ordinary Shares	
	Number held	% of total shares issued
SMART PACKAGES PTE LTD	32,608,245	26.84%
J P MORGAN NOMINEES AUSTRALIA LIMITED	13,312,456	10.96%
NATIONAL NOMINEES LIMITED	11,286,695	9.29%
HSBC CUSTODY NOMINEES	9,670,645	7.96%
BNP PARIBAS NOMS PTY LTD	7,509,468	6.18%
CITICORP NOMINEES PTY LIMITED	5,757,029	4.74%
UBS NOMINEES PTY LTD	5,086,314	4.19%
HEATHERWOOD COURT PTY LTD	2,492,003	2.05%
APINTO PTY LTD <DEVEN BILLIMORIA FAMILY A/C>	2,002,142	1.65%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,872,053	1.54%
GENTILLY HOLDINGS 2 PTY LIMITED	1,850,401	1.52%
JENNY ELIZABETH GAUDRY	1,687,535	1.39%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	1,423,018	1.17%
DEVENDRA BILLIMORIA	1,386,101	1.14%
ANTON JEROME GAUDRY	1,125,738	0.93%
BNP PARIBAS NOMINEES PTY LTD	1,036,648	0.85%
KPB ENTERPRISES PTY LTD	1,017,711	0.84%
AOTEAROA INVESTMENT COMPANY	678,715	0.56%
POINT CAPITAL PTY LTD	636,642	0.52%
LEON FINK HOLDING PTY LTD	468,162	0.39%
	102,439,559	84.32%

Unquoted equity securities

There are no unquoted equity securities.

Substantial Holders

Substantial holders in the Company are set out below.

	Ordinary shares	
	Number held	**% of total shares issued**
SMART PACKAGES PTE LTD	32,608,245	26.84
J P MORGAN NOMINEES AUSTRALIA LIMITED	13,312,456	10.96
NATIONAL NOMINEES LIMITED	11,286,695	9.29
HSBC CUSTODY NOMINEES	9,670,645	7.96
BNP PARIBAS NOMS PTY LTD	7,509,468	6.18

Voting Rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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

There are no other classes of equity securities.

Restricted Securities

Class	Expiry date	Number of shares
Fully paid ordinary shares	Date after the audited financial statements of the Company for the year ended 31 December 2016 are released	1,426,503

Corporate **Directory**

Directors	Michael Carapiet Deven Billimoria Gavin Bell Andrew Bolam Deborah Homewood John Prendiville Ian Watt
Company secretary	Sophie Macintosh Amanda Morgan
Registered office	Smartgroup Corporation Ltd Level 8, 133 Castlereagh Street Sydney, NSW Australia, 2000 Tel: 1300 665 855
Principal place of business	Smartgroup Corporation Ltd Level 8, 133 Castlereagh Street Sydney, NSW Australia, 2000 Tel: 1300 476 278
Share register	Link Market Services Limited Level 12, 680 George Street, Sydney, NSW Australia, 2000 Tel: 1300 554 474
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street Sydney, NSW Australia, 2000
Solicitors	Minter Ellison Lawyers Level 23, 525 Collins Street Melbourne, VIC Australia, 3000 Tel: +61 3 8608 2000
Bankers	Australia and New Zealand Banking Group Limited 242 Pitt Street Sydney, NSW, Australia, 2000
Stock exchange listing	Smartgroup Corporation Limited shares are listed on the Australian Securities Exchange (ASX code: SIQ)
Website	www.smartgroup.com.au
Corporate Governance Statement	The Corporate governance statement which was approved at the same time as the Annual Report can be found at http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance

1999
Initial establishment of Smartsalary.com

2001
Investment by Macquarie Bank and other investors; Smartsalary Pty Ltd established

2004
Launched vehicle lease broking business

2006
Acquired by Paxys Australia Pty Ltd

2009
Acquired Melbourne Systems Group assets and Seqoya

2010
Acquired Webfleet

2011
Acquired Australian Vehicle onsultants and creation of Smartfleet

Acquired PBI Solutions

2012
Paxys Australia sold to Smargroup Investments (currently known as Smartgroup Corporation)

2013
Acquired TAINS business (Insurance products distribution)

2014
Smartgroup Corporation lists on the ASX

2015
Acquired 50% of Health-e Workforce Solutions

Acquired Advantage Salary Packaging

2016
Acquired Selectus

Acquired Autopia

Acquired Trinity Management Group assets. Trading as Smartequity

Smartgroup Corporation Ltd
National Head Office
Level 8, 133 Castlereagh Street
Sydney NSW 2000

smartgroup.com.au