Smartgroup Corporation Ltd
Half-year report
30 June 2018

ABN 48 126 266 831

Market Release
30 June 2018

22 August 2018

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 4D,
2. Review of operations, and
3. Smartgroup Corporation Ltd half year report 2018.

Smartgroup Corporation Ltd will conduct a briefing on the results at 9:00 am (Sydney time) on 23 August 2018.

Amanda Morgan
General Counsel and joint Company Secretary

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Appendix 4D
Statutory results for announcement to the market

		$'000's	$'000's
Revenue from ordinary activities	up	24,692 (25%) to	**122,762**
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up	12,603 (76%) to	**29,167**
Net profit for the period attributable to the owners of Smartgroup Corporation Ltd	up	12,603 (76%) to	**29,167**

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2017 dividend per share (paid 30 March 2018)	18.5	18.5	30%
Interim 2018 dividend per share (to be paid 28 September 2018)	20.5	20.5	30%

The record date for determining entitlement to the interim dividend is 14 September 2018. There is no dividend reinvestment plan in place.

Net tangible assets	30 June 2018	31 Dec 2017
Net tangible assets per ordinary security, cents per share	(30.68)	(104.06)

Control gained over entities

On 4 January 2018, Smartfleet Management Pty Ltd, a wholly-owned group entity, acquired 100% of the ordinary shares of Fleet West Pty Ltd.

On 1 May 2018, Salary Solutions Australia Pty Ltd, a wholly-owned group entity, acquired the remaining 50% of the ordinary shares of Smartsalary Payroll Solutions Pty Ltd, resulting in 100% ownership.

Refer to note 6 for details on the acquisitions.

Details of Joint Venture Entities	Reporting entity's percentage holding		Contribution to profit after tax	
	30 June 2018 %	30 June 2017 %	30 June 2018 $'000	30 June 2017 $'000
Health-e Workforce Solutions Pty Ltd	**50%**	**50%**	**235**	**89**

Independent auditor's review

The financial report for the half year ended 30 June 2018 has been reviewed by PricewaterhouseCoopers and there is no review dispute or qualification.

Review of Operations
30 June 2018

	30 June 2018 $'000	* Restated 30 June 2017 $'000	Movement
Revenue	**122,762**	**98,070**	25%
Product costs	**(3,454)**	**(2,298)**	50%
Share of profit from joint venture accounted for using the equity method	**235**	**89**	164%
Expenses			
Employee benefits expense	**(45,226)**	**(35,638)**	27%
Administration and corporate expenses	**(13,845)**	**(11,213)**	23%
Occupancy expenses	**(2,470)**	**(1,901)**	30%
Advertising and marketing expenses	**(1,606)**	**(1,705)**	(6%)
Other expenses	**(1,003)**	**(355)**	183%
Acquisition transaction costs	**(259)**	**(76)**	241%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**55,134**	**44,973**	**23%**
Depreciation expense	**(811)**	**(716)**	13%
Amortisation expense of acquired intangible assets ^	**(10,542)**	**(8,537)**	23%
Finance costs	**(2,484)**	**(2,936)**	(15%)
Fair value loss on revaluation of financial liabilities	**-**	**(6,271)**	(100%)
Profit before income tax for the half-year	**41,297**	**26,513**	**56%**
Income tax expense ^	**(12,130)**	**(9,949)**	22%
Net profit after income tax for the half-year	**29,167**	**16,564**	**76%**
Add: Amortisation, tax effected	**7,379**	**5,976**	23%
Add: Acquisition transaction costs	**259**	**76**	241%
Add: Cash tax benefit on deductible amortisation ^	**1,645**	**1,416**	16%
Add: Fair value loss on revaluation of financial liabilities	**-**	**6,271**	(100%)
Net profit after tax and amortisation (NPATA) ** ^	**38,450**	**30,303**	**27%**
EBITDA margin	**45%**	**46%**	(1%)
NPATA margin	**31%**	**31%**	0%
Net operating cash inflow ***	**37,768**	**26,056**	45%
Net operating cash inflow as a percentage of NPATA ***	**98%**	**86%**	14%

	Cents	Cents	Movement
NPATA per share ****	**29.4**	24.5	20%
Dividends declared per share ****	**20.5**	16.5	24%

^ 2017 amortisation expense, income tax expense, cash tax benefit on deductible amortisation and NPATA have been restated following final acquisition accounting for AccessPay Pty Ltd (AccessPay).

* See note 2 for detailed information on Restatement of comparatives.

** NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.

*** Net cash inflow from operating activities has been adjusted to exclude transaction costs relating to business acquisitions and receipts and payments related to customer salary packaging bank accounts.

**** NPATA per share and dividends declared per share at 30 June 2018 are based on 130,974,190 shares (30 June 2017: 123,526,516 shares), which includes the 2,595,724 shares held by the Company under the Loan Funded Share Plan (LFSP) (30 June 2017: 3,469,133 shares).

Review of Operations (continued)
30 June 2018

Financial performance

The half year 2018 financial results for Smartgroup Corporation Ltd and its controlled entities (the Group) show continued growth in revenue and earnings. The revenue of $122.8m represents 25% growth over half year 2017 while Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) grew 23% to $55.1m.

The half year 2018 Net Profit After Tax and Amortisation (NPATA) of $38.5m represents growth of 27% over half year 2017.

Revenue have increased primarily due to higher salary package and novated lease volumes, and the inclusion of 6 months' results of ABM Corporation (acquired August 2017), RACV Salary Solutions (acquired October 2017) and Fleet West (acquired January 2018).

Smartgroup has progressed well in the integration of the acquired businesses. All Aspire clients have now been transitioned to other operating business units and a new system build, to service the clients of Salary Solutions, AccessPay and Advantage, is well underway. The transition of these three businesses onto a single system will streamline salary packaging operations, ensure common processes and better enable future improvements in our customer offerings.

Acquisition of Fleet West

On 4 January 2018, the Group completed the acquisition of Fleet West Pty Ltd for $8.0m in cash and $1.0m in shares. Fleet West, based in Perth with 15 staff, is a specialist fleet management provider. It manages c.2,800 vehicles for c.180 employer clients. The acquisition extends Smartgroup's fleet management presence further into the not-for-profit (NFP) sector.

Cross selling of products

The Group has seen early success in cross selling additional products and services, primarily to salary packaging PBI customers. At 30 June 2018, there were 11 clients using three Group service offerings and an additional 138 clients using two Group service offerings, out of a total of over 3,000 clients. The Group continues to look for opportunities to add value to our customers through our range of service offerings.

Equity placement and Share Purchase Plan (SPP)

On 27 February 2018, the Group completed a placement of 6.8m shares, raising $75.0m. The net proceeds of the placement were used to pay down debt and provide financial flexibility to support organic growth and pursue future acquisitions. The equity placement was complemented by the issuance of a further 0.3m shares in April, via a SPP, that raised an additional $3.4m.

Net debt

The Group net debt position at 30 June 2018 is $27.9m ($111.1m as at December 2017) excluding capitalised borrowing costs. This net debt position measured on net debt / last twelve months Earnings before Interest, Taxes, Depreciation and Amortisation is 0.3x (1.2x as at December 2017). This lower level of net debt to EBITDA enables the Group to remain flexible and agile for potential opportunities.

Directors' Report
30 June 2018

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 half year ended 30 June 2018.

Directors

The following people were Directors of the Company during the whole of the reporting period and up to the date of this report, unless otherwise stated:

Michael Carapiet (Chairman)
Gavin Bell
Deven Billimoria
Andrew Bolam
Deborah Homewood
John Prendiville
Ian Watt

Principal activities

During the reporting period the principal continuing activities of the Group consisted of outsourced administration, fleet management, and software, distribution and group services. Outsourced administration comprises of salary packaging, novated leasing and payroll administration.

Dividends

On 22 August 2018, the Directors declared a fully-franked dividend of 20.5 cents per ordinary share. The record date is 14 September 2018 and the dividend will be paid on 28 September 2018.

Review of operations

The profit after tax for the Group is $29,167,000 (Restated 30 June 2017: $16,564,000). Refer to the Review of Operations for further commentary on the results.

Environmental regulation

The Group is not affected by any significant environmental regulation under Australian Commonwealth or State law in respect of its operations.

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 page 5.

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 this report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

On behalf of the Directors,

Michael Carapiet

22 August 2018
Sydney

Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

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

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
22 August 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2018

	30 June 2018 $'000	* Restated 30 June 2017 $'000
Revenue	**122,762**	98,070
Share of profit from joint venture accounted for using the equity method	**235**	89
Product costs	**(3,454)**	(2,298)
Employee benefits expense	**(45,226)**	(35,638)
Administration and corporate expenses	**(13,845)**	(11,213)
Occupancy expenses	**(2,470)**	(1,901)
Advertising and marketing expenses	**(1,606)**	(1,705)
Amortisation of acquired intangibles	**(10,542)**	(8,537)
Depreciation expense	**(811)**	(716)
Other expenses	**(1,003)**	(355)
Operating profit before income tax expense	**44,040**	**35,796**
Fair value loss on revaluation of financial liabilities	**-**	(6,271)
Acquisition transaction costs	**(259)**	(76)
Finance costs	**(2,484)**	(2,936)
Profit before income tax expense	**41,297**	**26,513**
Income tax expense	**(12,130)**	(9,949)
Profit after income tax expense	**29,167**	**16,564**
Other comprehensive income		
Net change in fair value of cash flow hedges taken to equity, net of tax	**52**	(363)
Total comprehensive income for the period	**29,219**	**16,201**

Earnings per share

	Cents	Cents
Basic earnings per share (cents)	**23.2**	13.9
Diluted earnings per share (cents)	**23.1**	13.8

* See note 2 for detailed information on the Restatement of comparatives.

Consolidated Statement of Financial Position
As at 30 June 2018

	Notes	30 June 2018 $'000	* Restated 31 December 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**44,811**	30,860
Restricted cash and cash equivalents	12	**47,532**	67,644
Trade and other receivables		**25,629**	21,952
Back-to-back leased vehicles		**8,436**	-
Other current assets		**4,941**	4,760
Total current assets		**131,349**	**125,216**
Non-current assets			
Investments accounted for using the equity method		**6,582**	6,348
Derivative financial instruments		**258**	226
Deferred tax assets		**495**	1,810
Property and equipment		**2,382**	2,931
Intangible assets	5	**327,784**	327,684
Other non-current assets		**520**	516
Total non-current assets		**338,021**	**339,515**
Total assets		**469,370**	**464,731**
LIABILITIES			
Current liabilities			
Trade and other payables		**33,861**	31,092
Leased vehicle borrowings	7	**10,272**	-
Customer salary packaging liability	12	**47,532**	67,644
Income tax payable		**1,419**	6,752
Provisions		**8,861**	8,389
Other current liabilities		**4,141**	2,994
Total current liabilities		**106,086**	**116,871**
Non-current liabilities			
Provisions		**2,474**	2,441
Borrowings	7	**71,921**	140,853
Total non-current liabilities		**74,395**	**143,294**
Total liabilities		**180,481**	**260,165**
Net assets		**288,889**	**204,566**
EQUITY			
Share capital	8	**256,079**	176,883
Reserves	9	**4,684**	4,570
Retained earnings		**28,126**	23,083
Equity attributable to the owners of Smartgroup Corporation Ltd		**288,889**	**204,536**
Non-controlling interests		**-**	30
Total equity		**288,889**	**204,566**

* See note 2 for detailed information on the Restatement of comparatives.

Consolidated Statement of Changes in Equity
As at 30 June 2018

	Notes	Share capital $'000	Other reserves $'000	Retained earnings $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2017		**170,940**	**2,631**	**20,693**	**-**	**194,264**
Profit for the period (restated)		-	-	16,564	-	16,564
Other comprehensive income		-	(363)	-	-	(363)
Total comprehensive income for the period		**-**	**(363)**	**16,564**	**-**	**16,201**
Transactions with owners in their capacity as owners:						
Issue of ordinary shares as consideration for a business combination, net of transaction costs		300	-	-	-	300
Share-based payments		1,815	750	-	-	2,565
Non-controlling interests on acquisition of subsidiary		-	-	(42)	42	-
Dividends paid		-	-	(18,223)	-	(18,223)
Balance at 30 June 2017		**173,055**	**3,018**	**18,992**	**42**	**195,107**
Balance at 1 January 2018		**176,883**	**4,570**	**23,083**	**30**	**204,566**
Profit for the period		-	-	29,167	-	29,167
Other comprehensive income		-	52	-	-	52
Total comprehensive income for the period		**-**	**52**	**29,167**	**-**	**29,219**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	8	78,196	-	-	-	78,196
Issue of ordinary shares as consideration for a business combination, net of transaction costs	6	1,000	-	-	-	1,000
Share-based payments		-	62	-	-	62
Non-controlling interests on acquisition of subsidiary		-	-	30	(30)	-
Dividends provided for or paid		-	-	(24,154)	-	(24,154)
Balance at 30 June 2018		**256,079**	**4,684**	**28,126**	**-**	**288,889**

Consolidated Statement of Cash Flows
As at 30 June 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Receipts from customers		**135,048**	103,608
Payments to suppliers and employees		**(78,967)**	(60,479)
Transaction costs relating to business acquisitions		**(763)**	-
Interest received from operations		**1,311**	1,388
Interest paid		**(2,169)**	(2,701)
Income taxes paid		**(17,455)**	(15,760)
Net cash from operating activities excluding salary packaging receipts and payments		**37,005**	**26,056**
Receipts in restricted cash		**1,114,073**	578,388
Payments of customer salary packaging liability		**(1,134,185)**	(576,626)
Net cash inflow from operating activities		**16,893**	**27,818**
Cash flows from investing activities			
Payments for business acquisitions (net of cash acquired)	6	**(6,725)**	(14,509)
Payments for property, plant and equipment		**(81)**	(163)
Dividends received from joint venture		**-**	750
Interest received from investments		**218**	332
Other dividends paid in relation to the Fleet West acquisition	6	**(1,000)**	-
Net cash outflow from investing activities		**(7,588)**	**(13,590)**
Cash flows from financing activities			
Repayment of borrowings		**(69,322)**	(27,000)
Proceeds from long term incentive plan		**1,629**	2,020
Dividends paid		**(24,154)**	(18,225)
Proceeds from issuance of shares (net of transaction costs)		**76,381**	-
Net cash outflow from financing activities		**(15,466)**	**(43,205)**
Net decrease in cash and cash equivalents		**(6,161)**	**(28,977)**
Cash and cash equivalents at the beginning of the year		**30,860**	79,990
Restricted cash and cash equivalents at the beginning of the year		**67,644**	39,493
Cash and cash equivalents at end of period		**44,811**	50,653
Restricted cash and cash equivalents at end of period		**47,532**	39,853
Total		**92,343**	**90,506**

Notes to the Consolidated Financial Statements

30 June 2018

1 Basis of preparation

Smartgroup Corporation Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia. The financial statements cover the consolidated entity (referred to hereafter as the Group) consisting of the Company and the entities it controlled for the half year ended 30 June 2018.

The consolidated half year financial report is a general purpose financial report prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Smartgroup Corporation Ltd is a for-profit entity for the purpose of preparing the financial report.

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by the Company during the interim reporting period, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the accounting policy on operating leases (as lessor) which was previously not applicable and the adoption of new and amended standards, both of which are as set out below.

(a) Leases (as lessor)

Back-to-back leased vehicles are secured via contracts with motor vehicle dealerships to repurchase the leased vehicle at the end of the lease term. Back-to-back leased vehicles are stated at the lower of cost and net realisable value. Cost comprises the purchase price, non-refundable taxes and other expenditure that is directly attributable to the acquisition. Net realisable value is the contracted selling price back to the motor vehicle dealerships. All back-to-back leased vehicles have lease terms of less than 12 months.

A financial liability is secured against each back-to-back leased vehicle. The lease liability is measured at amortised cost, extinguished on lease termination, and therefore, also on a term of less than 12 months.

Lease rental income and expense on motor vehicles is recognised in profit or loss in periodic amounts on a straight-line basis over the lease term.

(b) 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 commencing 1 January 2018.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

(i) AASB 15 Revenue from contracts with customers
The AASB has issued a new standard for the recognition of revenue. AASB 15 outlines a single comprehensive model of accounting for revenue arising from Contracts with Customers that supersedes the revenue recognition requirements that are included in AASB 118. The Group early adopted AASB 15 using the full retrospective approach with a date of initial application of 1 January 2016.

(ii) AASB 9 Financial Instruments
AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The Group early adopted AASB 9, with a date of initial application of 1 January 2017.

Notes to the Consolidated Financial Statements (continued)
30 June 2018

1 Basis of preparation (continued)

(c) New or amended accounting standards and interpretations not yet mandatory or early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(i) 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 and a liability corresponding to the capitalised lease will also be recognised. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability.

AASB 16 will primarily impact the accounting for the Group's existing operating leases. The group has not yet determined to what extent non-cancellable operating lease commitments, as at the reporting date, will result in the recognition of an asset and a liability for future payments and how this will affect the Group's reporting of profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16. At this stage, the group does not intend to adopt the standard before its effective date.

2 Restatement of comparatives

(a) Change in basis of revenue recognition

The Group has changed its interpretation of the current accounting policy for certain salary packaging products to recognise revenue on a gross rather than net basis. In respect of these products, the Group acts in the capacity of a principal rather than agent and the Group is considered to have primary responsibility for contract fulfilment, which amongst others, are indicators that the Group meets the control criteria under AASB 15 *Revenue from Contracts with Customers*.

In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates, and Errors*, the change in interpretation of accounting policy has been applied retrospectively. Consistent with the disclosure in the 2017 Annual Report, revenue and expenses are presented on a gross basis. As a result, revenue for the half year ended 30 June 2017 increased by $2,298,000, with a corresponding increase in product cost. The change in basis of revenue recognition had no impact on profit before income tax expense and the Consolidated Statement of Financial Position.

The adjustment to periods before those presented below would be similarly to recognise revenue and expenses on a gross basis.

Refer to note 6 for restatement of comparatives relating to the finalisation of comparative period acquisition accounting.

(b) Finalisation of provisional accounting for acquisitions

On 2 May 2017, the Group acquired 100% of the ordinary shares of AccessPay Pty Ltd, Fleet Solutions Pty Ltd and 50% of the ordinary shares of AccessPay Payroll Solutions Pty Ltd (collectively, AccessPay) for a total consideration of $15,000,000. On 23 August 2017, the Group acquired 100% of the ordinary shares of ABM Corporation Pty Limited (Aspire) for a total consideration of $7,200,000. On 20 October 2017, the Group acquired certain assets of RACV Salary Solutions (Salary Solutions) for a total consideration of $34,468,000.

Notes to the Consolidated Financial Statements (continued)
30 June 2018

2 Restatement of comparatives (continued)

(b) Finalisation of provisional accounting for acquisitions (continued)

At 31 December 2017, the acquisition accounting for AccessPay, Aspire and Salary Solutions was provisionally determined. At 30 June 2018, the provisional accounting for Aspire and AccessPay is finalised resulting in reclassification from goodwill to intangible assets of $2,099,000. As a result, the comparative statement of profit or loss and other comprehensive income has been restated to recognise amortisation on software and customer contracts of $313,000. Details of finalised acquisition accounting for AccessPay and Aspire is disclosed in note 6.

3 Dividends

On 22 August 2018, the Directors declared a fully-franked dividend of 20.5 cents per ordinary share. The record date is 14 September 2018 and the dividend will be paid on 28 September 2018. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $26,819,000.

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 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.

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

Outsourced administration (OA)	This part of the business provides outsourced salary packaging services, novated leasing, share plan administration and outsourced payroll services.
Vehicle services (VS)	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, the marketing of salary packaging debit cards, distribution of vehicle insurances and workforce management software to the healthcare industry.

Intersegment transactions
Intersegment transactions were made at market rates. Intersegment transactions 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.

Notes to the Consolidated Financial Statements (continued)
30 June 2018

4 Operating segments (continued)

Half-year ended 30 June 2018	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Management and administrative fees	33,053	3,192	228	-	36,473
Products, services and commissions	67,192	-	9,409	-	76,601
Trailing commissions and rebates	7,063	1,630	748	-	9,441
Other revenue	-	-	-	247	247
Inter-segment sales	-	1,359	8,849	(10,208)	-
Total revenue	**107,308**	**6,181**	**19,234**	**(9,961)**	**122,762**
Segment results (EBITDA)	**46,637**	**2,955**	**8,892**	**(3,350)**	**55,134**
Depreciation					(811)
Amortisation					(10,542)
Finance costs					(2,484)
Profit before income tax expense					**41,297**
Income tax expense					(12,130)
Profit after income tax expense					**29,167**
30 June 2018					
Assets					
Segment assets	161,893	32,896	13,018	261,563	469,370
Total assets	**161,893**	**32,896**	**13,018**	**261,563**	**469,370**
Liabilities					
Segment liabilities	76,182	19,285	4,489	80,525	180,481
Total liabilities	**76,182**	**19,285**	**4,489**	**80,525**	**180,481**

Notes to the Consolidated Financial Statements (continued)
30 June 2018

4 Operating segments (continued)

Half-year ended 30 June 2017 (restated)	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Management and administrative fees	23,021	1,928	223	-	25,172
Products, services and commissions	58,307	-	8,740	-	67,047
Trailing commissions and rebates	4,283	318	660	-	5,261
Other revenue	-	-	-	590	590
Inter-segment sales	-	1,203	7,648	(8,851)	-
Total revenue	**85,611**	**3,449**	**17,271**	**(8,261)**	**98,070**
Segment results (EBITDA)	**28,607**	**1,937**	**11,027**	**(2,869)**	**38,702**
Depreciation					(716)
Amortisation					(8,537)
Finance costs					(2,936)
Profit before income tax expense					**26,513**
Income tax expense					(9,949)
Profit after income tax expense					**16,564**
31 December 2017 (restated)					
Assets					
Segment assets	185,322	12,759	9,554	257,096	464,731
Total assets	**185,322**	**12,759**	**9,554**	**257,096**	**464,731**
Liabilities					
Segment liabilities	102,053	5,155	3,928	149,029	260,165
Total liabilities	**102,053**	**5,155**	**3,928**	**149,029**	**260,165**

Notes to the Consolidated Financial Statements (continued)
30 June 2018

5 Intangible assets

	30 June 2018 $'000	* Restated 31 December 2017 $'000
Goodwill		
At cost	**265,755**	260,058
Total Goodwill	**265,755**	**260,058**
Customer contracts		
At cost	**65,229**	61,129
Accumulated amortisation	**(37,033)**	(32,380)
Total customer contracts	**28,196**	**28,749**
Software		
At cost	**76,128**	75,283
Accumulated amortisation	**(43,599)**	(37,710)
Total software	**32,529**	**37,573**
Brand names and logo		
At cost	**1,304**	1,304
Total brand names and logo	**1,304**	**1,304**
Total intangible assets	**327,784**	**327,684**

* Refer to note 6(b) for restatement of comparatives relating to the finalisation of comparative period acquisition accounting.

6 Business combinations

(a) Current period acquisitions

(i) Fleet West Pty Ltd (Fleet West)

On 4 January 2018, the Group completed the acquisition of 100% of the shares of Fleet West Pty Ltd for $9,013,000. Fleet West is based in Perth and provides fleet management services to clients in the not-for-profit sector. The consideration paid was $8,013,000 in cash and 99,236 shares issued at a price of $10.08 each to the principal vendor.

The goodwill of $5,694,403 reflects the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of $1,842,000 and net profit after tax of $533,000 to the Group for the period from 4 January 2018 to 30 June 2018. If the acquisition occurred on 1 January 2018, the full half year contributions would have been revenues of $1,882,000 and profit after tax of $560,000 subject to adjustments arising as a result of purchase price allocation.

A pre-acquisition dividend of $1,000,000 was declared on 1 January 2018 and subsequently paid on 19 February 2018.

The values identified for the below acquisition are provisional as at 30 June 2018.

Notes to the Consolidated Financial Statements (continued)
30 June 2018

6 Business combinations (continued)

(a) Current period acquisitions (continued)

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

	Fleet West Fair value $'000
Cash and cash equivalents	1,378
Trade receivables	327
Leased motor vehicle assets	8,774
Plant and equipment	190
Other intangibles	4,946
Net deferred tax liabilities	(1,230)
Trade and other payables	(1,139)
Leased motor vehicle borrowings	(9,395)
Employee provisions	(232)
Income tax provision	(211)
Other provisions	(89)
Net assets acquired	**3,319**
Goodwill	5,694
Acquisition date fair value of consideration transferred	9,013
Representing:	
Cash paid	8,013
Ordinary shares issued	1,000
Total	**9,013**
Acquisition costs	221
Cash used to acquire business, net of cash required:	
Cash paid to vendor	8,013
Less: cash and cash equivalents	(1,378)
Net cash used	**6,635**

(b) Prior period acquisitions

(i) AccessPay Group (AccessPay)

On 2 May 2017, the Group acquired 100% of the ordinary shares of AccessPay Pty Ltd, Fleet Solutions Pty Ltd and 50% of the ordinary shares of AccessPay Payroll Solutions Pty Ltd for a total consideration of $15,000,000. The business combination was finalised during the current reporting period, resulting in a reduction to net assets acquired of $140,000.

(ii) ABM Corporation Pty Limited (Aspire)

On 23 August 2017, the Group acquired 100% of the ordinary shares of ABM Corporation Pty Limited for a total consideration of $7,200,000. The business combination was finalised during the current reporting period, resulting in a reclassification from goodwill to intangible assets of $2,099,000 for fair value of acquired software and customer contracts.

(iii) RACV Salary Solutions (Salary Solutions)

On 20 October 2017, the Group acquired certain assets of Salary Solutions for a total consideration of $34,468,000. The business combination was revised during the current reporting period, resulting in a fair value reclassification from intangible assets to goodwill of $278,000 and a fair value reclassification from property, plant and equipment to goodwill of $224,000 for acquired assets. The business combination is provisional as at 30 June 2018.

Notes to the Consolidated Financial Statements (continued)
30 June 2018

6 Business combinations (continued)

(b) Prior period acquisitions (continued)

Details of the acquisitions are summarised as follows:

	31 December 2017 (restated)			
	AccessPay Fair Value	Aspire Fair Value	Salary Solutions Fair Value	Total Fair Value
	$'000	$'000	$'000	$'000
Cash and cash equivalents	12	1,053	-	1,065
Restricted cash and cash equivalents	-	-	19,596	19,596
Trade receivables	121	28	-	149
Other current assets	91	35	860	986
Plant and equipment	822	12	182	1,016
Other intangibles	7,261	3,599	6,722	17,582
Net deferred tax assets	(676)	(150)	(1,416)	(2,242)
Trade and other payables	(670)	(88)	(1,217)	(1,975)
Customer salary packaging liability	-	-	(19,596)	(19,596)
Provision for income tax	(173)	(21)	-	(194)
Employee provisions	(605)	(132)	(758)	(1,495)
Other provisions	(386)	(109)	(339)	(834)
Net assets acquired	**5,797**	**4,227**	**4,034**	**14,058**
Goodwill	9,203	2,973	30,434	42,610
Acquisition date fair value of consideration transferred	**15,000**	**7,200**	**34,468**	**56,668**
Representing:				
Cash paid	14,700	7,200	34,468	56,368
Ordinary shares issued	300	-	-	300
Total	**15,000**	**7,200**	**34,468**	**56,668**
Acquisition costs	185	304	890	1,379
Cash used to acquire business, net of cash acquired:				
Acquisition date fair value of the total consideration transferred	14,700	7,200	34,468	56,368
Less: Cash and cash equivalents	(12)	(1,053)	-	(1,065)
Less: Restricted cash and cash equivalents	-	-	(19,596)	(19,596)
Net cash used	**14,688**	**6,147**	**14,872**	**35,707**

Notes to the Consolidated Financial Statements (continued)

30 June 2018

7 Borrowings

As at 30 June 2018 the following bank facilities were available to the Group:
- A three year facility of $115 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 pay away 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 the BBSY plus a margin. The banking facilities mature on 29 July 2019 and the Group is currently in discussion with financiers regarding refinancing of existing facilities.

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 arrangement during the year.

Refer to note 1(a) for details on the nature of leased vehicle borrowings.

8 Equity - issued capital

	30 June 2018 Shares	31 December 2017 Shares	**30 June 2018 $'000**	31 December 2017 $'000
Ordinary Shares - full paid	**130,974,190**	123,213,010	**272,494**	189,224
Less: Shares associated with the loan funded share plan (LFSP)	**(2,595,724)**	(3,155,626)	**(16,415)**	(12,341)
	128,378,466	**120,057,384**	**256,079**	**176,883**

(a) Movements in ordinary shares:

	Number of shares	**Total $'000**
Balance at 1 January 2018	**123,213,010**	**189,224**
Shares issued for LFSP - 28 March 2018	**529,582**	**5,767**
Shares issued for LFSP - 4 May 2018	**465,243**	**5,043**
Buyback of forfeited LFSP shares - 20 June 2018	**(436,241)**	**(4,921)**
Shares issued - 4 January 2018	**99,236**	**1,000**
Shares issued - 27 February 2018	**6,787,331**	**75,000**
Shares issued - 6 April 2018	**316,029**	**3,434**
Share issue transaction costs, net of tax	**-**	**(2,053)**
Balance at 30 June 2018	**130,974,190**	**272,494**

Notes to the Consolidated Financial Statements (continued)
30 June 2018

8 Equity - issued capital (continued)

(b) Movements in loan funded share plan

	Number of shares	Total $'000
Balance at 1 January 2018	3,155,626	12,341
LFSP shares exercised - 15 February 2018	(1,118,486)	(1,815)
Shares issued for LFSP - 28 March 2018	529,582	5,767
Shares issued for LFSP - 4 May 2018	465,243	5,043
Buyback of forfeited LFSP shares - 20 June 2018	(436,241)	(4,921)
Balance at 30 June 2018	**2,595,724**	**16,415**

On 28 March 2018, shares were granted to the management team under the LFSP at the market price, and at the Annual General Meeting on 2 May 2018, the 2018 LFSP grant to the CEO and two other executives was approved, with shares being granted at the market price. The shares granted as part of the LFSP 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 shares vest on 31 December 2020. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle and a total shareholder return hurdle.

For the half-year ended 30 June 2018, the Group paid $4,921,000 to buy back shares issued under the LFSP, because the vesting conditions on those shares had not been met and the shares were forfeited. 436,241 shares were bought back and cancelled, resulting in a reduction of the ordinary shares on issue.

Shares issued under the LFSP are accounted for as options. As a consequence of this classification, the unvested shares issued under the LFSP at 30 June 2018 have been treated as contingently issuable, as all the vesting conditions have not been satisfied at the balance date. Therefore, the shares issued under the LFSP are excluded from basic earnings per share and included in diluted earnings per share.

9 Equity - reserves

	30 June 2018 $'000	31 December 2017 $'000
Cash flow hedge reserve	**251**	199
Share-based payments reserve	**4,433**	4,371
	4,684	**4,570**

Heading reserve - cash flow hedges

The hedging reserve is used to record the effective portion of the gains or losses on derivatives which qualify as cash flow hedge instruments and are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to executive KMP and other senior management as part of their remuneration.

Notes to the Consolidated Financial Statements (continued)
30 June 2018

10 Earnings per share

	30 June 2018 $'000	* Restated 30 June 2017 $'000
Consolidated profit after income tax expense for the period attributable to the owners of Smartgroup Corporation Ltd	**29,167**	16,564

	Number	Number
Weighted average ordinary shares used in calculating basic earnings per share	**125,749,454**	119,611,272
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	**665,302**	668,435
Weighted average number of ordinary shares used in calculating diluted earnings per share	**126,414,756**	**120,279,707**

	Cents	Cents
Basic earnings per share (cents)	**23.2**	13.9
Diluted earnings per share (cents)	**23.1**	13.8

* See note 2 for detailed information on the Restatement of comparatives.

11 Fair value of financial instruments

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

At 30 June 2018	Level 2 $'000	Level 3 $'000
Financial assets		
Derivatives used for hedging		
Interest rate swaps	**258**	-
Total financial assets	**258**	-

At 31 December 2017	Level 2 $'000	Level 3 $'000
Financial assets		
Derivatives used for hedging		
Interest rate swaps	226	-
Total financial assets	**226**	-

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.

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.

Notes to the Consolidated Financial Statements (continued)
30 June 2018

12 Cash held on behalf of customers and associated liabilities

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

	30 June 2018 $'000	31 December 2017 $'000
Restricted cash and cash equivalents	47,532	67,644
Customer salary packaging liability	(47,532)	(67,644)

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

	30 June 2018 $'000	31 December 2017 $'000
Accounts established by the Group as cash held on behalf of customers	87,987	87,207
Accounts established by customers directly	69,732	74,794
	157,719	**162,001**

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. For the half year ended 30 June 2018, the Group has recognised finance revenue of $222,000 (30 June 2017: $243,000) from restricted cash.

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. For the half year ended 30 June 2018, the Group has recognised interest revenue of $1,255,050 (30 June 2017: $857,300) from those accounts established by the Group as cash held on behalf of customers, and $7,950 (30 June 2017: $10,700) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

13 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Directors' Declaration
30 June 2018

In the directors' opinion:

(a) the attached financial statements and notes set out on pages 6 to 21 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date, and

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

Signed in accordance with a resolution of directors.

On behalf of the directors,

Michael Carapiet
Chairman
Sydney
22 August 2018

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Smartgroup Corporation Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Smartgroup (the group). The group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Smartgroup Corporation Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

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1. giving a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Joe Sheeran
Partner

Sydney
22 August 2018

Corporate directory

Directors	Michael Carapiet Gavin Bell Deven Billimoria Andrew Bolam Deborah Homewood John Prendiville Ian Watt
Secretary	Amanda Morgan Sophie MacIntosh
Principal registered office in Australia	Level 8, 133 Castlereagh Street Sydney NSW 2000 Australia 1300 476 278
Share and debenture register	LINK Market Services Level 12, 680 George Street Sydney NSW 2000 1300 554 474
Auditor	PricewaterhouseCoopers One International Towers Watermans Quay Barangaroo Sydney NSW 2000
Solicitors	Minter Ellison Lawyers Level 23, 525 Collins Street Melbourne VIC 3000 03 8608 2000
Bankers	Australia and New Zealand Banking Group Limited 242 Pitt Street Sydney NSW 2000
Stock exchange listing	Smartgroup Corporation Ltd shares are listed on the Australian Securities Exchange (ASX Code: SIQ)
Website	www.smartgroup.com.au