

# Market release

18 February 2019

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 2018.

Smartgroup Corporation Ltd will conduct a briefing on the results from 11.30am (Sydney time) on 18 February 2019.

### **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 2018  
Previous period: For the year ended 31 December 2017

### 2. Results for announcement to the market

		\$'000		\$'000
Revenues from ordinary activities	up	36,871	17.9% to	242,314
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up	18,074	43.9% to	59,286
Profit for the year attributable to the owners of Smartgroup Corporation Ltd	up	18,074	43.9% to	59,286

### Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2017 (paid 30 March 2018)	18.5	18.5
Interim dividend for the year ended 31 December 2018 (paid on 28 September 2018)	20.5	20.5

On 18 February 2019, the Directors declared a fully-franked dividend of 21.0 cents per ordinary share. The final dividend will be paid on 15 March 2019 to shareholders registered on 1 March 2019. There is no dividend reinvestment plan.

### Comments

The profit for the Group after providing for income tax amounted to \$59,286,000 (31 December 2017 (restated): \$41,212,000).

Refer to the 'Message from the Chairman' and 'Managing Director and CEO 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	(26.01)	(102.86)

## Appendix 4E (continued)

### Preliminary Final Report

#### 4. 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 23 for details on the acquisitions.

Detail of joint ventures	Reporting entity's percentage holding		Contribution to profit after tax	
	31 Dec 2018 %	31 Dec 2017 %	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Health-e Workforce Solutions Pty Ltd	50%	50%	44	348

#### 5. Independent auditor's review

The financial report for the year ended 31 December 2018 has been audited by PricewaterhouseCoopers and an unqualified opinion has been issued.

#### 7. Attachments

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

# Annual Report 2018



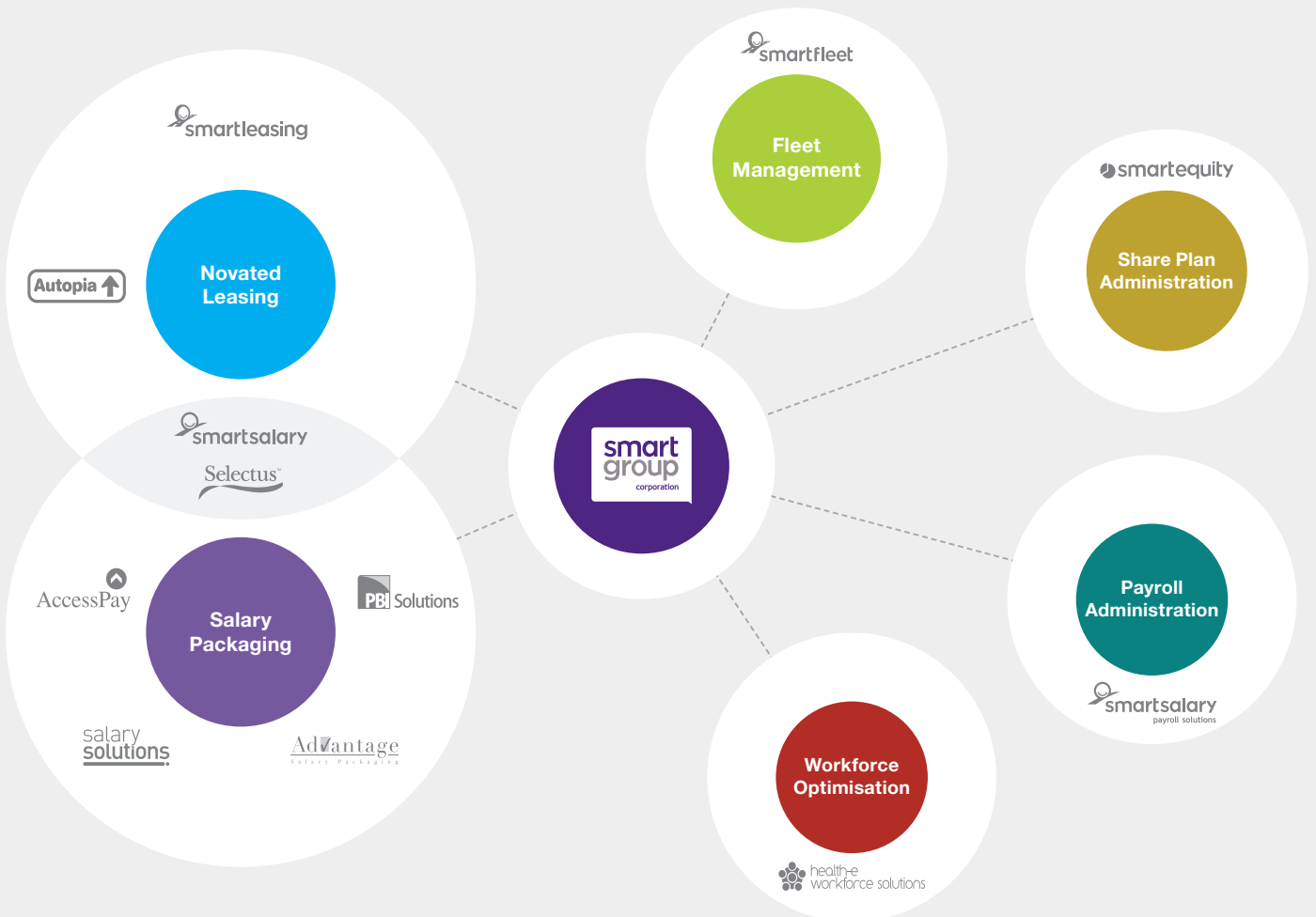


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# This is Smartgroup

Smartgroup is an award-winning, ASX-listed company trusted by many of Australia's largest public and private organisations to provide employee benefits and administration services to their employees. Our services include efficient and easy-to-access outsourced salary packaging and novated leasing, innovative fleet management, payroll and workforce optimisation services.



# 2018 Company Snapshot

## Our Customers

**c.3,500**  
employer clients

**343,000**  
salary packaging  
customers

**c.88,000**  
novated and fleet  
vehicles under  
management

## Our People



**51% male**  
**49% female**

**700+**

Smartgroup employees  
across Australia.



**Flexible work arrangements** including industry-leading parental leave scheme.

## Our Service



Smartgroup named one of the 2018 Australian Financial Review Most Innovative Companies for the fifth time.



Smartgroup companies delivered over 50,000 sessions at workplaces across Australia.



Smartsalary maintained highest ever audit score from the Customer Service Institute of Australia for the fifth consecutive year.

## Our Community



**Over 2 million trees planted** since 2008 through Smartleasing customer carbon offset program.



**Low Glow program by Greenfleet** – key contributor to help maximise survival rates of endangered loggerhead turtles.



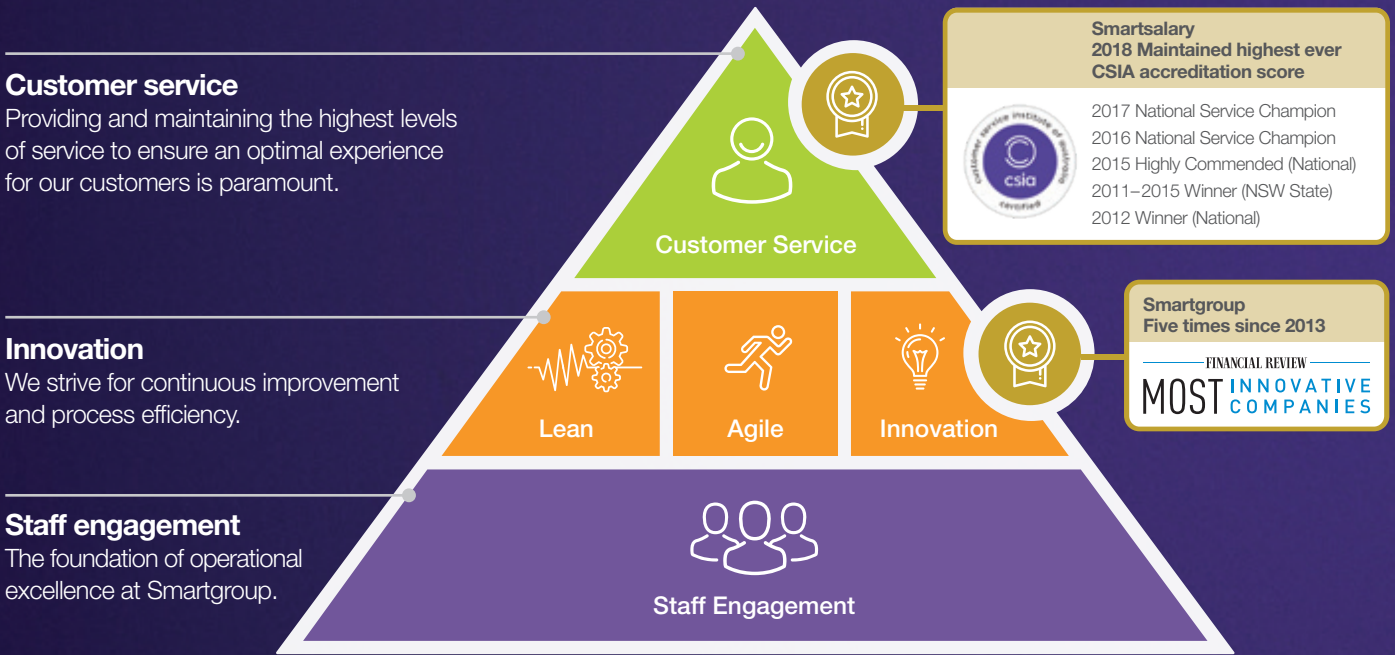
**Over \$970,000 in financial support** provided to not-for-profit organisations.



# Our Approach

Smartgroup is recognised in the industry as a leader in customer care and innovation. The capability triangle shown here demonstrates our company values and relentless focus on creating exceptional experiences for our customers.

Innovation at Smartgroup is driven by our ongoing commitment to reduce unnecessary manual processes and maintain flexibility, allowing us to take advantage of evolving technology and best practice within our Group.



## Our people

We understand the experience of our customers, and our success as an organisation relies on an engaged workforce of people who are knowledgeable, motivated and connected to each other. In 2018, we continued to measure the engagement of our team and responded to feedback with an enhanced internal communication program. This included the launch of a new company-wide intranet and the introduction of industry-leading policies, including a refreshed Parental Leave Policy to further support our employees. (See page 17).

# Our Customers

Through our sector specialists, we ensure both our employer clients and employee customers are supported by a provider that understands their organisation and the industry in which they operate. In 2018, our services were accessed by more than 343,000 employee customers Australia-wide.

## **Community and charity workers in not-for-profit (NFP)**

Employees working in not-for-profit (NFP) organisations make up 40% of our salary packaging customer base in 2018, and we continued to lead the market with salary packaging cards. We also provide novated leasing, tailored fleet management and payroll solutions to this sector.

## **Teachers, administrators and support personnel in education**

Smartgroup delivers salary packaging and novated leasing to meet the needs of people working in primary, secondary and tertiary education within public, private and religious education institutions.

## **Nurses, clinicians and auxiliary staff in health**

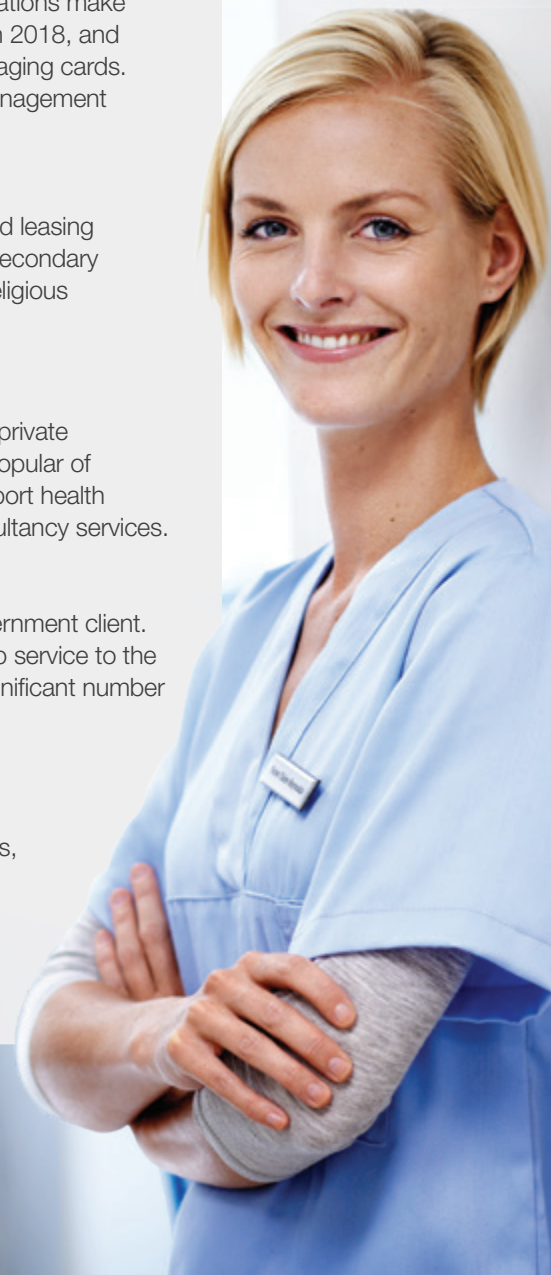
A significant proportion of our customers work in private and public health. Salary packaging is the most popular of our services delivered to this sector. We also support health organisations with workforce modelling and consultancy services.

## **Employees of the government sector**

The Smartgroup journey began with a single government client. That client remains a client today, and Smartgroup service to the government sector has expanded to include a significant number of organisations at local, State and Federal levels.

## **Professionals in private and corporate organisations**

Smartgroup provides novated leasing solutions to small, medium-size and large private organisations, and flexible share plan administration for private, public, start-up and international companies.



# Message from the Chairman



In 2018, Smartgroup continued to lead the industry in championing innovation and delivering exceptional customer service.



Smartgroup has continued its track record of delivering earnings growth in 2018, with revenues growing 18% to \$241.8 million and our after-tax profits, represented by NPATA<sup>1</sup>, growing 22% to \$78.0 million.

Welcome to the Annual Report for Smartgroup Corporation for the calendar year ending 31 December 2018.

Smartgroup has achieved another year of growth and improved financial results, attained through continued innovation, customer service and ongoing integration of past acquisitions.

Smartgroup has delivered:

- Revenues of \$241.8 million, up 18 per cent on the prior year
- Operating EBITDA<sup>2</sup> of \$111.8 million, up 19 per cent on the prior year
- Operating NPATA of \$78.0 million, up 22 per cent on the prior year
- Statutory Net Profit After Tax of \$59.3 million, up 44 per cent on the prior year.

The Board is pleased to announce a fully franked final dividend of 21.0 cents per share, taking the full-year dividends for 2018 to 41.5 cents per share.

In 2018, we delivered on our strategy of providing exceptional service to our clients and increased dividends to our shareholders, while continuing to make Smartgroup an attractive place to work and being a responsible corporate citizen for our community.

Today, at Smartgroup, we have more than 700 staff across Australia serving c.3,500 clients and over 343,000 salary packaging customers. We are proud to have retained many of the same clients since our inception over 18 years ago. This is due to a consistent focus on customer service, business innovation and employee experience. We are particularly pleased that we are now providing an increasing number of our clients with a larger number of Smartgroup services and look forward to continuing down this path.

On behalf of the Board, I sincerely thank our clients and shareholders for their ongoing and loyal support. I also thank the management team for their efforts in creating a vibrant workplace for our employees, and our employees for delivering outstanding service to our clients.

In 2019, we will continue to provide a superior experience for our customers, a culture of innovation and engagement for our employees and work hard to drive value for our shareholders.



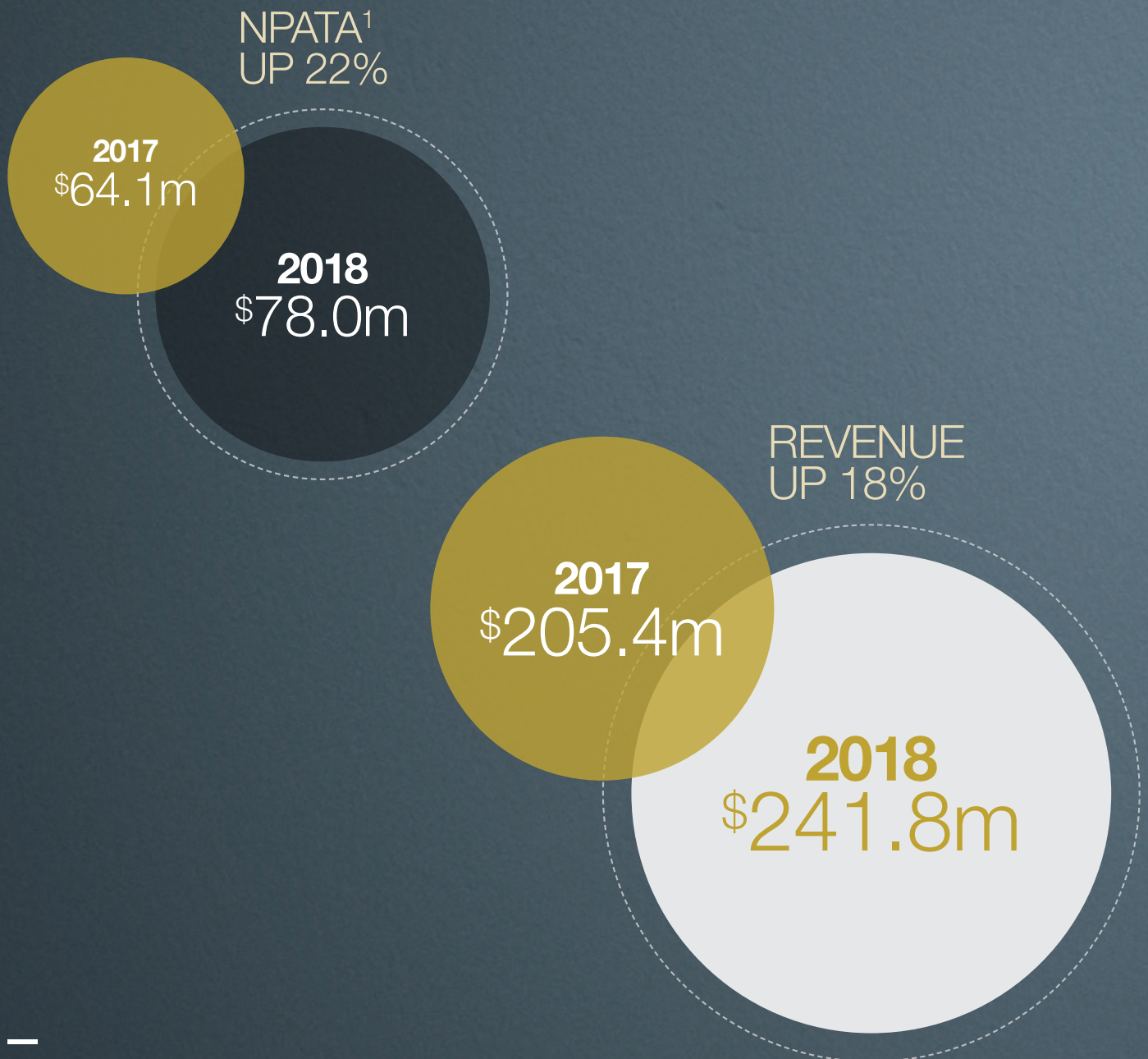
**Michael Carapiet**  
Chairman

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

<sup>2</sup> EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.

# 2018 Financial Highlights

The following highlights represent the financial performance of Smartgroup for the year ended 31 December 2018.

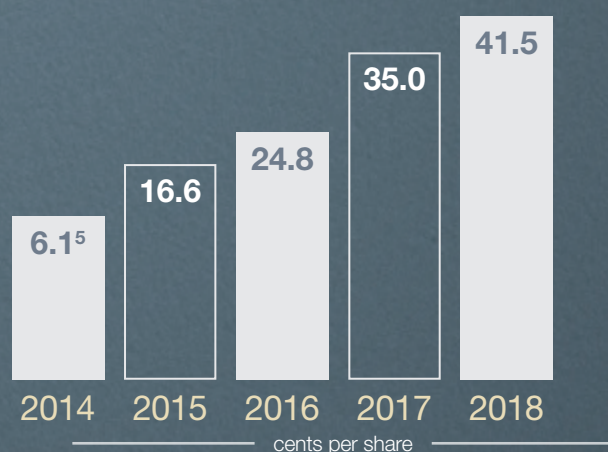


EBITDA<sup>2</sup>  
**\$111.8m**  
 UP 19%

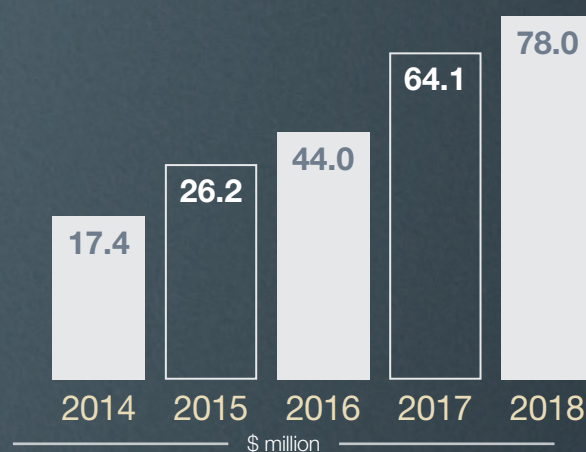
OPERATING CASH FLOW<sup>3</sup>  
**100%**  
 AS A PERCENTAGE OF NPATA

DIVIDENDS DECLARED  
**41.5 CPS**  
 UP 19%

NET DEBT<sup>4</sup>  
**\$14.6m**



DIVIDENDS PER SHARE DECLARED  
(FULLY FRANKED)



AFTER-TAX PROFITS  
(NPATA)

The 2018 Financials are presented on an adjusted basis and have been reconciled to the statutory 2018 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, significant non-operating items and impact of AASB 16 Leases adoption.
4. Net Debt is cash and cash equivalents less corporate borrowings, adjusted to exclude capitalised borrowing costs.
5. Represents dividend declared only for H2 2014.

# Managing Director and CEO Report of Operations



Our continued focus on customers has led to positive recognition from our clients, customers and peak industry organisations.

Every business success is built on the hard work of its people. In 2018, Smartgroup has delivered another year of improved financial and operational results, achieved through the continuous focus of our people on delivering exceptional customer experiences.

## Overview

I'm pleased to report that 2018 has seen many positive operational achievements for Smartgroup. Despite tighter market conditions, we have seen growth across all key financial and operational metrics, and our continued focus on customer service has gained recognition from our clients, customers and the industry.

During the year, the number of Smartgroup salary packaging customers grew by 6% to c.343,000, and the number of novated leases under management grew 4% to over 65,000. Novated leases under the management of Smartgroup have continued to grow, despite a downturn in private new vehicle sales.

Innovation and customer experience remain a key priority for the business and digital innovation is

a vital component of this strategy. For the fifth time in the past six years, Smartgroup was recognised in the 2018 Australian Financial Review (AFR) Most Innovative Companies list.

Our Smartsalary customers have recognised our elevated level of service in 2018, with an average Net Promoter Score (NPS) of +47 on a scale of -100 to +100 (improved from +44 in 2017). This score, which assesses how likely a customer is to provide a word-of-mouth referral, places Smartsalary among leading service providers worldwide.

This year, we have also concentrated on integrating the businesses we have acquired to embed a collective corporate culture and leverage the benefits of the diversity and skills in our teams.

## Strengthening our offering

After numerous acquisitions over the past several years, in 2018 we focused efforts on integrating and streamlining our operations and processes. The integration of the Smartfleet and Fleet West IT systems is now complete and we have largely transitioned the IT infrastructure and hosting services for our acquired businesses to the Smartgroup environment. Security, process protocols and Australian data hosting have

been upgraded, working with leading technology partners to deliver service, performance and stability.

We will continue to consolidate infrastructure across Smartgroup. Our goal is to make every experience as easy as possible for our customers and clients.

## More benefits to more clients

Our client base has continued to expand to c.3,500. This is a pleasing result given not so long ago, in 2014, we had a client base of c.130.

With the expanded client base and the range of services we provide, Smartgroup is well placed to help our clients reduce administration and the cost of doing business and to improve their employees' financial wellbeing.



## Common clients across the group

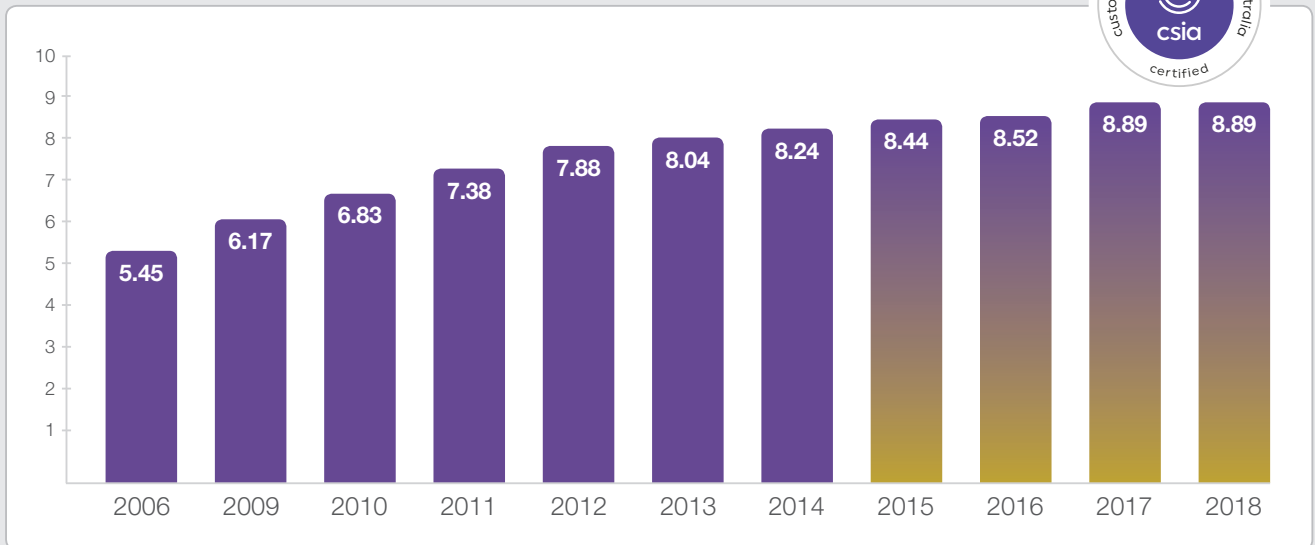
We now have 164 clients using two or more services from Smartgroup, with 12 clients using three services and 2 clients using four services. This is a testament to the strong service levels and deep relationships we have developed with clients.

Smartgroup service	Number of Smartgroup services used by individual clients		
	2	3	4
Salary packaging <sup>(1)</sup> c.3,500 clients	[Grid of green squares representing client counts]		
Fleet management	[Grid of green squares representing client counts]		
PBI fleet solutions	[Grid of green squares representing client counts]		
Payroll	[Grid of green squares representing client counts]		
Share plan administration	[Grid of green squares representing client counts]		
Workforce management <sup>(2)</sup>	[Grid of green squares representing client counts]		
Other	[Grid of green squares representing client counts]		
<b>Total 31 December 2018</b>	<b>150</b>	<b>12</b>	<b>2</b>
Total reported 30 June 2018	138	11	–

1. Approximately 20 benefits can be salary packaged, one of which is a novated lease.  
 2. Workforce management clients are individual hospitals.

## Dedicated to customer care

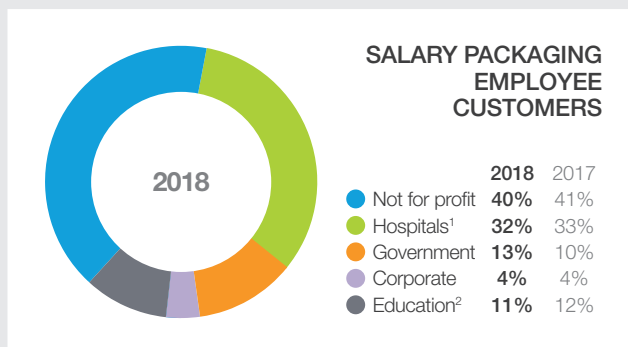
This year we have continued to deliver an exceptional standard of customer service. In 2018, Smartsalary maintained the highest ever audit score in Customer Service Institute of Australia (CSIA) history, for the fourth consecutive year.



## Continuing to support those who care

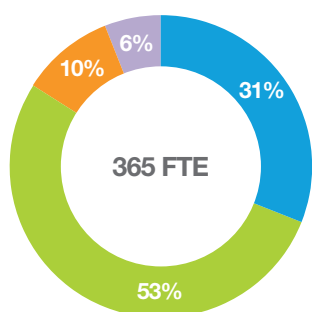
Our high levels of service are being provided to hard-working, everyday Australians, including those employed in caring professions. Our customers in education, hospitals and the not-for-profit sector make up 83% of our salary packaging customer base.

1. 'Hospital' includes public, private and not-for-profit hospitals.  
 2. 'Education' includes public, private and not-for-profit educational institutions.

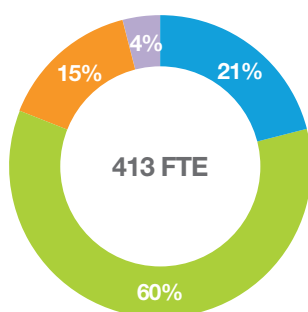


## Maintaining a value-add staff profile

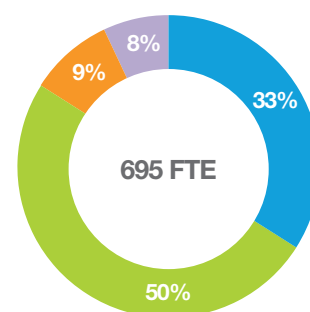
Operational efficiencies and enhanced sales and IT capabilities have seen Smartgroup maintain a stable staff profile since its IPO. The nine businesses acquired in that time are being successfully integrated, while upholding a staff profile that maintains our focus on the customer and technology.



NOVEMBER 2015



ACQUISITIONS<sup>1</sup> SINCE IPO



DECEMBER 2018


● Sales and Marketing ● Operations ● IT ● Corporate

1. Includes all nine acquisitions completed since November 2015; excludes 50% equity stake in Health-e Workforce Solutions.

Our service-led culture is made possible by the unwavering efforts of our team, who always put our customers first. I would like to thank the Smartgroup team for their dedication, and thank our clients for their continuing support.

**Deven Billimoria**  
 Managing Director and Chief Executive Officer

# Environmental, Social and Governance Report



Smartgroup acknowledges and proactively manages the risks and issues that are material to the long-term sustainability of our business, the environment and the community. We know that our long-term future success depends upon maintaining our good reputation, enhancing employee morale, continuously improving our operational efficiencies and managing our risks.

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## Our people

At Smartgroup, our attention is firmly focused on people, both in relation to our team members and our customers. Our people strategy is designed to inspire excellence, so we can deliver our organisational goals through the performance of our teams. It is through our people that we produce great results and through our ability to attract, retain, motivate and build our people's capabilities that we can deliver excellent customer service. Each year, we strive to make an even bigger contribution and difference to the lives of Australians via our extraordinary team members.

Our strategic intent is to motivate and inspire our people by fostering a culture of collaboration, engagement, innovation and inclusion. Our strong organisational culture is the foundation of our employee value proposition, and is enhanced and nurtured by the following initiatives and activities.

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## Performance reviews

All permanent team members receive a formal annual performance review to recognise and reward performance, identify development opportunities and facilitate career planning and talent management. Annual reviews have been supplemented by the introduction of agile performance management, which facilitates real-time feedback and support for employees on a monthly basis. Agile performance management is a highly engaging process that ensures employee wellness, performance and career development are discussed and actioned regularly.

## Governance

Harmonising processes across our recently acquired companies has enabled us to focus on creating strong governance frameworks and initiatives to ensure a consistent and integrated approach to people management. Our annual engagement survey and other monitoring approaches enable us to measure our progress.



## Employee engagement

Each year we conduct an organisation-wide survey, via an independent third party, to obtain feedback from our team members. We communicate the results, and seek further feedback from across the company at team-level focus groups. In 2018, our engagement survey participation rate continued to increase and our engagement results have remained consistent.

The Board considers the measuring and monitoring of employee engagement to be important indicators of the appropriateness of our people strategy; in particular the effectiveness of our communication, leadership and employee development. This year we have focused on consolidating and harmonising the businesses we have acquired to extend and embed our strong corporate culture, and successfully leverage the benefits of the diversity and skills in our teams.

Maintaining employee engagement has been challenging in 2018 due to the amount of change that has resulted from integrating acquired businesses. Attaining the efficiencies and synergies from integration has necessitated office moves, changes in roles and responsibilities, and the adoption of new IT systems and company processes. Recognising the importance of employee involvement in change management processes will be a continued focus for 2019.



## Volunteering

Employees can apply for at least one day of leave per year to volunteer for charitable work, as outlined in our community program. As a partner of, and the largest contributor to, Greenfleet, Smartgroup staff are invited to attend the tree-planting days regularly held by Greenfleet.

Smartgroup recognises our responsibility to be a good corporate citizen and help strengthen the communities in which we live and work. Consequently, we encourage our employees to become involved in their communities, lending their voluntary support to programs that enrich the quality of life and opportunities for all citizens. Smartgroup actively supports a Work Experience Program for high school students to give them exposure to several functions, businesses and teams across Smartgroup.

## Employee \$1,000 share plan

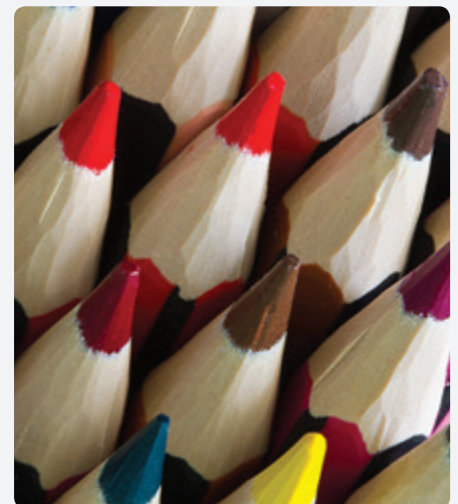
To encourage share ownership, loyalty and involvement in the business and its direction, Smartgroup continues to offer employees the opportunity to subscribe for shares in this plan. Employees salary sacrifice \$500 (spread over two pay periods) and Smartgroup matches this with a further \$500, issuing the subscribing employees with \$1,000 worth of Smartgroup shares each year.

## Learning and development

Smartgroup is committed to developing a culture that prioritises learning, development and career aspirations for every team member. Our capability framework enables us to build and ensure effective use of our people's professional and personal capability with a variety of learning tools, career pathways and opportunities. Competency growth in our team members ensures we have the talent to deliver on strategic priorities now and into the future.

Smartgroup has a proud history of career building and internal talent mobility – over 75% of our people leaders have been appointed via an internal promotion. This type of career development has been fostered by individual development plans for employees and supported by our Group talent review processes and our training and development team.

Purposeful leadership in Smartgroup is essential to delivering shareholder value. We identify, select and develop our leaders at all levels to model leadership excellence, and bring our values and behaviours to life. Coaching, mentoring, stretch objectives and bespoke training enable our leaders to continue to improve their capability, adaptability and effectiveness.



## Review of policies

Strong governance and compliance are demonstrated by Smartgroup's commitment to having simplified, harmonised and accessible Group policies in place. A review of all Group policies has been undertaken and revisions made to reflect changes in the employment landscape and relevant legislation and to demonstrate Smartgroup's values.

In 2018 Smartgroup updated its paid parental leave policy to become an industry leader in the provision of parental leave, delivering benefits well above the recommendations by the Workplace Gender Equality Agency (WGEA).

This Policy demonstrates the value we place on our employees and our recognition of our social obligations as an employer. We encourage men and women to take paid parental leave and help them to return to work at Smartgroup afterwards. Moving from a tenure-based parental leave scheme, to one that offers 20 weeks' paid leave for primary caregivers, six weeks paid leave for secondary caregivers and a return-to-work bonus demonstrates our commitment to diversity and inclusion. We are currently reviewing the Flexible Working Policy and will support it with training for managers in 2019.

In addition, this year Smartgroup adopted an Anti-Bribery and Corruption Policy with the Whistleblower Policy scheduled to be updated in 2019.

## Internal communication and events

Internal communication is essential to building a strong sense of connection. To this end we have developed a group-wide Communication Strategy that involves a number of communication tools including fortnightly news updates via our staff newsletter, business briefings and quarterly people and culture roadshows across the country. This year, we launched a Smartgroup Intranet, which has proved to be an essential knowledge and information hub for our people. The intranet has encouraged information sharing and collaboration as well as reinforcing our values and corporate essence for all employees.

The introduction of wellness, diversity, charitable and cultural events across all locations has positively reinforced our values, culture and passion for making a difference.



## Diversity and inclusion

A core part of Smartgroup culture is fostering a sense of belonging amongst our team members in a workplace where everyone feels valued and respected, so all can contribute to their fullest potential.

Smartgroup has several gender objectives in place. These are supported by policies, practices and initiatives that aim to further improve diversity and inclusion across all Smartgroup businesses. We have reported against those objectives in our Corporate Governance Statement (found at: <http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance>).

Smartgroup has been involved with Rugby Australia in developing and supporting initiatives that improve access to employment for ex-rugby union players.

## Safety and wellbeing

The safety and wellbeing of our employees is paramount at Smartgroup. The number of injuries and incidents reported remains within industry benchmarks. Proactive wellness initiatives on managing mental health in the workplace and monthly health awareness activities (as well as monthly massages) have been positively received. Workplace audits and communication have increased safety awareness among employees. Flexible work practices promote life/work balance and leaders model the behaviours and practices that encourage workplace wellness.



## Environment – Purple Meets Green

Smartgroup focuses on delivering sustainable long-term growth in a rapidly changing world. As an administrative services company, Smartgroup has a relatively low direct effect on the environment. Our biggest direct environmental impacts come from travel, energy and consumables (such as paper, waste consumption and waste management). We endeavour to reduce these impacts.

The transition to a low-carbon economy is under way, and Smartgroup continues to review its operations in this light, including monitoring its emissions in all aspects of its business.

### Air travel

With offices in most states in Australia, and a large, remotely based team, air travel is a necessary part of running the Smartgroup business. However, Smartgroup is committed to reducing the impact of employee air travel as much as possible.

Commencing from 2018, Smartgroup has partnered with Greenfleet to offset 100% of carbon emissions from air travel. Smartgroup's 2018 flights generated 698.28 tonnes of carbon dioxide, which will be 100% offset by Greenfleet through the planting of c.2,600 native trees.

In addition, we continue our focus on improving technology and remote networking opportunities for our staff with the aim of enhancing workplace efficiency, lessening our travel spend and reducing our travel-related carbon footprint. In 2018 Smartgroup introduced new video-conferencing technology, available to all staff – both remote and office-based – further supporting workplace interactions and reducing the need for travel.

Smartgroup will continue to offset carbon emissions from air travel in future years.

### Fleet

As a fleet manager, Smartgroup is proud to facilitate the sharing, and more efficient use, of vehicles in workplaces. Well-managed fleets of cars can lead to a reduction of waste and unnecessary car purchases, reducing car ownership overall.



## Greenfleet carbon offset program



As part of our corporate social responsibility program, we have partnered with Greenfleet since 2008 to offset carbon emissions. Through this partnership we are the recognised leader in environmental sustainability in the fleet management and novated leasing industry.

During 2018 alone, Smartleasing customers have contributed to planting the equivalent of 314,551 native trees. As the trees grow, they will absorb over 84,000 tonnes of carbon emissions to help protect our climate.

Since inception, customers and staff have contributed to the planting of over 2 million trees, preserving waterways and improving wildlife habitats.

Smartgroup has also continued to support conservation initiatives such as the 'Low Glow' project – a joint initiative between Greenfleet, the Prince's Trust Australia and the Walt Disney Company (Australia) to protect the local endangered sea turtle population in Bundaberg, Queensland.



## Energy use

In 2018 Smartgroup engaged BidEnergy to assist in collecting the relevant data to allow Smartgroup to measure its electricity usage and its emissions for all its offices around Australia for 2018 and 2017. Our emissions from electricity are reported in the Corporate Sustainability Scorecard on page 22.

Smartgroup acquired four businesses, located at 10 different sites, employing over 200 new employees, during 2017. Our office premises increased from eight

in January 2017, to 16 in January 2018. Despite this, Smartgroup's usage and emissions decreased from 2017 to 2018.

This is due to the consolidation of sites during 2018 and as a result, as at 31 December 2018, we have only seven operational offices. This has served, and will continue to serve, to decrease our electricity usage, emissions, waste and carbon footprint.

## Waste reduction

In all of our offices, we facilitate waste separation and recycling. Through various office initiatives, we continue to strive to reduce electricity, office and print waste across our business. Increasingly, customers are using our online and digital resources to sign up to Smartgroup services, which reduces paper usage.

## Transformation and efficiency projects

We are committed to improving our efficiency in all aspects of our business, not just to reduce cost and streamline our processes, but also to minimise our environmental impact. Wherever possible, we replace print and paper-based processes with online systems.





## Our community

Smartgroup is committed to positively contributing to the communities in which we live and operate. In 2018, Smartgroup continued to support community and charity organisations directly and via employee-led activities.

### Smartgroup Foundation

This year the Board approved the establishment of the Smartgroup Foundation. The Smartgroup Foundation will be set up in 2019 with an initial grant of \$250,000 from Smartgroup Corporation Ltd to be directed to supporting certain charities with Deductible-Gift-Recipient (DGR) status. Ongoing contributions by Smartgroup will be reviewed on an annual basis, with focus areas to be determined by Smartgroup staff.

### Supporting staff and community causes

Throughout 2018, Smartgroup management and employees supported several staff-initiated activities for worthy causes. Staff chose awareness and fundraising activities, plus food and gift donation collections, to support organisations including The Smith Family, Anglicare Victoria, The Movember Foundation, The Black Dog Institute and Lifeline.

Smartgroup has also partnered directly with not-for-profit sector organisations to support their staff, communities and foundations. In 2018, Smartgroup proudly contributed over \$970,000 in financial support to more than 25 charities including: Cancer Council, Lifeline, The Tipping Foundation, Ability First Australia, Jeans for Genes, Baker IDI Heart & Diabetes Institute, Beyond Blue and Cerebral Palsy Alliance.



### Workplace giving

Smartgroup will introduce a formal workplace giving program in 2019, to facilitate Smartgroup employees supporting nominated charities by making deductions directly from their pay. As with the Smartgroup Foundation, employees will determine the charitable focus areas they wish to support.



### UN Women NC Australia

The longstanding partnership between Autopia and UN Women NC Australia continued in 2018, with Autopia contributing \$5,000 to help the UN Women NC Australia Tax Appeal reach its target of \$60,000. We also attended UN Women NC Australia's International Women's Day (IWD) Breakfasts in Sydney and Melbourne. In 2019, we plan to extend our support by participating in IWD events in five states.





## Indigenous community support

### Catch Me If You Can Program

Smartgroup supports *Catch Me If You Can*, a PCYC QLD program that fosters stronger connections between indigenous youth and the Queensland Police Service, through mentoring and group activities. The youth and the officers develop better relationships through a one-to-one mentoring program that consists of sport and team-building activities, engendering a greater understanding of leadership, trust and respect for one another.

### Queensland Reds Foundation

Smartgroup supports the Queensland Reds Foundation and contributes to the Indigenous Leaders Program. This program provides mentoring and leadership development for Aboriginal and Torres Strait Islander high school children. The program seeks to promote teamwork, cultural integrity, pride and school attendance and achievement.

### NAIDOC Week

Smartgroup actively supported employee participation in NAIDOC Week 2018 in all our offices. The Smartgroup internal program followed this year's theme, 'Because of Her, We Can', and celebrated the role of Aboriginal and Torres Strait Islander women in history and the community.

### Royal Melbourne Hospital (RMH) Foundation

In 2018, Smartgroup supported key RMH Foundation events and activities, including the Celebrating Excellence Awards in November when we presented the Chief Executive's Leadership Award; and the foundation's Prevention of Alcohol and Risk Related Trauma in Youth (PARTY) program.

This is the sixth consecutive year that Smartsalary has supported the RMH Foundation, which delivers better health through research, innovation and education. In 2019, we look forward to continuing our partnership and donating to the Department of Neurosurgery to fund state-of-the-art neurosurgical equipment.

### Sporting partnerships

Smartgroup has partnered with the Queensland Rugby Union since 2017. In 2018, Smartgroup also began a partnership with Rugby Australia, supporting the Super W Rugby competition and the Australia's national women's XV's team, the Wallaroos.

Through these partnerships, we have provided unique opportunities to clients, school children and young women to participate in the sport of rugby and engage with elite sporting role models. We will continue to work with these partners to support rugby and womens' sport in 2019.

## Corporate Sustainability Scorecard

	2018	2017
<b>Customers</b>		
<b>Smartsalary and Smartleasing</b>		
Net Promoter Score (average monthly score)	47%	44%
Customer complaints	1.02%	1.22%
<b>People</b>		
Headcount	752	747
Full time equivalents (FTEs)	695	706
No. of permanent employees	670	Not captured*
Permanent employees who are female (%)	50%	Not captured*
No. of full time employees	605	Not captured*
Full time employees who are female (%)	46%	Not captured*
No. of part time employees	65	Not captured*
Part time employees who are female (%)	83%	Not captured*
No. of fixed term/temp/casual employees	82	Not captured*
Fixed term/temp/casual employees who are female (%)	60%	Not captured*
Employee Engagement score (%)	55%	57%
Employee participation in the engagement survey	76%	68%
Employees receiving performance reviews (%)	100%	100%
% of training and development programs available to all staff members	100%	100%
Safety incidents per FTE (total)	0.08 (59)	0.05 (38)
Lost time injury frequency rate (injuries/million hours worked)	2.83	3.94
Absenteeism (%)	1%	1%
<b>Parental leave</b>		
No of employees who took parental leave	F 14 M 4	F 20 M 7
No of employees who returned to work after leave	F 28 M 5	F 32 M 12
<b>Employee share ownership</b>		
Employee share plan participation rate (% of eligible employees)	63%	54%
No of employee shareholders (via share plan)	422	Not captured
<b>Employee gender diversity</b>		
Board	F 14% M 86%	F 14% M 86%
Executive	F 38% M 62%	F 33% M 67%
Senior Management	F 46% M 54%	F 44% M 56%
All employees	F 51% M 49%	F 53% M 47%
<b>Environment</b>		
Electricity – total CO2 emissions (tonnes)	566	585
Electricity – emissions per FTE (tonnes CO2 per FTE)	0.81	0.83
Electricity – total consumption (kWH)	560,630	569,374
Electricity – consumption per FTE (kWH per FTE)	746	762
Air travel (tonnes CO2 per FTE)	0.93	0.60

\*Data not available in consistent format due to multiple acquisitions in 2017.

## Governance

Smartgroup believes good corporate governance is key to maximising company performance and delivering high returns to shareholders. Smartgroup has always had a strong corporate governance framework in place, which is reported on in detail in the Corporate Governance Statement (at <http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance>).

## Global Reporting Initiative (GRI)

Where possible core GRI requirements have been followed. The information contained in this annual report has been referenced against the GRI Standards 2016 in the GRI Content Index for GRI Standards on page 116.

Smartgroup intends to develop its reporting and corporate responsibility practices in future years.





# 2018 Directors' Report

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# Directors' Report

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 2018.

## Directors

The following people 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	Andrew Bolam
Deven Billimoria	Ian Watt
John Prendiville	Deborah Homewood
Gavin Bell	

## Principal activities

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

## Dividends

Dividends paid during the financial year were as follows:

Consolidated	2018 \$'000	2017 \$'000
Final dividend for the year ended 31 December 2017 of 18.5 cents (2016: 15.0 cents) per ordinary share	24,154	18,223
Interim dividend for the year ended 31 December 2018 of 20.5 cents (2017: 16.5 cents) per ordinary share	26,855	20,379
	<b>51,009</b>	<b>38,602</b>

On 18 February 2019, the Directors declared a fully franked dividend of 21.0 cents per ordinary share. The final dividend will be paid on 15 March 2019 to shareholders registered on 1 March 2019 resulting in a total distribution of \$27,500,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2018 financial statements and will be recognised in subsequent financial reports.

## Review of operations

The profit for the Group after providing for income tax amounted to \$59,286,000 (31 December 2017: profit of \$41,212,000).

Refer to the Message from the Chairman and Managing Director and CEO 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 in one new business.

## Significant changes in the state of affairs

On 4 January 2018 the Group acquired 100% interest in 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.

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

No matter or circumstance has arisen since 31 December 2018 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 Managing Director and CEO 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 Chairman of Link Group (ASX:LNK), a global provider of share registry, corporate market data analytics and asset management services and is the largest provider of administration services to the Australian superannuation sector. Michael is Chair of Insurance and Care NSW (icare NSW), which includes the activities of the NSW Workers Compensation Scheme, Lifetime Care & Support, Dust Diseases and the NSW Government's self-insurance activities. He is also Chair of Adexum Capital Limited, a private equity fund manager. Previously Michael held numerous senior roles at Macquarie Group, until his retirement in 2011.

**Former directorships (last 3 years):** None

### Special responsibilities:

Member of HRRC and Member of ITIC

**Interests in shares:** 2,051,956

**Interests in options:** None

## Deven Billimoria Chief Executive Officer and Managing Director

### 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 19 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 moving to management consulting with Booz Allen Hamilton.

**Former directorships (last 3 years):** None

**Special responsibilities:** None

**Interests in shares:** 3,046,348

**Interests in options:** 1,006,416

## Ian Watt AC Non-Executive Director

### Qualifications

Bachelor of Commerce, University of Melbourne; Master of Economics and PhD in Economics, La Trobe University; and Advanced Management Program, Harvard Business School.

### Experience and expertise

Ian worked for nearly 20 years at very 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, a position he held from 2011 to 2014. Prior to that, he was Secretary of the Departments of Defence, Finance, and Communications, Information Technology and the Arts between 2001 and 2011. Before that, Ian was Deputy Secretary of the Department of the Prime Minister and Cabinet. Ian is currently the Chair of the International Centre for Democratic Partnerships, BAE Systems Australia Pty Ltd and ADC Advisory Council. Ian is on the boards of Citigroup Australia, the Grattan Institute (University of Melbourne), CEDA, the Australian Governance Masters Index Fund and O'Connell Street Associates Pty Ltd. Ian is also a member of Male Champions of Change.

**Former directorships (last 3 years):** None

### Special responsibilities:

Chairman of ITIC and Member of ARC

**Interests in shares:** 78,522

**Interests in options:** None



**Top row** (l to r)  
Michael Carapiet,  
Ian Watt AC,  
John Prendiville  
and Gavin Bell

**Bottom row** (l to r)  
Deven Billimoria,  
Andrew Bolam  
and Deborah Homewood

## John Prendiville

### Non-Executive Director

#### Qualifications

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

#### Experience and expertise

John has more than 25 years experience in the finance sector. He is currently a Director of the University of Notre Dame Australia (and Member of the University's Audit and Finance Committee) and a Director of the privately owned Global Advanced Metals Limited (and Member of the company's Audit and Finance Committee). John is also a director of the telecommunications service provider, 1300 Australia Limited and the rapidly growing SME working capital and trade finance lender, GetCapital Pty Limited. Previously John held numerous senior roles at Macquarie Group, where he worked until 2011.

**Former directorships (last 3 years):** None

#### Special responsibilities:

Chairman of ARC and Member of HRRC

**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 an experienced director, CEO and lawyer. He is a Board Member of Insurance and Care NSW (icare NSW) and a Director of IVE Group Limited (ASX:IGL). Before becoming a Director, Gavin was Managing Partner and Chief Executive Officer of law firm Herbert Smith Freehills (formerly Freehills). He was also a partner in the firm for 25 years.

**Former directorships (last 3 years):** None

#### Special responsibilities:

Chairman of HRRC and Member of ARC

**Interests in shares:** 74,850

**Interests in options:** None

## 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.

**Former directorships (last 3 years):** None

#### Special responsibilities:

Member of ARC and Member of ITIC

**Interests in shares:** 202,760

**Interests in options:** None

## Deborah Homewood

### Non-Executive Director

#### Qualifications

Deborah completed her registered nurse training at St Andrews Hospital (Qld), as well as a Master of Management at Macquarie Graduate School of Management.

#### Experience and expertise

Deborah has many years of experience in management in various sectors, including retail, the 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.

**Former directorships (last 3 years):** None

#### Special responsibilities:

Member of ITIC and Member of HRRC

**Interests in shares:** 5,318

**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 is a Graduate of the Australian Institute of Company Directors.

### Chief Legal Officer and Joint Company Secretary

Sophie MacIntosh joined Smartgroup 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. She has also completed the Observership Program and the Not-for-Profit Directors course with the Australian Institute of Company Directors.

## Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 31 December 2018, and the number of meetings attended by each Director were:

	Full Board		Human Resources and Remuneration Committee		Audit and Risk Committee		IT and Innovation Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Michael Carapiet	16	16	3	3	–	–	3	3
Deven Billimoria	12	16	–	–	–	–	–	–
John Prendiville	16	16	3	3	4	4	–	–
Gavin Bell	16	16	3	3	4	4	–	–
Andrew Bolam	16	16	–	–	4	4	3	3
Ian Watt	16	16	–	–	4	4	3	3
Deborah Homewood	14	16	2	3	–	–	3	3

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

# 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 focuses on the Smartgroup remuneration arrangements for 2018.

At the AGM held in May 2018, the remuneration framework received strong support from shareholders, with a very strong majority vote in favour of the resolution to adopt the 2017 Remuneration Report.

### Principles used to determine the nature and amount of remuneration

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

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

The Company has a Human Resources and Remuneration Committee (HRRC), whose role 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.

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:

- Focuses on sustained growth in EBITDA and NPATA, as well as focusing the executive on key non-financial drivers of value
- Is intended to attract, motivate and retain high-calibre Executives
- Rewards team and individual performance, capability and experience
- Reflects competitive rewards for contribution to growth in shareholder wealth
- Provides a clear structure for earning rewards.

This year management has worked on consolidating the businesses acquired by the Group, focusing on extending and embedding the strong corporate culture and bringing staff closer together. The internal communications strategy has been improved, including the launch of the Smartgroup Intranet and increased internal broadcasts. This year Smartgroup has reviewed many of its significant policies including Parental Leave, Workplace Health and Safety, Ethics and Diversity and Inclusion. We have also worked on the integration of our systems and the reduction of the number of operational processes.

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 at a general meeting.

The aggregate remuneration for Non-Executive Directors was set by shareholders at the AGM in May 2017 at \$1,150,000 (and has not been changed since then). The fees paid are \$210,000 per annum for the Chairman of Directors and \$100,000 per annum for each Non-Executive Director. In addition to the above, the Chairmen of the ITIC and HRRC respectively are paid \$20,000 annually for services provided to each of those committees. Each member of those two standing committees (other than the Committee Chairman) is paid \$10,000 annually for the services provided to that committee. The Chairman of the ARC is paid \$25,000, and each other member of that committee is paid \$12,500 per annum.

In addition to the fees, superannuation contributions and GST, 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.

## 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.

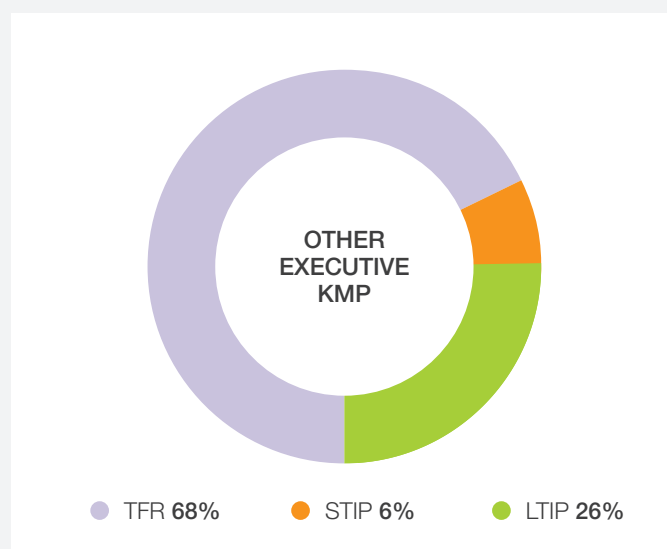
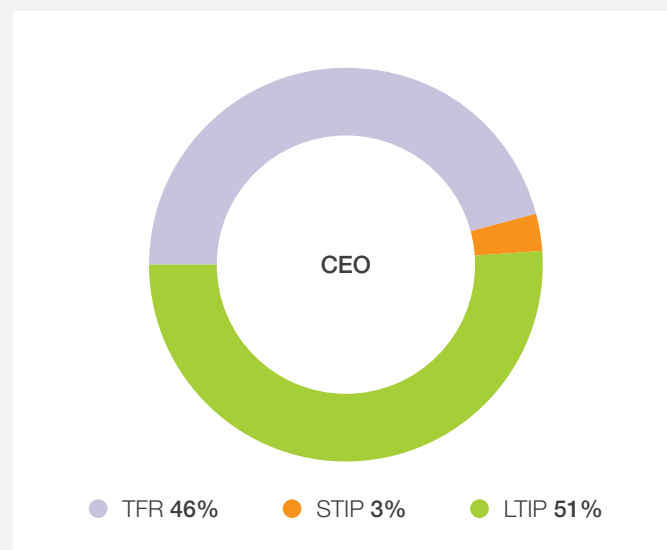
The Executive remuneration and reward framework consists of four components:

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

In combination, these four components comprise an Executive's total remuneration.

In alignment with its remuneration strategy, the Board's policy on Executive remuneration is that, broadly, it comprises a fixed component and an 'at-risk' or performance-based component (STIP and LTIP), where a significant component of the Executive remuneration is at risk.

The two charts below show the relative proportion of the Executives' total remuneration package for the 2018 financial year:



In calculating the 'at risk' compensation as a proportion of total remuneration for the 2018 financial year for each Executive, the maximum entitlement that could potentially be awarded under the STIP or LTIP was taken into account.

**a) Total Fixed Remuneration (TFR)**

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 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, which are set annually. 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 attractive, 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 2018 it was subject to a maximum target of 60% for the CEO and up to 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 2018 STIP provided for financial and non-financial KPIs, with the achievement of the financial KPI as the gateway to a STIP payment. All other non-financial KPIs make the combined balance of the remaining 50% each.

Year on year, the short-term incentive plan and associated KPIs have been designed to compensate and reward the Executive team for achieving the Company's short-term business strategy. The 2018 strategic goals were primarily designed to ensure ongoing business growth as measured by the financial KPI. An emphasis on driving efficiencies across business units also featured strongly with other non-financial KPIs. These KPIs are outlined below.

**Financial KPI**

The financial KPI is required to be met by all members of the Executive KMP. In 2018, the percentage of the payment was set to vary depending on the NPATA (excluding significant items and transaction costs associated with merger and acquisition activities) achieved by the Group. Table 1 below describes the arrangement.

**Table 1: Financial KPI**

NPATA* for 2018	% of STIP
1. \$82m or more	50%
2. \$80m or more but less than \$82m	25%
3. \$78m or more but less than \$80m	12.5%
4. Less than \$78m	0%

\*Net profit after tax, adjusted to exclude the non-cash tax effected Amortisation of intangibles and significant non-operating items.

NPATA for the year ended 31 December 2018 was \$78.0m (compared to \$64.1m in 2017), which is a growth of 22% from 2017.

Based on the financial KPI targets, 12.5% of the STIP was paid out in total to the CEO and Executive KMP in relation to this KPI.

Unless NPATA was at least \$78.0m (see number 4 in the table above), no STIP was payable for the non-financial KPIs below. As indicated above, this requirement was satisfied.

### 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's assessment of performance against KPIs in 2018 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. New business:			
a) Win large clients	CESP, CENL	Targets set on number of new packages and lease transitions with stretch targets in place	100%
b) Increase B2B cross-sell	CENL	Target set for each business stream around achieving cross-sell opportunities	100%
2. Existing clients:			
a) Retain 100% of key clients	CESP	100% retention of identified clients	90%
b) Increase package and leasing uptake	CENL, CESP	Organic growth targets set to increase the number of packages and leasing uptake	50%
3. Increase operational efficiency:			
a) HR Initiatives	All	HR strategy, employee engagement and succession planning targets	21%
4. Simplify, consolidate and protect IT systems and data	CIO	Complete IT projects on time and budget	0%
5. M&A:			
a) Acquire new businesses to grow and diversify	CEO, CFO, CLO	As approved by Chairman	0%
b) Integrate and manage acquired businesses	All	Delivery of integration plan including transitions of clients and FTE targets	29%
6. Risk – Manage and embed risk management and audit	All	Risk and Audit Plan delivered and 100% of risk and audit remediation plans closed in agreed time period	39%

### Payment of STIP

Any amount that may be paid to the participants under the STIP is subject to the absolute discretion 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.

A total of \$188,729 of the 2018 STIP will be paid to the CEO and other Executive KMP upon finalisation of the Financial Report for the year ended 31 December 2018. Of this amount, \$34,500 will be paid to the CEO.

The table below shows the actual STIP outcome for each Executive (as at 31 December 2018) as a percentage of their maximum STIP opportunity.

**Table 3: 2018 STIP outcomes**

Name of Executive	2018
Deven Billimoria – Chief Executive Officer	10%
Timothy Looi – Chief Financial Officer	27%
Dave Adler – Chief Executive Novated Leasing and Fleet	51%
Sarah Haas – Chief Executive Salary Packaging	55%
Sophie MacIntosh – Chief Legal Officer	25%
Clarence Yap – Chief Information Officer	0%

### c) Long-Term Incentive Plan (LTIP)

In early 2015 the Board established a LTIP for the CEO and Executive KMP (and other Executives and employees), which was approved for adoption by shareholders at the 2015 AGM. At the Company's AGM in May 2018, the shareholders approved the terms of the plan (in accordance with ASX Listing Rules), and 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 measures that underpin sustainable long-term growth. It is proposed that LTIP grants will be made once a year. Each year the CEO's grant of LTIP shares will be put to a shareholder vote at the Company's AGM.

The LTIP is a loan funded share 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 and the date on which the shares are sold. If the vesting/performance conditions are not met and the 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 if 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 determine 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 EPS and TSR hurdle. Further, the Board has the absolute discretion to replace the LTIP in any one or more years with an equivalent STIP or any other program.

## 2018 grant under the LTIP

The number of shares granted is based on a proportion of the relevant executive's fixed remuneration. For 2018, the LTIP grant to the CEO was 100% of TFR, and to the Executive KMP was between 52% and 75% of TFR, 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 2018 LTIP grant the CEO purchased shares at \$10.84. The majority of the Executive KMP purchased shares at \$10.89, while some purchased shares at \$10.84. Those prices were 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 the AGM. 'Market value' for the other Executive KMPs 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 2018 LTIP grant, the vesting period was three years ending on 31 December 2020. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle (based on NPATA per share) and a TSR hurdle.

The two performance hurdles are described below in relation to the 2018 grant, and were explained to shareholders in the 2018 Notice of AGM, and subsequently approved by shareholders.

Because the shares awarded under the LTIP are economically equivalent to options, the principal value to the CEO and other Executive KMP comes through the increase in market value of the shares above market value at the time of issue. This provides further alignment with shareholder experience and further links 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 2018 EPS performance hurdle set out below is a challenging target. In addition, the main benefit of the LTIP shares arises from share price growth which, in effect, acts as a further performance requirement.

The following method was used to determine the EPS hurdle. It is based on achievement of the CAGR of EPS (measured on the Company's NPATA per share) from the 2017 audited financial results, and adjusted to include the 2017 full year proforma earnings of AccessPay, Aspire and Salary Solutions (2017 acquisitions). That is, the actual base year NPATA is increased so the NPATA growth that must be achieved is higher than if the actual base year NPATA were used.

**Table 4: EPS performance hurdle**

EPS performance hurdle				
Applies to a maximum of 75% of the total number of shares issued under the 2018 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 2020*	Below 10.0%		NIL
		10.0%	\$0.745	50%
		Between 10.0% – 15%		Straight line between 50% – 100%
		15% or greater	\$0.852	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 200 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 measurement, the relevant share prices are determined by reference to the VWAP over the 20 trading days up to and including 1 January 2018 (the performance measurement period start-date for the 2018 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 200 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 2018 (as in previous years) it was restricted to 25% of the LTIP shares.

**Table 5: Relative TSR performance hurdle**

TSR performance hurdle			
Applies to a maximum of 25% of the total number of shares issued under the 2018 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 2020*	0 to 49 <sup>th</sup> percentile	NIL
		50 <sup>th</sup> percentile	50%
		51 <sup>st</sup> to 74 <sup>th</sup> percentile	Straight line between 50% – 100%
		75 <sup>th</sup> to 100 <sup>th</sup> 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% was applied.

## 2016 grant under the LTIP – shares vesting as at 31 December 2018

The 2016 LTIP grant had a vesting period ending on 31 December 2018. The vesting of shares is subject to the achievement of an EPS hurdle and a TSR hurdle.

**EPS hurdle:** The EPS hurdle applies to a maximum of 75% of this tranche of shares, and is based on achievement of 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, Trinity Management Group and 50% of Health-e Workforce Solutions, acquisitions that occurred in 2015). As at 31 December 2018, the EPS was \$0.60 per share and therefore the EPS target of \$0.47 was exceeded. Under the terms of the 2016 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 this tranche. The Company's TSR performance was measured to be in the top quartile (i.e. 87<sup>th</sup> percentile) of the S&P/ASX Small Ordinaries Index (which was the index used for the TSR hurdle for the 2016 LTIP grant). Under the terms of the 2016 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, the three executives participating in the 2016 grant (who are still employed by the Company) had their 2016 LTIP shares vest in full in accordance with the column headed 'Vested' in Table 13.

## Remuneration outcomes in 2018 financial year and link to 2018 financial year performance

In considering the Group's performance, the benefit to shareholders and appropriate remuneration for the Executives, the Board, through the HRRC, has regard to financial and non-financial indices, including the indices shown in the below table in respect of the current financial year and the previous three financial years.

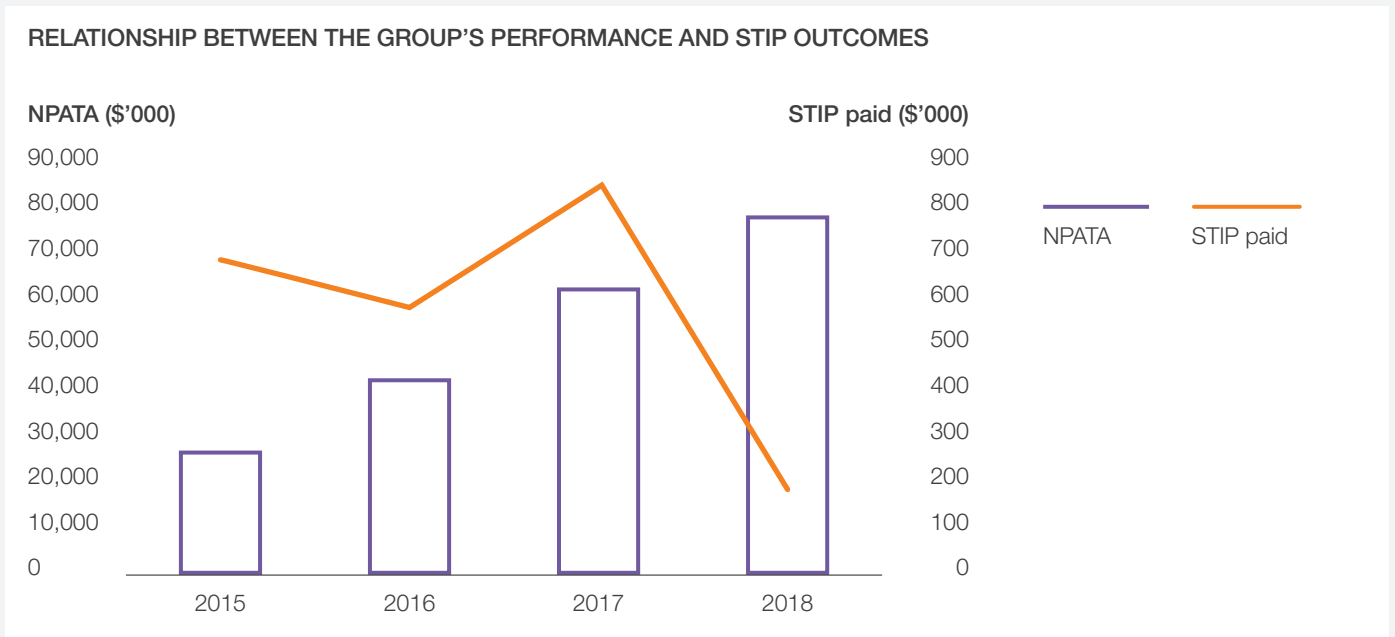
**Table 6: Indices relevant to the Board's assessment of the Group's performance and the benefit to shareholders**

Index	2015	2016	2017	2018
NPATA (\$m)	26.2	44.0	64.1	78.0
EPS (cents)	25.3	36.2	52.0	59.6
Dividends declared in respect of the financial year – per share (cents)	16.6	24.8	35.0	41.5
Share price – year end (\$)	5.11	6.28	10.85	8.88
3 year TSR performance compared to index (percentile) (%)	N/A	N/A	100%	87%

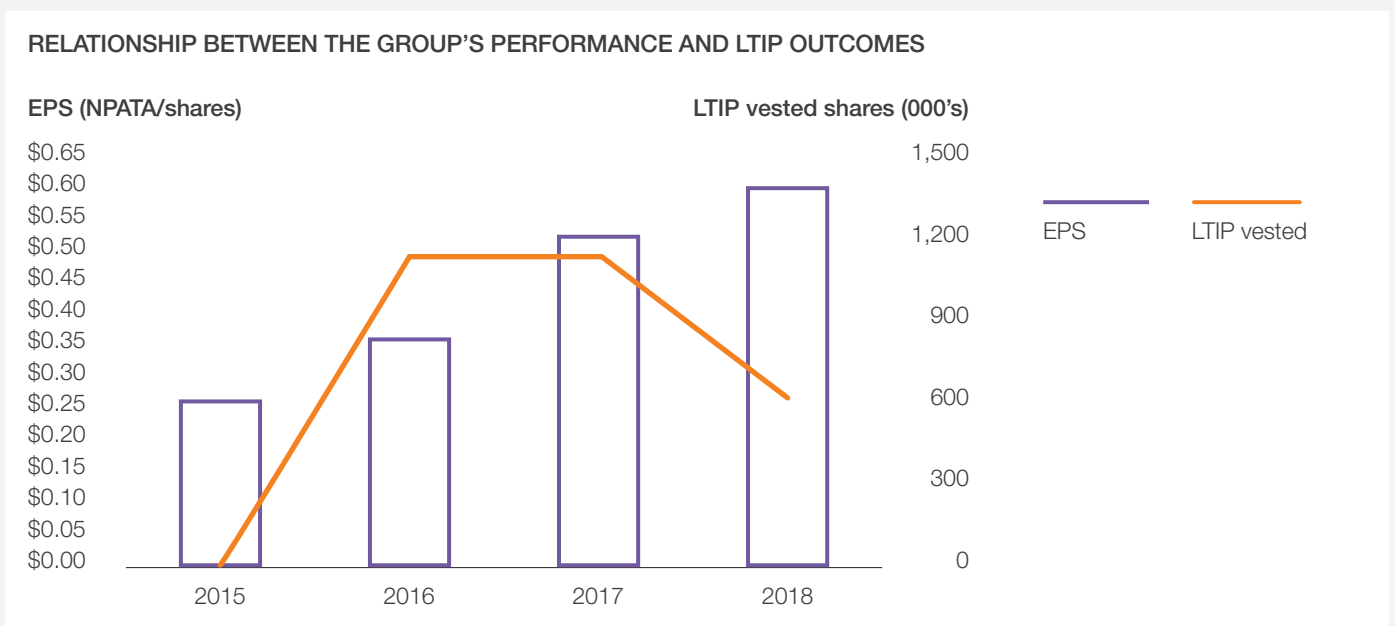
As shown above, the Company's 3 year TSR to 31 December 2018 was in the top quartile of all companies in the Small Ordinaries Index.

For shares vesting from 2020 onwards, the relevant index is the ASX 200.

The graph below illustrates the relationship between the Group's performance and STIP awards in respect of the current financial year and the preceding three financial years. In 2017 NPATA grew by 46% to \$64.1m, and in 2018, NPATA grew by 22% to \$78.0m. In 2017, the Executive KMP earned awards in full in respect of this measure. In 2018, the Executive KMP earned 25% of awards.



The graph below illustrates the relationship between the Group's performance and LTIP awards in respect of the current financial year and the preceding three financial years. As explained in the previous sections describing the terms of the LTIP grants, the LTIP has two hurdles, of which the most significant is EPS. In the last three years, the EPS achieved exceeded the relevant EPS hurdle and, as a consequence, the LTIP fully vested for each of the relevant years.



## 2018 remuneration structure

### Details of remuneration

#### Amounts of remuneration

Details of the remuneration of the KMP of the Group are set out in the following tables in accordance with the *Corporations Act 2001* and the Accounting Standards.

The KMP of the Group consisted of the Directors of Smartgroup Corporation Ltd and the following persons:

- Timothy Looi – Chief Financial Officer
- Dave Adler – Chief Executive Novated Leasing & Fleet
- Sarah Haas – Chief Executive Salary Packaging
- Sophie MacIntosh – Chief Legal Officer
- Clarence Yap – Chief Information Officer (ceased as KMP effective 31 January 2019).

**Table 7: 2018 Remuneration expenses**

	Short-term benefits		Post-employment benefits	Long-term benefits		Total
	Cash salary and fees \$	Bonus \$	Superannuation \$	Annual and long service leave <sup>1</sup> \$	LTIP \$	
<b>2018</b>						
<i>Non-Executive Directors:</i>						
Michael Carapiet	230,000	–	21,850	–	–	251,850
John Prendiville	135,000	–	12,825	–	–	147,825
Gavin Bell	132,500	–	12,588	–	–	145,088
Andrew Bolam	132,500	–	12,588	–	–	145,088
Ian Watt	122,500	–	11,638	–	–	134,138
Deborah Homewood	120,000	–	11,400	–	–	131,400
<i>Executive Directors:</i>						
Deven Billimoria	575,992	34,500	20,162	(69,844)	593,817	1,154,627
<i>Other Key Management Personnel:</i>						
Timothy Looi	416,405	40,153	20,162	37,860	230,112	744,692
Dave Adler	312,787	50,833	20,162	31,712	178,664	594,158
Sarah Haas <sup>2</sup>	258,615	46,015	22,158	24,694	35,446	386,928
Sophie MacIntosh <sup>3</sup>	214,321	17,228	19,035	20,938	112,477	383,999
Clarence Yap	312,691	–	20,414	17,141	112,191	462,437
<b>TOTAL</b>	<b>2,963,311</b>	<b>188,729</b>	<b>204,982</b>	<b>62,501</b>	<b>1,262,707</b>	<b>4,682,230</b>

1. The amounts disclosed in this column represent the changes in associated provisions. They may be negative where more leave is taken than accrued during the year.

2. Sarah Haas became KMP on 1 March 2018. Remuneration reflects earnings from 1 January 2018 to 31 December 2018.

3. On parental leave from 10 May 2018 to 31 May 2018, part time from 1 June 2018 to 18 November 2018.

**Table 8: 2017 Remuneration**

	Short-term benefits		Post-employment benefits	Long-term benefits		Total \$
	Cash salary and fees \$	Bonus \$	Superannuation \$	Annual and long service leave \$	LTIP \$	
<b>2017</b>						
<i>Non-Executive Directors:</i>						
Michael Carapiet	230,000	–	21,850	–	–	251,850
John Prendiville	135,000	–	12,825	–	–	147,825
Gavin Bell	132,500	–	12,588	–	–	145,088
Ian Watt	132,500	–	12,588	–	–	145,088
Andrew Bolam	122,500	–	11,638	–	–	134,138
Deborah Homewood	120,000	–	11,400	–	–	131,400
<i>Executive Directors:</i>						
Deven Billimoria	518,837	304,983	22,391	5,305	438,382	1,289,898
<i>Other Key Management Personnel:</i>						
Timothy Looi	302,669	91,495	22,391	(2,329)	146,552	560,778
Dave Adler	291,806	94,245	22,391	10,765	125,279	544,486
Michael Ellies	289,444	94,245	26,238	13,333	125,279	548,539
Houda Lebbos	286,617	88,065	22,391	(5,131)	123,564	515,506
Clarence Yap	293,490	85,671	18,525	20,648	49,725	468,059
Sophie Macintosh	305,366	93,060	19,757	2,398	49,952	470,533
<b>TOTAL</b>	<b>3,160,729</b>	<b>851,764</b>	<b>236,973</b>	<b>44,989</b>	<b>1,058,733</b>	<b>5,353,188</b>

The proportion of remuneration linked to performance is as follows:

**Table 9: Proportion of Remuneration**

Name	Fixed remuneration		At risk – STIP		At risk – LTIP	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
Michael Carapiet	100%	100%	–	–	–	–
John Prendiville	100%	100%	–	–	–	–
Gavin Bell	100%	100%	–	–	–	–
Andrew Bolam	100%	100%	–	–	–	–
Ian Watt	100%	100%	–	–	–	–
Deborah Homewood	100%	100%	–	–	–	–
<i>Executive Directors:</i>						
Deven Billimoria	46%	42%	3%	24%	51%	34%
<i>Other Key Management Personnel:</i>						
Timothy Looi	64%	58%	5%	16%	31%	26%
Dave Adler	61%	60%	9%	17%	30%	23%
Sarah Haas	79%	–	12%	–	9%	–
Sophie Macintosh	66%	69%	4%	20%	29%	11%
Clarence Yap	76%	71%	–	18%	24%	11%

## 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.

### Executive Director

Remuneration and other terms of employment for the Executive Director are formalised in service agreements. Details of these agreements 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 \$600,000 inclusive of superannuation contributions
- 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
- Key management personnel have no entitlement to termination payments in the event of termination
- 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 shares issued to Directors and other KMP as part of compensation during the year ended 31 December 2018 are set out below:

**Table 10: Bonus shares and cash offers**

2018	2017
Nil	Nil

**LTIP or Loan Funded Share (LFS) Plan\***

As described above, the Board established an LTIP for the CEO, Executives and other senior management. The securities 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 the share. Accordingly, the Company provides a summary below of the terms of the LTIP for the purposes of compliance with the *Corporations Act 2001* in relation to the disclosure of details of options granted during 2018.

The terms and conditions of each LTIP grant affecting remuneration in the current or a future reporting period are disclosed in Table 4 and Table 5.

**Table 11: Terms and conditions of the shares granted under the LTIP in 2018**

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 2018
28 March 2018	3 calendar years to 31 December 2020	1 January 2021	27 March 2023	529,582	\$10.89	\$1.96	To be determined	Nil
4 May 2018	3 calendar years to 31 December 2020	1 January 2021	3 May 2023	465,243	\$10.84	\$2.07	To be determined	Nil

As noted above, the LFS issued under the LTIP are not options. However, for the purposes of compliance with the *Corporations Act 2001*, the Company provides a summary below of the LFS issued under the LTIP in 2016 that have a vesting period ending on 31 December 2018.

**Table 12: LTIP shares with a vesting period ending on 31 December 2018**

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 2018*
18 March 2016	3 calendar years to 31 December 2018	1 January 2019	17 March 2021	235,978	\$4.42	\$1.55	Yes	100%
9 May 2016	3 calendar years to 31 December 2018	1 January 2019	8 May 2021	353,652	\$4.76	\$1.65	Yes	100%

\*As determined by the Board on 18 February 2019.

**Table 13: Shares granted under the LTIP in 2018 and the vesting profile of long term incentives granted as remuneration**

Name	Balance at the start of the year (unvested)	Granted as compensation	Vested in year	Forfeited	Balance at the end of the year (unvested)	Balance at end of the year	
						LTIP vested and not exercised at the end of the year	Total LTIP (vested and unvested)
Deven Billimoria	692,280	314,136	(353,652)	–	652,764	353,652	1,006,416
Timothy Looi	253,250	157,068	(128,458)	–	281,860	128,458	410,318
Dave Adler	212,894	104,712	(107,520)	–	210,086	107,520	317,606
Michael Ellies	212,894	–	–	(212,894)	–	–	–
Houda Lebbos	210,014	–	–	(210,014)	–	–	–
Sophie MacIntosh	106,480	91,623	–	–	198,103	–	198,103
Sarah Haas	–	68,848	–	–	68,848	–	68,848
Clarence Yap	105,996	91,623	–	–	197,619	–	197,619
<b>TOTAL KMP</b>	<b>1,793,808</b>	<b>828,010</b>	<b>(589,630)</b>	<b>(422,908)</b>	<b>1,609,280</b>	<b>589,630</b>	<b>2,198,910</b>

There were no options over ordinary shares issued to Directors and other KMP as part of compensation as at 31 December 2018.

### Additional disclosures relating to Key Management Personnel

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 Executive KMP shareholding**

	Balance at the start of the year including vested LTIP	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
<i>Ordinary shares</i>					
Michael Carapiet	2,047,816	–	4,140	–	2,051,956
John Prendiville	852,902	–	–	–	852,902
Gavin Bell	74,850	–	–	–	74,850
Andrew Bolam	200,000	–	2,760	–	202,760
Ian Watt	62,142	–	16,380	–	78,522
Deborah Homewood	4,444	–	874	–	5,318
Deven Billimoria	2,518,367	516,224	11,757	–	3,046,348
Timothy Looi	351,130	154,867	24,845	(308,320)	222,522
Dave Adler	100,000	149,951	–	(100,000)	149,951
Sophie MacIntosh	150	–	85	–	235
Sarah Haas	–	–	–	–	–
Clarence Yap	150	–	85	–	235
Michael Ellies	307,704	149,951	–	(457,655)	–
Houda Lebbos	147,493	147,493	–	(294,986)	–
<b>TOTAL</b>	<b>6,667,148</b>	<b>1,118,486</b>	<b>60,926</b>	<b>(1,160,961)</b>	<b>6,685,599</b>

This excludes shares from the LTIP as part of remuneration as not yet vested as at 31 December 2018.

This concludes the remuneration report, which has been audited.



## Shares under option

There were 1,609,280 unvested shares issued to employees under the LTIP (over the course of 2016 to 2018). 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 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 2018 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 39 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 39 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
- 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 PricewaterhouseCoopers

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  
18 February 2019  
Sydney



## Auditor's Independence Declaration

As lead auditor for the audit of Smartgroup Corporation Ltd for the year ended 31 December 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 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.

A handwritten signature in black ink, appearing to read 'L. Hinchliffe', is positioned above the printed name.

Sam Hinchliffe  
Partner  
PricewaterhouseCoopers

Sydney  
18 February 2019

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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# Reconciliation of Statutory Results to Adjusted Results

For the year ended 31 December 2018

\$ million	Statutory Financials: CY 2018	Reclassify: Equity share of investments	Reclass: Corporate interest revenue	Add back: Acquisition costs	Add back: Onerous lease costs (acquired properties)	Add back: Impact of AASB 16 Leases adoption	Deduct: GST adjustment	Adjusted: CY 2018
<b>Revenue</b>	<b>242.3</b>	–	<b>(0.5)</b>	–	–	–	–	<b>241.8</b>
<b>Operating EBITDA</b>	<b>114.5</b>	–	<b>(0.5)</b>	<b>0.2</b>	<b>1.1</b>	<b>(3.2)</b>	<b>(0.3)</b>	<b>111.8</b>
Joint venture contribution	–	0.3	–	–	–	–	–	0.3
<b>EBITDA</b>	<b>114.5</b>	<b>0.3</b>	<b>(0.5)</b>	<b>0.2</b>	<b>1.1</b>	<b>(3.2)</b>	<b>(0.3)</b>	<b>112.1</b>
Depreciation	(4.1)	–	–	–	–	2.5	–	(1.6)
Amortisation	(20.9)	(0.3)	–	–	–	–	–	(21.2)
Net finance costs	(5.2)	–	0.5	–	–	0.9	(0.2)	(4.0)
<b>PBT</b>	<b>84.3</b>	–	–	<b>0.2</b>	<b>1.1</b>	<b>0.2</b>	<b>(0.5)</b>	<b>85.3</b>
Income tax expense	(25.0)	–	–	(0.1)	(0.3)	–	0.1	(25.3)
<b>NPAT</b>	<b>59.3</b>	–	–	<b>0.1</b>	<b>0.8</b>	<b>0.2</b>	<b>(0.4)</b>	<b>60.0</b>
Add back: Amortisation (tax-effected)	14.6	0.2	–	–	–	–	–	14.8
Cash tax benefit	3.2	–	–	–	–	–	–	3.2
<b>NPATA</b>	<b>77.1</b>	<b>0.2</b>	–	<b>0.1</b>	<b>0.8</b>	<b>0.2</b>	<b>(0.4)</b>	<b>78.0</b>
Shares (# millions)								130.9
<b>NPATA per share (cents)</b>								<b>59.6</b>



# 2018 Financial Report

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# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

Consolidated	Note	Restated*	
		2018 \$'000	2017 \$'000
<b>Revenue</b>	7	242,314	205,443
Share of profits from joint venture accounted for using the equity method		44	348
<b>Expenses</b>			
Product costs		(6,676)	(4,826)
Employee benefits expense		(86,450)	(75,024)
Administration and corporate expenses		(27,095)	(24,286)
Occupancy expenses	8	(1,277)	(4,107)
Advertising and marketing expenses		(3,702)	(3,027)
Depreciation expense	8	(4,081)	(1,589)
Amortisation of acquired intangible assets	8	(20,927)	(18,006)
Other expenses		(1,359)	(1,011)
<b>Operating profit</b>		<b>90,791</b>	<b>73,915</b>
Fair value loss on revaluation of financial liabilities		–	(4,906)
Onerous lease costs		(1,116)	–
Acquisition transaction costs		(191)	(1,542)
Finance costs	8	(5,190)	(5,571)
<b>Profit before income tax expense</b>		<b>84,294</b>	<b>61,896</b>
Income tax expense	9	(25,008)	(20,684)
<b>Profit after income tax expense for the year</b>		<b>59,286</b>	<b>41,212</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of cash flow hedges taken to equity, net of tax		(60)	(65)
<b>Other comprehensive income for the year, net of tax</b>		<b>(60)</b>	<b>(65)</b>
<b>Total comprehensive income for the year</b>		<b>59,226</b>	<b>41,147</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	16	46.7	34.5
Diluted earnings per share	16	46.4	34.1

\*Refer to note 23 for detailed information on restatement of comparatives.

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

As at 31 December 2018

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Consolidated	Note	2018 \$'000	Restated* 2017 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	39,186	30,860
Restricted cash and cash equivalents	38	42,291	67,644
Trade and other receivables	18	24,354	21,956
Derivative financial instruments	21	199	–
Other current assets	20	11,236	4,760
<b>Total current assets</b>		<b>117,266</b>	<b>125,220</b>
<b>Non-current assets</b>			
Investments accounted for using the equity method	24	6,392	6,348
Derivative financial instruments	21	–	226
Deferred tax assets	9	8,051	2,704
Right-of-use assets	40	11,543	–
Property and equipment	34	1,911	2,932
Intangible assets	6	318,305	328,789
Other non-current assets		524	516
<b>Total non-current assets</b>		<b>346,726</b>	<b>341,515</b>
<b>Total assets</b>		<b>463,992</b>	<b>466,735</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	35	29,240	33,000
Customer salary packaging liability	38	42,291	67,644
Income tax payable	9	5,541	6,745
Provisions	36	11,046	8,434
Other current liabilities	22	13,663	3,130
<b>Total current liabilities</b>		<b>101,781</b>	<b>118,953</b>
<b>Non-current liabilities</b>			
Provisions	37	1,310	2,177
Lease liabilities	40	15,582	–
Borrowings	11	53,011	140,853
<b>Total non-current liabilities</b>		<b>69,903</b>	<b>143,030</b>
<b>Total liabilities</b>		<b>171,684</b>	<b>261,983</b>
<b>Net assets</b>		<b>292,308</b>	<b>204,752</b>
<b>EQUITY</b>			
Issued capital	12	256,687	176,883
Reserves	13	5,856	4,570
Retained profits		29,765	23,269
<b>Equity attributable to the owners of Smartgroup Corporation Ltd</b>		<b>292,308</b>	<b>204,722</b>
Non-controlling interest		–	30
<b>Total equity</b>		<b>292,308</b>	<b>204,752</b>

\*Refer to note 23 for detailed information on restatement of comparatives.

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

Consolidated	Note	Share capital \$'000	Reserves \$'000	Retained earnings \$'000	Non-controlling interests \$'000	Total equity \$'000
<b>Balance at 1 January 2017</b>		<b>170,940</b>	<b>2,631</b>	<b>20,693</b>	<b>–</b>	<b>194,264</b>
Profit for the year (restated)		–	–	41,212	(4)	41,208
Other comprehensive income		–	(65)	–	–	(65)
<b>Total comprehensive income for the year (restated)</b>		<b>–</b>	<b>(65)</b>	<b>41,212</b>	<b>(4)</b>	<b>41,143</b>
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs and tax	12	5,943	–	–	–	5,943
Share-based payments	13	–	2,004	–	–	2,004
Non-controlling interests on acquisition of subsidiary	23	–	–	(34)	34	–
Dividends provided for or paid	15	–	–	(38,602)	–	(38,602)
<b>Balance at 31 December 2017</b>		<b>176,883</b>	<b>4,570</b>	<b>23,269</b>	<b>30</b>	<b>204,752</b>

Consolidated	Note	Share capital \$'000	Reserves \$'000	Retained earnings \$'000	Non-controlling interests \$'000	Total equity \$'000
<b>Balance at 1 January 2018</b>		176,883	4,570	23,269	30	204,752
Adoption of new accounting standards	3	–	–	(1,811)	–	(1,811)
<b>Adjusted balance at 1 January 2018 (restated)</b>		<b>176,883</b>	<b>4,570</b>	<b>21,458</b>	<b>30</b>	<b>202,941</b>
Profit for the year		–	–	59,286	–	59,286
Other comprehensive income		–	(60)	–	–	(60)
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>(60)</b>	<b>59,286</b>	<b>–</b>	<b>59,226</b>
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs and tax	12	78,804	–	–	–	78,804
Issuance of ordinary shares as consideration for a business combination, net of transaction costs	23	1,000	–	–	–	1,000
Share-based payments	13	–	1,346	–	–	1,346
Non-controlling interests on acquisition of subsidiary	23	–	–	30	(30)	–
Dividends provided for or paid	15	–	–	(51,009)	–	(51,009)
<b>Balance at 31 December 2018</b>		<b>256,687</b>	<b>5,856</b>	<b>29,765</b>	<b>–</b>	<b>292,308</b>

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

# Consolidated Statement of Cash Flows

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For the year ended 31 December 2018

Consolidated	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		270,113	212,244
Payments to suppliers and employees		(156,074)	(117,811)
Transaction costs relating to business acquisitions		(858)	(3,276)
Interest received from cash held on behalf of customers		2,550	1,855
Interest paid		(3,846)	(4,734)
Interest paid on lease liabilities	40	(888)	–
Income taxes paid		(31,405)	(27,845)
<b>Net cash from operating activities excluding salary packaging receipts and payments</b>		<b>79,592</b>	<b>60,433</b>
Receipts in restricted cash		2,193,446	1,230,627
Payments of customer salary packaging liability		(2,218,799)	(1,222,072)
<b>Net cash inflow from operating activities</b>	33	<b>54,239</b>	<b>68,988</b>
<b>Cash flows from investing activities</b>			
Payments for business acquisitions (net of cash acquired)	23	(6,725)	(35,707)
Payments for property, plant and equipment		(430)	(423)
Dividends received from joint venture		–	751
Interest received		491	909
Acquisition contingent consideration paid		–	(9,541)
Other dividends paid in relation to the Fleet West acquisition	23	(1,000)	–
<b>Net cash outflow from investing activities</b>		<b>(7,664)</b>	<b>(44,011)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares (net of transaction costs)		76,380	–
Repayment of borrowings		(88,252)	(32,000)
Dividends paid	15	(51,009)	(38,602)
Proceeds from long-term incentive plan		2,141	2,646
Payment of lease liabilities	40	(2,483)	–
Refinancing costs/proceeds from borrowings (net of borrowing costs)		(379)	22,000
<b>Net cash outflow from financing activities</b>		<b>(63,602)</b>	<b>(45,956)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(17,027)</b>	<b>(20,979)</b>
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 the end of the financial year		39,186	30,860
Restricted cash and cash equivalents at the end of the financial year		42,291	67,644
<b>Cash and cash equivalents at the end of the year</b>		<b>81,477</b>	<b>98,504</b>

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

## 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, Australia, 2000

A description of the nature of the Group's operations and its principal activities is 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 18 February 2019. The Directors have the power to amend and reissue the financial statements.

## Note 2. Basis of preparation

These general purpose financial statements have been prepared in accordance with *Australian Accounting Standards and Interpretations* issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These consolidated financial statements also comply with International Financial Reporting Standards (IFRS) 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 4.

### 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 26.

### Rounding of amounts

The Company is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Note 3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out in note 41 and in the respective notes. 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.

Except for early adoption of AASB 16 *Leases*, any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following new or amended Accounting Standards and interpretations have been adopted by the Group:

#### AASB 9 *Financial instruments*

The Group adopted AASB 9 *Financial Instruments* as of the effective date of 1 January 2018. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. Comparatives for the 2017 financial year have not been restated.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 3. Significant accounting policies (continued)

### (i) Classification and measurement of financial assets and financial liabilities

The following table shows the original classification under AASB 139 and the new classification under AASB 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

	Original classification – AASB 139	New classification – AASB 9
<b>Financial assets</b>		
Cash and cash equivalents	Amortised cost	Amortised cost
Restricted cash and cash equivalents	Amortised cost	Amortised cost
Trade receivables	Loans and receivables (Amortised cost)	Amortised cost
Interest rate swaps	Available-for-sale (FVOCI*)	FVOCI*
<b>Financial liabilities</b>		
Trade payables	Other financial liabilities (Amortised cost)	Amortised cost
Customer salary packaging liability	Other financial liabilities (Amortised cost)	Amortised cost
Bank loan	Other financial liabilities (Amortised cost)	Amortised cost
Letter of credit facility	Other financial liabilities (Amortised cost)	Amortised cost

\*Fair Value through Other Comprehensive Income (FVOCI).

### (ii) Impairment of financial assets

AASB 9 replaced the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost.

The Group has determined that the application of AASB 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows:

Consolidated	\$'000
Loss allowance at 31 December 2017 under AASB 139	353
Additional impairment recognised at 1 January 2018 on trade receivables	82
<b>Loss allowance at 1 January 2018 under AASB 9</b>	<b>435</b>

### (iii) Hedge accounting

The Group's hedge accounting relationships are aligned with its risk management objectives and strategy and there is no financial impact on application of AASB 9 at 1 January 2018.

## AASB 16 Leases

The Group elected to early adopt AASB 16 *Leases* with a date of initial application of 1 January 2018. As a result, the Group has changed its accounting policy for lease contracts as detailed in note 40. In accordance with the transitional provisions in AASB 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2018. Comparatives for the 2017 financial year have not been restated. The details of the changes in accounting policies are disclosed below.

### (i) Accounting policy change – lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying assets to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for property and IT equipment leases.

The Group has applied recognition exemptions to short-term leases of property and IT equipment.

For the year ended 31 December 2018

## Note 3. Significant accounting policies (continued)

### (ii) Leases classified as operating leases under AASB 117

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2018. Right-of-use assets are measured as if AASB 16 had always been applied, but using the incremental borrowing rate as at 1 January 2018.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months to end of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

### (iii) Impact on financial statements

On transition to AASB 16, the Group has recognised an additional \$9.4 million of right-of-use assets, \$12.9 million of lease liabilities, \$0.7 million in net deferred tax assets, a release of \$1.0 million in accrued rent liabilities, and recognised \$1.8 million in retained earnings. When measuring lease liabilities, lease payments are discounted using the incremental borrowing rate at 1 January 2018. The weighted-average rate applied is 7.32%.

Consolidated	1 January 2018 \$'000
Operating lease commitments disclosed as at 31 December 2017	13,885
Recognition exemption for short-term leases and contracts reassessed as service agreements	(1,564)
	<b>12,321</b>
Discount using incremental borrowing rate at 1 January 2018	(9,948)
Extension and termination options reasonably certain to be exercised	6,983
Variable lease payments based on an index or a rate	3,544
<b>Lease liability recognised as at 1 January 2018</b>	<b>12,900</b>

## Note 4. Critical accounting judgements, estimates and assumptions

The preparation of 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 discussed below.

### Goodwill and other indefinite life intangible 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, in accordance with the accounting policy stated in note 6 and note 41. 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.

# Notes to the Consolidated Financial Statements (continued)

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For the year ended 31 December 2018

## Note 5. 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.

### Operating segment information

Consolidated – 2018	OA \$'000	VS \$'000	SDGS \$'000	Intersegment eliminations/ Corporate \$'000	Total \$'000
<b>Revenue</b>					
Products, services and commissions	130,646	–	18,032	–	148,678
Management and administrative fees	65,810	6,574	687	–	73,071
Performance fees and rebates	15,133	3,437	1,496	–	20,066
Other revenue	–	–	–	499	499
Inter-segment sales	–	2,952	19,958	(22,910)	–
<b>Total revenue</b>	<b>211,589</b>	<b>12,963</b>	<b>40,173</b>	<b>(22,411)</b>	<b>242,314</b>
<b>Segment results (EBITDA)</b>	<b>99,272</b>	<b>6,826</b>	<b>18,091</b>	<b>(9,697)</b>	<b>114,492</b>
Depreciation					(4,081)
Amortisation					(20,927)
Finance costs					(5,190)
<b>Profit before income tax expense</b>					<b>84,294</b>
Income tax expense					(25,008)
<b>Profit after income tax expense</b>					<b>59,286</b>
<b>Assets</b>					
Total segment assets	143,741	33,146	20,513	266,592	463,992
<b>Total assets</b>					<b>463,992</b>
<b>Liabilities</b>					
Total segment liabilities	72,955	18,062	10,136	70,531	171,684
<b>Total liabilities</b>					<b>171,684</b>

For the year ended 31 December 2018

## Note 5. Operating segments (continued)

Consolidated – 2017 (Restated)	OA \$'000	VS \$'000	SDGS \$'000	Intersegment eliminations/ Corporate \$'000	Total \$'000
<b>Revenue</b>					
Products, services and commissions	119,456	–	17,639	–	137,095
Management and administrative fees	50,939	3,966	455	–	55,360
Performance fees and rebates	10,104	668	1,419	–	12,191
Other revenue	–	–	–	797	797
Inter-segment sales	–	2,435	14,357	(16,792)	–
<b>Total revenue</b>	<b>180,499</b>	<b>7,069</b>	<b>33,870</b>	<b>(15,995)</b>	<b>205,443</b>
<b>Segment results (EBITDA)</b>	<b>72,693</b>	<b>2,218</b>	<b>22,076</b>	<b>(9,925)</b>	<b>87,062</b>
Depreciation					(1,589)
Amortisation					(18,006)
Finance costs					(5,571)
<b>Profit before income tax expense</b>					<b>61,896</b>
Income tax expense					(20,684)
<b>Profit after income tax expense</b>					<b>41,212</b>
<b>Assets</b>					
Total segment assets	185,553	12,759	19,856	248,567	466,735
<b>Total assets</b>					<b>466,735</b>
<b>Liabilities</b>					
Total segment liabilities	104,312	5,154	7,700	144,817	261,983
<b>Total liabilities</b>					<b>261,983</b>

### 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.

# Notes to the Consolidated Financial Statements (continued)

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For the year ended 31 December 2018

## Note 6. Non-current assets – intangible assets

Consolidated	2018	Restated*
	\$'000	2017 \$'000
Goodwill – at cost	266,588	261,672
<b>Goodwill</b>	<b>266,588</b>	<b>261,672</b>
Customer contracts and relationships – at cost	64,429	59,729
Less: Accumulated amortisation	(41,319)	(32,324)
<b>Customer contracts and relationships</b>	<b>23,110</b>	<b>27,405</b>
Software and websites – at cost	75,680	76,152
Less: Accumulated amortisation	(48,377)	(37,744)
<b>Software and websites</b>	<b>27,303</b>	<b>38,408</b>
Brand names and logos – at cost	1,304	1,304
<b>Brand names and logos</b>	<b>1,304</b>	<b>1,304</b>
<b>Intangible assets</b>	<b>318,305</b>	<b>328,789</b>

\*Refer to note 23 for restatement of comparatives.

### 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 relationships \$'000	Software and websites \$'000	Brand names and logos \$'000	Total \$'000
Balance at 1 January 2017	217,453	26,684	40,082	1,304	285,523
Additions through business combinations (note 23)*	44,219	8,000	9,053	–	61,272
Amortisation expense *	–	(7,279)	(10,727)	–	(18,006)
<b>Balance at 31 December 2017</b>	<b>261,672</b>	<b>27,405</b>	<b>38,408</b>	<b>1,304</b>	<b>328,789</b>
Additions through business combinations (note 23)	4,916	4,700	846	–	10,462
Disposals	–	(13)	(6)	–	(19)
Amortisation expense	–	(8,982)	(11,945)	–	(20,927)
<b>Balance at 31 December 2018</b>	<b>266,588</b>	<b>23,110</b>	<b>27,303</b>	<b>1,304</b>	<b>318,305</b>

\*Refer to note 23 for restatement of comparatives.

### Impairment testing

The Group monitors its business through cash-generating units (CGU) being Outsourced administration (OA), Vehicle services (VS), Software distribution and group services (SDGS), Public benevolent institutions (PBI), Autopia and Selectus.

The Group consolidated Aspire into the OA CGU due to the integration of its client base into the broader OA operations. Advantage, AccessPay and Salary Solutions have been amalgamated into a single PBI CGU due to the reallocation of assets and the redeployment of internal resources. Certain clients have also transitioned from Autopia and Selectus to OA. As a result, goodwill in 2018 has been reallocated to reflect the changes in CGUs during the year.



For the year ended 31 December 2018

## Note 6. Non-current assets – intangible assets (continued)

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

Goodwill	2018 \$'000	2017 \$'000
CGU 1: Outsourced administration	115,777	42,377
CGU 2: Vehicle services	8,827	3,911
CGU 3: SDGS	7,650	7,650
CGU 4: Advantage	–	38,659
CGU 5: Autopia	23,715	22,523
CGU 6: Selectus	30,709	102,333
CGU 7: AccessPay	–	9,203
CGU 8: Aspire	–	2,973
CGU 9: Salary Solutions	–	32,043
CGU 10: PBI	79,910	–
<b>Goodwill</b>	<b>266,588</b>	<b>261,672</b>

Brand names and logos have been allocated to the following CGUs:

Brand names and logos	2018 \$'000	2017 \$'000
CGU 1: Outsourced administration	1,285	1,285
CGU 2: Vehicle services	15	15
CGU 3: SDGS	4	4
<b>Brand names and logos</b>	<b>1,304</b>	<b>1,304</b>

The recoverable amount of a CGU is determined based on value-in-use calculations. These 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 industry in which each CGU operates.

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

A projected terminal growth rate of 2.8% (2017: 2.8%) has been used for all CGUs.

Pre-tax discount rates	2018 %	2017 %
CGU 1: Outsourced administration	16.0%	17.9%
CGU 2: Vehicle services	16.3%	19.1%
CGU 3: SDGS	17.0%	18.4%
CGU 4: Advantage	–	14.4%
CGU 5: Autopia	23.2%	18.9%
CGU 6: Selectus	16.4%	17.1%
CGU 7: AccessPay	–	16.7%
CGU 8: Aspire	–	20.6%
CGU 9: Salary Solutions	–	17.1%
CGU 10: PBI	17.3%	–

For the year ended 31 December 2018

## Note 6. Non-current assets – intangible assets (continued)

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

#### CGUs 1, 3, 4, 5, 6, 7, 8, 9 and 10

Any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the CGUs 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.

#### CGU 2

Any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the CGUs carrying amount to exceed its recoverable amount.

### 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 Consolidated 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 5 to 6 years.

### Software and website

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 the related costs can be measured reliably. The software costs are amortised on a straight-line basis over the period of their expected benefit, being between 2 and 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.

For the year ended 31 December 2018

## Note 7. Revenue

Consolidated	2018 \$'000	2017 \$'000
<b>Sales revenue</b>		
Products, services and commissions	148,678	137,095
Management and administration fees	73,071	55,360
Performance fees and rebates	20,066	12,191
	<b>241,815</b>	<b>204,646</b>
<b>Other revenue</b>		
Other income	499	797
<b>Revenue</b>	<b>242,314</b>	<b>205,443</b>

### Accounting policy for revenue recognition

The Group recognises revenue when it transfers control over a product or a service to a customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

### Nature of goods and services

The following is a description of the principal activities, separated by reportable segments, from which the Group generates its revenue.

For more detailed information about reportable segments, see note 5.

### Management and administration fees

The Group generates revenue from arranging and administering outsourced salary packaging and fleet management services on behalf of employers. Administration fees for salary packaging are paid by the employers through amounts deducted from their employees' pre-tax salary. Revenue is recognised over the period of administration and includes interest earned from cash held on behalf of customers.

Fleet management fees are paid by employers in respect of fleet management services and revenue is recognised over the period of administration.

Share plan and payroll administration revenue is recognised over the period of administration. Revenue on customer contributions is recognised when contributions occur.

Revenue from the license of in-house salary packaging software is recognised monthly based on a monthly fee per user.

### Products, services and commissions

The Group earns upfront commissions and rebates from suppliers relating to financing and sourcing of vehicles, sale of certain insurance products and fees for the sale of certain auxiliary products. Revenue is recognised upon delivery of the service or product to the customer.

### Performance fees and rebates

The Group generates revenue from arranging and providing salary packaging products and services. The Group earns fees and rebates from various suppliers relating to maintenance of a vehicle finance book, satisfying certain key performance hurdles, the arrangement of insurance products, and fees for the arrangement or provision of ancillary vehicle consumables. The Group also acts as a distributor of salary packaging debit cards for a major financial institution. Revenue is recognised in the period the services are rendered.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 7. Revenue (continued)

### Other income

Interest income on corporate accounts 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 discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### Contract balances

Contract assets primarily relate to the Group's rights to consideration for products and services provided and not billed at the reporting date.

Contract liabilities primarily relate to consideration received in advance from customer contracts for which revenue is recognised on satisfaction of outstanding performance obligations.

Receivable and contract asset balances at the reporting date are disclosed in note 18 as trade receivables and accrued revenue, respectively, and contract liability balances are disclosed in note 22 as income received in advance.

Significant changes in contract assets and liabilities during the period resulted from satisfaction of performance obligations. All opening contract liability balance pertaining to income received in advance was recognised as revenue during the period.

### Transaction price allocated to the remaining performance obligations

The Group applies the practical expedients available in AASB 15 *Revenue* and does not disclose information about its remaining performance obligations, the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue.

# 64 Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 8. Expenses

Consolidated	2018 \$'000	2017 \$'000
<b>Depreciation</b>		
Office equipment	124	211
Computer equipment	551	490
Furniture, fixtures and fittings	151	141
Other assets	9	7
Leasehold improvements	695	740
Right-of-use assets	2,551	–
<b>Total depreciation</b>	<b>4,081</b>	<b>1,589</b>
<b>Amortisation</b>		
Customer contracts and relationships	8,982	7,279
Software and website	11,945	10,727
<b>Total amortisation</b>	<b>20,927</b>	<b>18,006</b>
<b>Total depreciation and amortisation</b>	<b>25,008</b>	<b>19,595</b>
<b>Finance costs</b>		
Interest and finance charges paid/payable	4,302	5,571
Interest on lease liabilities	888	–
<b>Total finance costs</b>	<b>5,190</b>	<b>5,571</b>
<b>Occupancy costs</b>		
Rent expense	811	3,783
Other occupancy related costs	466	324
<b>Total occupancy costs</b>	<b>1,277</b>	<b>4,107</b>
<b>Superannuation expense</b>		
Defined contribution superannuation expense	6,207	5,611
<b>Share-based payments expense</b>		
Share-based payments expense	1,021	1,173

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 9. Income tax

### Income tax expense

Consolidated	2018 \$'000	2017 \$'000
Current tax	30,050	25,202
Deferred tax – origination and reversal of temporary differences	(5,042)	(4,518)
<b>Income tax expense</b>	<b>25,008</b>	<b>20,684</b>
<i>Deferred tax included in income tax expense comprises:</i>		
<b>Increase in deferred tax assets</b>	<b>(5,042)</b>	<b>(4,518)</b>

### Numerical reconciliation of income tax expense and tax at the statutory rate

Consolidated	2018 \$'000	2017 \$'000
Profit before income tax expense	84,294	61,896
Tax at the statutory tax rate of 30%	25,288	18,569
<i>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Non-deductible expenses	44	422
Share-based payments	306	352
Share of profits – joint venture	(19)	(104)
Fair value gain on revaluation of financial liability	–	1,472
Sundry items	(250)	(65)
	<b>25,369</b>	<b>20,646</b>
Prior year tax claims not recognised now recouped	(430)	(174)
Prior year temporary differences not recognised now recognised	69	212
<b>Income tax expense</b>	<b>25,008</b>	<b>20,684</b>

### Amounts recognised directly in equity

Consolidated	2018 \$'000	2017 \$'000
<i>Amounts charged/(credited) directly to equity:</i>		
<b>Deferred tax assets</b>	<b>1,388</b>	<b>(229)</b>

For the year ended 31 December 2018

## Note 9. Income tax (continued)

### Deferred tax assets

Deferred tax assets comprised of temporary differences attributable to:

Consolidated	2018 \$'000	2017 \$'000
<i>Amounts recognised in profit or loss:</i>		
Impairment of receivables	51	107
Employee benefits	2,384	2,135
Accruals and other provisions	4,785	4,741
Property and equipment	337	87
Revenue received in advance	1,273	828
Acquisition and issuance costs	3,378	2,062
Leased property and equipment	470	–
Intangible assets	(5,655)	(6,979)
Prepayments	(30)	(10)
Accrued revenue	(203)	(151)
Derivative financial instruments	(60)	68
Sundry items	(13)	(130)
<b>Total temporary differences</b>	<b>6,717</b>	<b>2,758</b>
<i>Amounts recognised in equity:</i>		
Derivative financial instruments	(28)	(54)
Share issue transaction costs	608	–
Adoption of new accounting standards	754	–
<b>Total recognised in equity</b>	<b>1,334</b>	<b>(54)</b>
<b>Net deferred tax assets</b>	<b>8,051</b>	<b>2,704</b>

### Movements

Consolidated	2018 \$'000	2017 \$'000
Opening balance	2,704	(175)
Credited to profit or loss	5,042	4,518
Credited/(charged) to equity	1,388	(229)
Additions through business combinations	(1,083)	(1,410)
<b>Closing balance</b>	<b>8,051</b>	<b>2,704</b>

### Income tax payable

Consolidated	2018 \$'000	2017 \$'000
<b>Income tax payable</b>	<b>5,541</b>	<b>6,745</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 9. Income tax (continued)

### 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 for changes in deferred tax assets and liabilities arising from temporary differences, unused tax losses and adjustments recognised in relation to prior periods, where 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.

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 is 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.



For the year ended 31 December 2018

## Note 10. Current assets – cash and cash equivalents

Consolidated	2018 \$'000	2017 \$'000
Cash at bank and in hand	30,341	30,267
Term deposits	8,845	593
<b>Cash and cash equivalents</b>	<b>39,186</b>	<b>30,860</b>

### 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 changes in value.

## Note 11. Non-current liabilities – borrowings

Consolidated	2018 \$'000	2017 \$'000
Bank loan	53,748	142,000
Borrowing costs prepaid	(737)	(1,147)
<b>Borrowings</b>	<b>53,011</b>	<b>140,853</b>

Refer to note 17 for further information on financial instruments.

### Total secured liabilities

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

Consolidated	2018 \$'000	2017 \$'000
<b>Bank loan</b>	<b>53,748</b>	<b>142,000</b>

On 21 December 2018, the Group refinanced its banking facilities with the current lenders and as a result, the following facilities are available to the Group:

- A three-year facility of \$99 million;
- A three-year letter of credit facility of \$4 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 a number 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 20 December 2021.

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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 11. Non-current liabilities – borrowings (continued)

### Financing arrangements

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

Consolidated	2018 \$'000	2017 \$'000
Bank loan	99,000	145,000
Letter of credit facility	4,000	3,000
<b>Total facilities</b>	<b>103,000</b>	<b>148,000</b>
Bank loan	53,748	142,000
Letter of credit facility	2,694	2,741
<b>Used at the reporting date</b>	<b>56,442</b>	<b>144,741</b>
Bank loan	45,252	3,000
Letter of credit facility	1,306	259
<b>Unused at the reporting date</b>	<b>46,558</b>	<b>3,259</b>

### 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.

For the year ended 31 December 2018

## Note 12. Equity – issued capital

Consolidated	2018 Shares	2017 Shares	2018 \$'000	2017 \$'000
Ordinary Shares – fully paid	130,891,931	123,213,010	272,114	189,224
Less: Shares associated with the loan funded share plan (LFSP)	(2,513,465)	(3,155,626)	(15,427)	(12,341)
<b>Issued capital</b>	<b>128,378,466</b>	<b>120,057,384</b>	<b>256,687</b>	<b>176,883</b>

### Movements in ordinary share capital

Details	Date	Shares	Total \$'000
Balance	1 January 2017	121,487,051	178,242
Shares issued for LFSP	17 March 2017	1,208,501	7,722
	5 May 2017	338,628	2,201
Buy-back of forfeited LFSP shares	6 December 2017	(313,507)	(3,069)
Shares issued	2 May 2017	46,225	300
	23 August 2017	446,112	3,828
<b>Balance</b>	<b>31 December 2017</b>	<b>123,213,010</b>	<b>189,224</b>
Shares issued for LFSP	28 March 2018	529,582	5,767
	4 May 2018	465,243	5,043
Buy-back of forfeited LFSP shares	20 June 2018	(436,241)	(4,921)
	8 October 2018	(82,259)	(988)
Shares issued	4 January 2018	99,236	1,000
	27 February 2018	6,787,331	75,000
	6 April 2018	316,029	3,434
Share issue transaction costs, net of tax		–	(1,445)
<b>Balance</b>	<b>31 December 2018</b>	<b>130,891,931</b>	<b>272,114</b>

### Movements in loan funded share plan

Details	Date	Shares	Total \$'000
Balance	1 January 2017	(3,040,492)	(7,302)
LFSP shares exercised	15 February 2017	1,118,488	1,815
Shares issued for LFSP	17 March 2017	(1,208,501)	(7,722)
	5 May 2017	(338,628)	(2,201)
Buy-back of forfeited LFSP shares	6 December 2017	313,507	3,069
<b>Balance</b>	<b>31 December 2017</b>	<b>(3,155,626)</b>	<b>(12,341)</b>
LFSP shares exercised	15 February 2018	1,118,486	1,815
Shares issued for LFSP	28 March 2018	(529,582)	(5,767)
	4 May 2018	(465,243)	(5,043)
Buy-back of forfeited LFSP shares	20 June 2018	436,241	4,921
	8 October 2018	82,259	988
<b>Balance</b>	<b>31 December 2018</b>	<b>(2,513,465)</b>	<b>(15,427)</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 12. Equity – issued capital (continued)

### 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.

### Loan funded share plan (LFSP)

Shares are granted to the management team under the LFSP at the market price. The shares purchased as part of a 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 vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle based on NPATA (Net Profit After Tax, adjusted to exclude the non-cash tax effect amortisation of intangibles and significant non-operating items) 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 balance date. As such, the shares issued under the LFSP are excluded from basic earnings per share and included in the calculation of diluted earnings per share.

### LFSP shares forfeited

For the year ended 31 December 2018, the Group recorded \$5,909,000 for the buy-back shares issued under the LFSP, because the vesting conditions on those shares had not been met and the shares were forfeited. 518,500 shares were bought back and cancelled, resulting in a reduction of ordinary shares on issue.

### 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 Consolidated Statement of Financial Position, plus net debt. Net debt is calculated as total borrowings excluding borrowing costs prepaid 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 or to reduce debt.

The capital risk management policy remains unchanged from the 31 December 2017 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.

For the year ended 31 December 2018

## Note 13. Equity – reserves

Consolidated	2018 \$'000	2017 \$'000
Hedging reserve – cash flow hedges	139	199
Share-based payments reserve	5,717	4,371
<b>Reserves</b>	<b>5,856</b>	<b>4,570</b>

### 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 is determined to be an effective hedge.

### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to the senior management team as part of their remuneration.

### Movements in reserves

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

Consolidated	Cash flow hedges \$'000	Share-based payments \$'000	Total \$'000
Balance at 1 January 2017	264	2,367	2,631
Movements in hedges	(93)	–	(93)
Deferred tax	28	–	28
Share-based payments	–	3,904	3,904
LFSP exercised	–	(1,815)	(1,815)
LFSP forfeited	–	(85)	(85)
<b>Balance at 31 December 2017</b>	<b>199</b>	<b>4,371</b>	<b>4,570</b>
Movements in hedges	(86)	–	(86)
Deferred tax	26	–	26
Share-based payments	–	3,700	3,700
LFSP exercised	–	(1,815)	(1,815)
LFSP forfeited	–	(539)	(539)
<b>Balance at 31 December 2018</b>	<b>139</b>	<b>5,717</b>	<b>5,856</b>

## Note 14. Share-based payments

### Loan funded share plan (LFSP)

The LFSP is a long-term incentive plan for the senior management team. Refer to note 12 for the terms of LFSP. The LFSP shares are legally held by the employees, however, they cannot trade 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*.

# Notes to the Consolidated Financial Statements (continued)

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For the year ended 31 December 2018

## Note 14. Share-based payments (continued)

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

Grant date	Vesting date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
<b>2018</b>							
25 February 2015	31 December 2017	\$1.60	602,262	–	(602,262)	–	–
27 April 2015	31 December 2017	\$1.65	516,224	–	(516,224)	–	–
18 March 2016	31 December 2018	\$4.42	449,866	–	–	(213,888)	235,978
9 May 2016	31 December 2018	\$4.76	353,652	–	–	–	353,652
17 March 2017	31 December 2019	\$6.39	894,994	–	–	(222,353)	672,641
5 May 2017	31 December 2019	\$6.50	338,628	–	–	–	338,628
28 March 2018	31 December 2020	\$10.89	–	529,582	–	–	529,582
4 May 2018	31 December 2020	\$10.84	–	465,243	–	(82,259)	382,984
<b>Share-based payments – 2018</b>			<b>3,155,626</b>	<b>994,825</b>	<b>(1,118,486)</b>	<b>(518,500)</b>	<b>2,513,465</b>
Weighted average exercise price			\$4.25	\$10.87	\$1.62	\$6.28	\$7.62

Grant date	Vesting date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
<b>2017</b>							
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	\$4.42	449,866	–	–	–	449,866
9 May 2016	31 December 2018	\$4.76	353,652	–	–	–	353,652
17 March 2017	31 December 2019	\$6.39	–	1,208,501	–	(313,507)	894,994
5 May 2017	31 December 2019	\$6.50	–	338,628	–	–	338,628
<b>Share-based payments – 2017</b>			<b>3,040,492</b>	<b>1,547,129</b>	<b>(1,118,488)</b>	<b>(313,507)</b>	<b>3,155,626</b>
Weighted average exercise price			\$2.40	\$6.41	\$1.62	\$6.39	\$4.25

The weighted average share price during the financial year was \$11.01 (2017: \$7.87).

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 3.4 years (2017: 3.3 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	Vesting date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
28 March 2018	31 December 2020	\$11.03	\$10.89	25.92%	3.30%	2.29%	\$1.96
4 May 2018	31 December 2020	\$11.19	\$10.84	26.14%	3.31%	2.29%	\$2.07

# 74 Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 15. Equity – dividends

### Dividends

Dividends paid during the financial year were as follows:

Consolidated	2018 \$'000	2017 \$'000
Final dividend for the year ended 31 December 2017 of 18.5 cents (2016: 15.0 cents) per ordinary share	24,154	18,223
Interim dividend for the year ended 31 December 2018 of 20.5 cents (2017: 16.5 cents) per ordinary share	26,855	20,379
<b>Dividends paid</b>	<b>51,009</b>	<b>38,602</b>

On 18 February 2019, the Directors declared a fully franked dividend of 21.0 cents per ordinary share. The final dividend will be paid on 15 March 2019 to shareholders registered on 1 March 2019 with an expected total distribution of \$27,500,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2018 financial statements and will be recognised in subsequent financial reports.

### Franking credits

Consolidated	2018 \$'000	2017 \$'000
Franking credits available at the reporting date based on a tax rate of 30%	53,108	41,920
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%	5,541	6,827
<b>Franking credits available for subsequent financial years based on a tax rate of 30%</b>	<b>58,649</b>	<b>48,747</b>

Of the existing franking account balance, \$24,130,000 (2017: \$24,130,000) are exempt credits and are not available for franking 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 16. Earnings per share

Consolidated	2018 \$'000	2017 \$'000
<b>Profit after income tax attributable to the owners of Smartgroup Corporation Ltd</b>	<b>59,286</b>	<b>41,212</b>

Consolidated	2018 Number	2017 Number
Weighted average ordinary shares used in calculating basic earnings per share	127,074,764	119,613,751
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	707,423	1,194,317
<b>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share</b>	<b>127,782,187</b>	<b>120,808,068</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 16. Earnings per share (continued)

Consolidated	2018 Cents	2017 Cents
Basic earnings per share	46.7	34.5
Diluted earnings per share	46.4	34.1

### 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.

#### 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 17. 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 financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group 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 the management team under oversight from the Board. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. The management team identifies, evaluates and may hedge financial risks within the Group's operating units.

#### Market risk

##### *Foreign-exchange risk*

The Group operates primarily in Australia and 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.



# 76 Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 17. Financial instruments (continued)

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:

Consolidated	2018		2017	
	Weighted average interest rate	Balance \$'000	Weighted average interest rate	Balance \$'000
Bank loans	3.32%	53,748	3.31%	142,000
Cash and cash equivalents	1.70%	(39,186)	1.54%	(30,860)
Restricted cash and cash equivalents	1.35%	(42,291)	1.65%	(67,644)
Interest rate swaps (notional principal amount)	1.76%	(51,250)	1.84%	(66,750)
<b>Net exposure to cash flow interest rate risk</b>		<b>(78,979)</b>		<b>(23,254)</b>

An increase/decrease in interest rates of 100 (2017: 100) basis points would have a favourable/adverse effect on profit before tax and equity of \$790,000 (2017: \$233,000) 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 2018 of \$51,250,000 (2017: \$66,750,000). The interest rate contracts hedge the Group's risk against an increase in variable interest rate. Weighted average fixed rate is 1.76% (2017: 1.84%).

### Sensitivity – derivative valuation

An increase/decrease in interest rates of 100 (2017:100) basis points would have a favourable/adverse effect on derivative financial instruments value and total equity by \$355,100 (2017: \$1,005,000).

### 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 include 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 Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements. The Group does not hold any collateral.

### Expected credit loss assessment for corporate customers

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. Exposures within each credit risk grade are based on actual historical credit loss experience.

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables for corporate customers as at 31 December 2018:

Grade	Weighted average loss rate	Gross carrying amount (\$'000)	Impairment loss allowance (\$'000)
Grade 1	0.00%	849	–
Grade 2	1.03%	7,967	(82)
Grade 3	5.41%	1,608	(87)

### 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 by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

# Notes to the Consolidated Financial Statements (continued)

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For the year ended 31 December 2018

## Note 17. Financial instruments (continued)

### Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

Consolidated	2018 \$'000	2017 \$'000
Bank loan	45,252	3,000
Letter of credit facility	1,306	259
<b>Undrawn borrowing facilities</b>	<b>46,558</b>	<b>3,259</b>

### Remaining contractual maturities

The following tables detail the Group's remaining contractual maturities 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 Consolidated Statement of Financial Position.

Consolidated	1 year or less \$'000	>1 to 2 years \$'000	>2 to 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>2018</b>					
<i>Non-interest bearing</i>					
Trade payables	8,475	–	–	–	<b>8,475</b>
Customer salary packaging liability	42,291	–	–	–	<b>42,291</b>
<i>Interest-bearing – variable</i>					
Bank loans	11,701	11,373	34,758	–	<b>57,832</b>
<b>Total non-derivatives</b>	<b>62,467</b>	<b>11,373</b>	<b>34,758</b>	–	<b>108,598</b>
<b>2017</b>					
<i>Non-interest bearing</i>					
Trade payables	5,637	–	–	–	<b>5,637</b>
Customer salary packaging liability	67,644	–	–	–	<b>67,644</b>
<i>Interest-bearing – variable</i>					
Bank loans	14,700	133,996	–	–	<b>148,696</b>
<b>Total non-derivatives</b>	<b>87,981</b>	<b>133,996</b>	–	–	<b>221,977</b>

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

## Note 18. Current assets – trade and other receivables

Consolidated	2018 \$'000	2017 \$'000
Trade receivables	10,424	10,881
Less: Provision for impairment of receivables	(169)	(353)
	<b>10,255</b>	<b>10,528</b>
Accrued revenue	11,312	7,353
Other receivables	2,787	4,075
	<b>14,099</b>	<b>11,428</b>
<b>Trade and other receivables</b>	<b>24,354</b>	<b>21,956</b>

# 78 Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 18. Current assets – trade and other receivables (continued)

### Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$3,875,000 as at 31 December 2018 (\$2,110,000 as at 31 December 2017). 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	2018 \$'000	2017 \$'000
0 to 3 months overdue	3,786	2,061
> 3 to 6 months overdue	77	49
> 6 months overdue	12	–
<b>Past due and not impaired</b>	<b>3,875</b>	<b>2,110</b>

### 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 19. 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 significant to 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	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2018</b>				
Interest rate swap contracts – cash flow hedges	–	199	–	199
<b>Total assets</b>	<b>–</b>	<b>199</b>	<b>–</b>	<b>199</b>
<b>2017</b>				
Interest rate swap contracts – cash flow hedges	–	226	–	226
<b>Total assets</b>	<b>–</b>	<b>226</b>	<b>–</b>	<b>226</b>

There were no transfers between levels during the financial year.

# Notes to the Consolidated Financial Statements (continued)

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For the year ended 31 December 2018

## Note 19. Fair value measurement (continued)

The carrying amounts of trade and other receivables and trade and other payables 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.

### 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 is 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 either when internal expertise is 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 20. Current assets – other current assets

Consolidated	2018 \$'000	2017 \$'000
Prepayments	2,974	3,540
Other current assets	59	1,220
Back-to-back leased vehicles	8,203	–
<b>Other current assets</b>	<b>11,236</b>	<b>4,760</b>

Back-to-back leased vehicles are secured via contracts with motor vehicle dealerships to buy back 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 known 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.

For the year ended 31 December 2018

## Note 21. Derivative financial instruments

Consolidated	2018 \$'000	2017 \$'000
<b>Interest rate swap contracts – fair value hedges</b>	<b>199</b>	<b>226</b>

Refer to note 19 for further information on fair value measurement.

### Accounting policy for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depending 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 hedges 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 22. Current liabilities – other current liabilities

Consolidated	2018 \$'000	2017 \$'000
Leased vehicle borrowings	9,421	–
Income received in advance	4,242	3,130
<b>Other current liabilities</b>	<b>13,663</b>	<b>3,130</b>

## Note 23. 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 \$4,916,000 reflects the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of \$3,650,000 and net profit after tax of \$1,598,000 to the Group for the period from 4 January 2018 to 31 December 2018. If the acquisition occurred on 1 January 2018, the full-year contribution would be an additional \$26,000 net profit after tax.

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

The business combination was finalised during the current reporting period, resulting in a reclassification from goodwill to intangible assets of \$600,000 for the fair value of acquired software and customer contracts.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 23. Business combinations (continued)

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

Business combinations	Fleet West Fair value \$'000
Cash and cash equivalents	1,378
Trade receivables	327
Plant and equipment	190
Right-of-use assets	267
Leased motor vehicle assets	8,774
Other intangibles	5,546
Net deferred tax liabilities	(1,083)
Trade and other payables	(1,139)
Leased motor vehicle borrowings	(9,395)
Lease liabilities	(330)
Employee provisions	(232)
Income tax provision	(167)
Other provisions	(39)
<b>Net assets acquired</b>	<b>4,097</b>
Goodwill	4,916
<b>Acquisition date fair value of consideration transferred</b>	<b>9,013</b>
Representing:	
Cash paid	8,013
Ordinary shares issued	1,000
<b>Total</b>	<b>9,013</b>
Acquisition costs	170
Cash used to acquire business, net of cash acquired:	
Cash paid to vendor	8,013
Less: cash and cash equivalents	(1,378)
<b>Net cash used</b>	<b>6,635</b>

### (ii) Smartsalary Payroll Solutions 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 for a total consideration of \$90,000, resulting in 100% ownership.

### (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.

For the year ended 31 December 2018

## Note 23. Business combinations (continued)

### (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 finalised during the current reporting period, resulting in a fair value reclassification from intangible assets to goodwill of \$530,000, and a reduction in net assets of \$1,080,000 due to the recognition of liabilities for potential claims of \$2,079,000, and adjustments to align with Group accounting policies of \$999,000.

Details of the acquisitions are summarised as follows:

Business combinations	31 December 2017 (restated)			
	AccessPay Fair value \$'000	Aspire Fair value \$'000	Salary Solutions Fair value \$'000	Total Fair value \$'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	6,193	17,053
Net deferred tax assets	(676)	(150)	(584)	(1,410)
Trade and other payables	(670)	(88)	(1,347)	(2,105)
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)	(2,121)	(2,616)
<b>Net assets acquired</b>	<b>5,797</b>	<b>4,227</b>	<b>2,425</b>	<b>12,449</b>
Goodwill	9,203	2,973	32,043	44,219
<b>Acquisition date fair value of consideration transferred</b>	<b>15,000</b>	<b>7,200</b>	<b>34,468</b>	<b>56,668</b>
Representing				
Cash paid	14,700	7,200	34,468	56,368
Ordinary shares issued	300	–	–	300
<b>Total</b>	<b>15,000</b>	<b>7,200</b>	<b>34,468</b>	<b>56,668</b>
Acquisition costs	185	304	529	1,018
Cash used to acquire business, net of cash acquired:				
Cash paid to vendor	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)
<b>Net cash used</b>	<b>14,688</b>	<b>6,147</b>	<b>14,872</b>	<b>35,707</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 24. Non-current assets – investments accounted for using the equity method

Consolidated	2018 \$'000	2017 \$'000
Investment in joint venture – Health-e Workforce Solutions Pty Ltd	6,392	6,348

### Interests in joint ventures

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

Name of entity	Place of business/ country of incorporation	2018 %	2017 %
Health-e Workforce Solutions Pty Ltd	Australia	50	50

Health-e Workforce Solutions Pty Ltd	2018 \$'000	2017 \$'000
<b>Summarised Statement of Financial Position</b>		
Current assets	2,083	2,031
Non-current assets	1,195	1,783
<b>Total assets</b>	<b>3,278</b>	<b>3,814</b>
Current liabilities	234	423
<b>Total liabilities</b>	<b>234</b>	<b>423</b>
<b>Net assets</b>	<b>3,044</b>	<b>3,391</b>
<b>Summarised Statement of Profit or Loss and Other Comprehensive Income</b>		
Revenue	2,941	3,626
Amortisation expense	(572)	(572)
Other expenses	(2,242)	(2,059)
<b>Profit before income tax</b>	<b>127</b>	<b>995</b>
Income tax expense	(38)	(299)
<b>Profit after income tax</b>	<b>89</b>	<b>696</b>
<b>Other comprehensive income</b>		
<b>Total comprehensive income</b>	<b>89</b>	<b>696</b>
<b>Reconciliation of the Group's carrying amount</b>		
Opening carrying amount	6,348	6,751
Share of dividends paid	–	(751)
Share of profit after income tax expense	44	348
<b>Closing carrying amount</b>	<b>6,392</b>	<b>6,348</b>

### Contingent liabilities

Share of contingent liabilities relating to joint venture as at 31 December 2018 was \$nil (2017: \$nil).

### Commitments

Share of commitments relating to joint venture as at 31 December 2018 was \$nil (2017: \$nil).



**Note 24. Non-current assets – investments accounted for using the equity method (continued)****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 Consolidated 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 increase the carrying amount of the investment.

**Note 25. Related party transactions****Parent entities**

Smartgroup Corporation Ltd is the parent entity.

**Subsidiaries**

Interests in subsidiaries are set out in note 27.

**Joint ventures**

Interests in joint ventures are set out in note 24.

**Key management personnel compensation**

Disclosures relating to key management personnel are set out in note 28 and the Remuneration Report included in the Directors' Report.

**Receivable from/payable to related parties**

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

**Transactions with other related parties**

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

**Loans to/from related parties**

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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 26. Parent entity financial information

### Summary financial information

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

### Statement of Profit or Loss and Other Comprehensive Income

Parent	2018 \$'000	2017 \$'000
Profit after income tax expense	64,533	35,763
<b>Total comprehensive income</b>	<b>64,533</b>	<b>35,763</b>

### Statement of Financial Position

Parent	2018 \$'000	2017 \$'000
Current assets	506,018	336,175
<b>Total assets</b>	<b>595,145</b>	<b>426,439</b>
Current liabilities	249,705	85,911
<b>Total liabilities</b>	<b>302,508</b>	<b>226,727</b>
Issued capital	255,078	176,883
Reserves		
Hedging reserve – cash flow hedges	139	199
Share-based payments reserve	5,509	4,243
Retained earnings	31,911	18,387
<b>Total equity</b>	<b>292,637</b>	<b>199,712</b>

### Guarantees entered into by the parent entity

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 32 for further details.

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

### Contingent liabilities of the parent entity

The parent entity has given bank guarantees as at 31 December 2018 of \$2,667,000 (2017: \$1,255,000).

### Capital commitments – Property and equipment

The parent entity had no capital commitments for property and equipment as at 31 December 2018 and 31 December 2017.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3 and note 41, 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.

For the year ended 31 December 2018

## Note 27. 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:

Name	Principal place of business/corporation	2018 %	2017 %
Australian Vehicle Consultants Pty Ltd	Australia	100	100
Autopia Group Pty Limited	Australia	100	100
Autopia Management Pty Limited	Australia	100	100
PBI Benefit Solutions Pty Limited	Australia	100	100
Salary Packaging Solutions Pty Ltd	Australia	100	100
Selectus Employee Benefits Pty Ltd	Australia	100	100
Selectus Financial Services Pty Ltd	Australia	100	100
Selectus Pty Ltd	Australia	100	100
Smartsalary Software Solutions Pty Ltd	Australia	100	100
Smartequity EIS Pty Ltd	Australia	100	100
Smartequity Pty Ltd	Australia	100	100
Smartfleet Management Pty Ltd	Australia	100	100
Smartgroup Benefits Pty Ltd	Australia	100	100
Smartsalary Pty Limited	Australia	100	100
Radiant Capital Pty Ltd	Australia	100	100
ABM Corporation Pty Limited	Australia	100	100
AccessPay Pty Ltd	Australia	100	100
Salary Solutions Australia Pty Ltd	Australia	100	100
Smartsalary Payroll Solutions Pty Ltd*	Australia	100	50
Fleet West Pty Ltd	Australia	100	–

\*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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 28. 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	2018 \$	2017 \$
Short-term employee benefits	3,152,040	4,012,493
Post-employment benefits	204,982	236,973
Long-term benefits	62,501	44,989
Share-based payments	1,262,707	1,058,733
<b>Compensation</b>	<b>4,682,230</b>	<b>5,353,188</b>

## Note 29. Contingent liabilities

The Group has given bank guarantees as at 31 December 2018 of \$2,694,000 (2017: \$3,633,000). The Group has given guarantees for performance of contracts to its customers as at 31 December 2018 of \$500,000 (2017: \$500,000).

## Note 30. Commitments

During 2018, the Group entered into contracts for property leases which are recognised as right-of-use assets and lease liabilities on the Group's balance sheet at 31 December 2018.

A new property lease commencing in 2019 will result in an increase to right-of-use assets and lease liabilities of \$2,118,000 at lease commencement.

All commitments at 31 December 2018 are for property and IT equipment leases.

## Note 31. Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year 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 in subsequent financial years.

For the year ended 31 December 2018

## Note 32. Deed of cross guarantee

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

Smartgroup Corporation Ltd	Salary Solutions Australia Pty Ltd
AccessPay Pty Ltd	Selectus Pty Ltd
Autopia Group Pty Limited	Smartfleet Management Pty Ltd
Autopia Management Pty Limited	Smartgroup Benefits Pty Ltd
Salary Packaging Solutions Pty Ltd	Smartsalary Pty Limited

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare financial statements and Directors' report under *Corporations Instrument 2016/785* issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, 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'.

Set out below is a Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position of the 'Closed Group'.

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

Deed of cross guarantee	Restated *	
	2018 \$'000	2017 \$'000
Revenue	233,488	198,337
Product costs	(6,677)	(4,819)
Employee benefits expense	(83,356)	(73,591)
Administration and corporate expenses	(26,602)	(23,631)
Occupancy expenses	(1,244)	(4,015)
Advertising and marketing expenses	(3,664)	(3,016)
Amortisation of acquired intangibles	(20,275)	(17,751)
Depreciation expense	(4,150)	(1,588)
Other expenses	(4,523)	(6,453)
<b>Operating profit</b>	<b>82,997</b>	<b>63,473</b>
Finance costs	(5,821)	(5,571)
<b>Profit before income tax expense</b>	<b>77,176</b>	<b>57,902</b>
Income tax expense	(22,789)	(19,804)
<b>Profit after income tax expense</b>	<b>54,387</b>	<b>38,098</b>
<b>Other comprehensive income</b>		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(60)	(65)
<b>Total comprehensive income for the year</b>	<b>54,327</b>	<b>38,033</b>

### Summary of movements in consolidated retained earnings

Deed of cross guarantee	Restated *	
	2018 \$'000	2017 \$'000
<b>Retained earnings at the beginning of the financial year</b>	<b>11,192</b>	<b>11,696</b>
Profit after income tax expense	54,387	38,098
Adoption of new accounting standards	255	–
Dividends paid	(51,009)	(38,602)
<b>Retained earnings at the end of the financial year</b>	<b>14,825</b>	<b>11,192</b>

\*Refer to note 23 for restatement of comparatives.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 32. Deed of cross guarantee (continued)

### Consolidated Statement of Financial Position

Deed of cross guarantee	Restated *	
	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Cash and cash equivalents	34,761	29,537
Restricted cash and cash equivalents	42,291	67,644
Trade and other receivables	36,752	31,684
Other current assets	3,032	4,855
<b>Total current assets</b>	<b>116,836</b>	<b>133,720</b>
<b>Non-current assets</b>		
Investments accounted for using the equity method	37,371	27,746
Derivative financial instruments	199	226
Deferred tax assets	9,169	2,938
Property and equipment	1,843	2,918
Intangible assets	284,728	304,180
Right-of-use assets	11,293	–
<b>Total non-current assets</b>	<b>344,603</b>	<b>338,008</b>
<b>Total assets</b>	<b>461,439</b>	<b>471,728</b>
<b>Current liabilities</b>		
Trade and other payables	50,596	50,592
Customer salary packaging liability	42,291	67,644
Income tax payable	7,639	7,131
Provisions	10,995	8,280
Other current liabilities	4,167	3,122
<b>Total current liabilities</b>	<b>115,688</b>	<b>136,769</b>
<b>Non-current liabilities</b>		
Provisions	1,360	2,132
Borrowings	53,010	140,853
Lease liabilities	15,293	–
<b>Total non-current liabilities</b>	<b>69,663</b>	<b>142,985</b>
<b>Total liabilities</b>	<b>185,351</b>	<b>279,754</b>
<b>Net assets</b>	<b>276,088</b>	<b>191,974</b>
<b>Equity</b>		
Share capital	255,406	176,212
Reserves	5,857	4,570
Retained earnings	14,825	11,192
<b>Total equity</b>	<b>276,088</b>	<b>191,974</b>

\*Refer to note 23 for restatement of comparatives.

For the year ended 31 December 2018

## Note 33. Reconciliation of profit after income tax to net cash from operating activities

Consolidated	2018	Restated
	\$'000	2017 \$'000
<b>Profit for the year</b>	<b>59,286</b>	<b>41,212</b>
<i>Adjustments for</i>		
Share of profits – joint ventures	(44)	(348)
Share-based payments	1,021	1,173
Fair value change to derivative financial instruments	(10)	(61)
Interest received – disclosed under investing activities	(491)	(909)
Amortisation of borrowing costs	788	735
Loss on sale of non-current assets	45	–
Depreciation	4,081	1,589
Amortisation	20,927	18,006
Fair value change to contingent consideration	–	4,906
Onerous lease costs	1,116	–
<i>Change in operating assets and liabilities:</i>		
Increase in trade and other receivables	(1,741)	(5,782)
Increase in net deferred tax assets	(4,491)	(4,227)
Decrease in other current assets	2,289	2,455
Increase/(decrease) in trade and other payables	(4,526)	3,595
Decrease in provision for income tax	(1,373)	(2,356)
Increase in provisions and other liabilities	2,715	445
	<b>79,592</b>	<b>60,433</b>
Increase/(decrease) in customer salary packaging liability	(25,353)	8,555
<b>Net cash from operating activities</b>	<b>54,239</b>	<b>68,988</b>

## Changes in liabilities arising from financing activities

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Consolidated	Borrowings \$'000
Balance as at 1 January 2017	150,118
Proceeds from borrowings (net of borrowing costs)	22,000
Repayments of borrowings	(32,000)
Amortisation of borrowing costs (non-cash)	735
<b>Balance at 31 December 2017</b>	<b>140,853</b>
Refinancing costs	(379)
Repayments of borrowings	(88,252)
Amortisation of borrowing costs (non-cash)	789
<b>Balance at 31 December 2018</b>	<b>53,011</b>

The above table excludes changes in lease liabilities, as set out in note 40.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 34. Non-current assets – property and equipment

Consolidated	2018 \$'000	2017 \$'000
<b>Office equipment</b>		
At cost	1,428	1,226
Accumulated depreciation	(1,117)	(971)
	<b>311</b>	<b>255</b>
<b>Computer equipment</b>		
At cost	6,278	5,979
Accumulated depreciation	(5,871)	(5,271)
	<b>407</b>	<b>708</b>
<b>Furniture, fixtures and fittings</b>		
At cost	1,204	1,094
Accumulated depreciation	(901)	(736)
	<b>303</b>	<b>358</b>
<b>Leasehold improvements</b>		
At cost	4,423	4,965
Accumulated depreciation	(3,589)	(3,398)
	<b>834</b>	<b>1,567</b>
<b>Other assets</b>		
At cost	93	59
Accumulated depreciation	(37)	(15)
	<b>56</b>	<b>44</b>
<b>Property and equipment</b>	<b>1,911</b>	<b>2,932</b>



For the year ended 31 December 2018

## Note 34. 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	Computer equipment \$'000	Furniture, fixtures and fittings \$'000	Office equipment \$'000	Leasehold improvements \$'000	Other assets \$'000	Total \$'000
<b>2018</b>						
Opening net book amount	708	358	255	1,567	44	2,932
Additions	252	97	114	5	45	513
Additions through business combinations (note 23)	–	–	66	124	–	190
Transfer to right-of-use assets	–	–	–	(115)	–	(115)
Assets written off	(2)	(1)	–	(52)	(24)	(79)
Depreciation expense	(551)	(151)	(124)	(695)	(9)	(1,530)
<b>Closing net book amount</b>	<b>407</b>	<b>303</b>	<b>311</b>	<b>834</b>	<b>56</b>	<b>1,911</b>
<b>2017</b>						
Opening net book amount	606	397	300	1,817	30	3,150
Additions	259	39	52	65	8	423
Additions through business combinations (note 23)	398	63	117	425	13	1,016
Assets written off	(65)	–	(3)	–	–	(68)
Depreciation expense	(490)	(141)	(211)	(740)	(7)	(1,589)
<b>Closing net book amount</b>	<b>708</b>	<b>358</b>	<b>255</b>	<b>1,567</b>	<b>44</b>	<b>2,932</b>

### 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 using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or lease term as follows:

- Leasehold improvements            Period of lease
- Furniture, fixtures and fittings    3–7 years
- Computer equipment                2–3 years
- Office equipment                    3–6 years
- Other assets                          1–5 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.

# Notes to the Consolidated Financial Statements (continued)

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For the year ended 31 December 2018

## Note 35. Current liabilities – trade and other payables

Consolidated	2018 \$'000	2017 \$'000
Trade payables	8,475	5,637
Accrued expenses	13,153	19,963
Other payables and accruals	7,612	7,400
<b>Trade and other payables</b>	<b>29,240</b>	<b>33,000</b>

Refer to note 17 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 36. Current liabilities – provisions

Consolidated	2018 \$'000	2017 \$'000
Employee benefits	5,934	5,980
Operations provision	4,573	2,421
Make good provision	539	33
<b>Provisions – current</b>	<b>11,046</b>	<b>8,434</b>

### Employee benefits

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

### Operations provision

The provision relates to negative employee salary packaging account balances which may be uncollectable, customer and supplier disputes as well as provisions relating to indirect tax obligations.

### 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.

Consolidated	2018 \$'000	2017 \$'000
<b>Employee benefits obligation expected to be settled after 12 months</b>	<b>801</b>	<b>727</b>

### Accounting policy for provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. 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.

# 94 Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 37. Non-current liabilities – provisions

Consolidated	2018 \$'000	2017 \$'000
Employee benefits	1,226	1,282
Make good provision	84	895
<b>Provisions – non-current</b>	<b>1,310</b>	<b>2,177</b>

### 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.

### Movements in provisions

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

Consolidated 2018	Make good provision \$'000	Operations provision \$'000
Carrying amount at start of year	928	2,421
Additional provisions recognised/(de recognised)	(305)	73
Additions through business combinations (note 23)	–	2,079
<b>Carrying amount at end of year</b>	<b>623</b>	<b>4,573</b>

## Note 38. Cash held on behalf of customers and associated liabilities

The Group administers funds on behalf of customers and this can take one of two forms:

- Restricted cash and cash equivalents (pooled customer funds)
- Cash held on behalf of customers (segregated bank accounts in a customer's name).

### Restricted cash and cash equivalents

Consolidated	31 December 2018 \$'000	31 December 2017 \$'000
<b>Restricted cash and cash equivalents</b>	42,291	67,644
<b>Customer salary packaging liability</b>	(42,291)	(67,644)

The restricted cash and cash equivalents and in the Consolidated Statement of Cash Flows represents funds held by the Group on behalf of certain customers. The use of these funds is 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.

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 year ended 31 December 2018, the Group has recognised finance revenue of \$641,000 (31 December 2017: \$593,000) from restricted cash.

Refer to note 17 for interest rate sensitivity analysis on restricted cash balances.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

## Note 38. Cash held on behalf of customers and associated liabilities (continued)

### Cash held on behalf of customers – not recognised in the Consolidated Statement of Financial Position

Consolidated	2018	\$'000	2017	\$'000
	Weighted average interest rate		Weighted average interest rate	
Accounts established by the Group as cash held on behalf of customers	1.50%	98,941	1.70%	87,207
Accounts established by customers directly	0.03%	77,843	0.03%	74,794
<b>Cash held on behalf of customers</b>		<b>176,784</b>		<b>162,001</b>

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 Consolidated 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 year ended 31 December 2018, the Group has recognised interest revenue of \$2,262,000 (31 December 2017: \$1,831,000) from those accounts established by the Group as cash held on behalf of customers, and \$23,000 (31 December 2017: \$25,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

## Note 39. Remuneration of auditors

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Group:

Consolidated	2018 \$	2017 \$
Audit and review of financial statements	454,800	457,500
<b>Total remuneration for audit and other assurance services</b>	<b>454,800</b>	<b>457,500</b>
<i>Other assurance services</i>		
Tax compliance services	35,000	26,000
Risk and governance	–	142,000
<b>Total remuneration for other services</b>	<b>35,000</b>	<b>168,000</b>
<b>PricewaterhouseCoopers Australia</b>	<b>489,800</b>	<b>625,500</b>

For the year ended 31 December 2018

## Note 40. Leases

### Amounts recognised in the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position shows the following amounts relating to leases:

#### Right-of-use assets

Consolidated	Property \$'000	Equipment \$'000	Total \$'000
Balance at 1 January 2018	9,445	–	9,445
Additions	531	492	1,023
Transferred from property and equipment	115	–	115
Depreciation charge for the year	(2,494)	(57)	(2,551)
Impairment charge for the year	(1,116)	–	(1,116)
Remeasurement of leases on lease renewal	4,627	–	4,627
<b>Balance at 31 December 2018</b>	<b>11,108</b>	<b>435</b>	<b>11,543</b>

#### Lease liabilities

Consolidated	2018 \$'000
Balance at 1 January 2018	12,900
Interest incurred	888
Interest paid on lease liabilities	(888)
Payments of lease liabilities	(2,483)
Additions	1,023
Remeasurement of leases on lease renewal	4,627
Lease surrender costs	(485)
<b>Balance at 31 December 2018</b>	<b>15,582</b>

Maturity analysis – contractual undiscounted cash flows	1 year or less \$'000	>1 to 2 years \$'000	>2 to 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Lease liabilities	3,461	3,076	11,283	1,311	<b>19,131</b>

### Amounts recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

The Consolidated Statement of Profit or Loss and Other Comprehensive Income shows the following amounts relating to leases:

Consolidated	2018 \$'000
<b>Interest on lease liabilities</b>	(888)
<b>Expense relating to short-term leases</b> (included in occupancy expenses)	(100)

### Amounts recognised in the Consolidated Statement of Cash Flows

Consolidated	2018 \$'000
<b>Total cash outflow for leases</b>	<b>(3,371)</b>

For the year ended 31 December 2018

## Note 41. Summary of significant accounting policies

### (a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Smartgroup Corporation Ltd as at 31 December 2018 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.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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.

### (b) Current and non-current classification

Assets and liabilities are presented in the Consolidated 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 the entity's 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 the entity's 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.

### (c) Leases

#### As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

## Note 41. Summary of significant accounting policies (continued)

### (c) Leases

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

### Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### (d) 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.

### (e) Financial instruments

#### Recognition and measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

#### Classification and subsequent measurement

*Financial assets – Policy applicable from 1 January 2018*

On initial recognition, a financial asset is classified as measured at:

- Amortised cost;
- Fair value through profit and loss (FVTPL); or
- Fair value through other comprehensive income (FVOCI).

Financial assets are not reclassified subsequently unless the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

**Financial assets at FVTPL:** Measured at fair value and changes therein were recognised in profit or loss.

**Held-to-maturity financial asset:** Measured at amortised cost using the effective interest method.

**Loans and receivables:** Measured at amortised cost using the effective interest method.

**Available-for-sale financial assets:** Measured at fair value and changes therein, other than impairment losses and interest income, were recognised in OCI and accumulated in reserves. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

#### Financial liabilities – classification, subsequent measurement and gains and losses:

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

For the year ended 31 December 2018

## Note 41. Summary of significant accounting policies (continued)

### Derecognition

#### *Financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

#### *Financial liabilities*

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

### (f) 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 obligations

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 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.

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.

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.



**Note 41. Summary of significant accounting policies (continued)**

**(g) 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 either 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.

**(h) Goods and Services Tax (GST)**

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

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

# Directors' Declaration

For the year ended 31 December 2018

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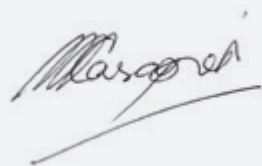
In the Directors' opinion:

- (a) the financial statements and notes set out on pages 50 to 101 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) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board, and
  - (iii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 32 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 32.

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

18 February 2019

Sydney



## *Independent auditor's report*

To the members of Smartgroup Corporation Ltd

### *Report on the audit of the financial report*

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#### *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 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *What we have audited*

The Group financial report comprises:

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

#### *Basis for opinion*

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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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#### **PricewaterhouseCoopers, ABN 52 780 433 757**

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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 Corporation Ltd's financial report consolidates the businesses of Smartsalary, Smartfleet, (Advantage) Salary Packaging Solutions, Autopia, Selectus, AccessPay, Royal Automobile Club of Victoria Salary Solutions (RACVSS), Aspire and other smaller Smartgroup businesses located in Sydney, Adelaide 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. The Group has a substantially centralised finance function with recent acquisitions still being integrated.



#### **Materiality**

- For the purpose of our audit we used overall Group materiality of \$4 million, which represents approximately 5% of the Group's profit before tax.
- 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 Group profit before tax because, in our view, profit before tax (which is a generally accepted benchmark for profit-orientated 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 utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.



### *Audit Scope*

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We ensured that the audit team included people with the appropriate skills and competencies for the audit of the Group. This included 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) Salary Packaging Solutions and Selectus.
- We performed selected risk-focussed audit procedures and analytical procedures over certain balances of non-trading holding entities and the remaining trading entities of the Group (Autopia, Fleet West, Smartgroup Benefits, RACVSS, Aspire, AccessPay and Smartgroup Corporation).
- 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. 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. We communicated the key audit matters to the Audit and Risk Committee.

#### *Key audit matter*

#### *How our audit addressed the key audit matter*

##### ***Business combinations***

*(Refer to note 23)*

During the year, the Group acquired one new business, Fleet West Pty Ltd (Fleet West). The Group also finalised (in addition to Fleet West) the accounting for the acquisition of RACVSS, AccessPay and Aspire, which were acquired in 2017. Accounting for the acquisition of a business can be complex and accounting standards require the Group to identify all assets and liabilities of the newly acquired businesses and estimate the

We read the relevant sale and purchase agreements and due diligence reports in relation to the acquisitions and assessed whether the accounting for the acquisitions was consistent with the sale and purchase agreements. For the provisional initial accounting, we compared the take on balances to the completion statements and due diligence reports and considered the appropriateness of the financial statement disclosures in light of the requirements of



### *Key audit matter*

fair value of each item.

The accounting for these acquisitions was a key audit matter due to:

- The complex methods used to value software and customer contract assets acquired and the contingently returnable consideration
- The judgement related to the completion accounting for RACVSS, AccessPay and Aspire, involving the fair valuation of assets and liabilities acquired and the assessment of the contingently returnable consideration. Management used external experts assist with the identification and valuation of the intangible assets acquired.

### *How our audit addressed the key audit matter*

Australian accounting standards. We also assessed the competency and objectivity of the external valuers used to determine the value of intangible assets.

In relation to the completion accounting for the acquisitions of the RACVSS, AccessPay and Aspire businesses our procedures included, amongst others:

- comparing the values in the final valuations for assets and liabilities to the amounts recorded in the financial records and disclosed in the financial statements
- assessing the existence of events which may require the return of the consideration paid for the acquisitions through enquiry with management, review of correspondence with vendors and review of minutes of meetings.

### *Group's goodwill and other indefinite life intangible asset impairment assessment (Refer to note 6)*

The Group's goodwill and other indefinite life intangible assets are required by Australian Accounting Standards to be tested at year end for impairment at the cash generating unit (CGU) level.

The impairment assessment was a key audit matter due to the size of the goodwill and other indefinite life intangible assets balances and the judgement involved in assessing whether an impairment was required. The Group performed an impairment assessment over goodwill and other indefinite life intangible assets by calculating the value in use for each CGU, using discounted cash flow models (the models).

Key judgements in the models included the determination of CGUs, 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

Our audit procedures included, amongst others:

- 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 inspecting evidence of oversight over key assumptions in the forecasts by the directors
- assessing the Group's ability to accurately forecast by comparing previous forecasts with actual business results
- considering the sensitivity of the key assumptions in the models by analysing the impact on the recoverable amount from changes in key assumptions
- 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



### *Key audit matter*

industries in the forecast periods.

### *How our audit addressed the key audit matter*

industries.

We also compared the Group's net assets of \$292.3 million as at 31 December 2018 to its market capitalisation of \$1.16 billion on the same date.

We considered the adequacy of the Group's disclosures on goodwill and other infinite life intangible assets impairment in light of the requirements of Australian Accounting Standards.

### *Restricted cash and cash equivalents held on behalf of customers*

*(Refer to note 38)*

As described in note 38, 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. This was a key audit matter 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 and due to the large volume of accounts and employees under management (EUM).

Our audit procedures included, amongst others:

- performing tests of the operating effectiveness of the Group's relevant key controls over the EUM cash transaction process, which include reconciliation of trust bank accounts to bank statements, reconciliation of employer deductions to bank statements and authorisation of payments from trust accounts
- for a sample of bank balances relating to restricted cash and cash held on behalf of customers, we examined evidence of reconciliations between the bank statements and the cashbook balances and obtained confirmations directly from banks of the balances at year end
- reading board minutes, enquiring with management and obtaining a written description from the Group's lawyers of current legal matters to identify whether there were any material claims from EUMs or employers.

We considered the adequacy and accuracy of the Group's disclosures in relation to restricted cash and cash held on behalf of customers accounts in the light of the requirements of Australian Accounting Standards.



### Key audit matter

### How our audit addressed the key audit matter

#### Implementation of new leasing accounting policy

(Refer to notes 3 & 40)

The Group adopted a new lease accounting policy due to the early adoption of AASB 16 *Leases*. The new accounting policy is disclosed in note 3.

The early adoption of the new lease accounting policy was a key audit matter due to the:

- significance of the amounts and changes in the manner in which leases are accounted for, involving the recognition of a right-of-use asset and lease liability and the subsequent impact on the expenses
- complexity involved in applying the new AASB 16 requirements given the various transitional methods and practical expedients, use of models to prepare the calculations for the lease liability, right-of-use asset, depreciation and interest expense, new additional disclosures and deferred tax impacts arising from the application of the standard.
- significant judgements required by the Group in applying AASB 16 such as the determination of the lease period where leases have renewal options, treatment of lease incentives, determination of the incremental borrowing rate and correct application of the transitional provisions.

We performed the following procedures, amongst others:

- for a sample of leases, we developed an understanding of the key terms of the agreement including key dates, renewal options, incentives and make good obligations
- developed an understanding of the mechanical calculations (lease calculation model) prepared by the Group and assessed this for compliance with the requirements of the standard
- obtained an understanding of management's assumptions and judgements in the measurement of the lease liability, including the determination of lease periods, treatment of lease incentives and renewal options and tested for compliance with the requirements of the standard
- recomputed the incremental borrowing rate and compared it to the rate used by the Group to assess reasonableness
- evaluated the appropriateness of the principles applied in measuring the right-of-use asset and testing these against the transitional provisions of the standard
- compared the Group's application of the transitional provisions and practical expedients to the requirements of the standard to assess whether these were correctly applied.
- recomputed the deferred tax impacts of the lease assets and liabilities and compared to the Group's amounts to assess reasonableness of the amounts included in the financial statements.
- evaluated the adequacy and appropriateness of the presentation of lease components in the statement of financial performance, statement of financial position and statement of cashflows and disclosures made in notes 3 and 40 in light of the requirements of Australian Accounting Standards.





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### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon. 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 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.

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### *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.

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### *Auditor's responsibilities for the audit of the financial report*

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.aasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.aasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 31 to 44 of the directors' report for the year ended 31 December 2018.

In our opinion, the remuneration report of Smartgroup Corporation Ltd for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

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### *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.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'L Hinchliffe', written in a cursive style.

Sam Hinchliffe  
Partner

Sydney  
18 February 2019

# Shareholder Information

This section contains additional information required by the ASX Listing Rules not disclosed anywhere else in this report, as at 30 January 2019.

## Shareholdings

### Substantial Shareholders

The following information is extracted from the Company's Register of Substantial Shareholders.

Name	Number of ordinary shares	Percentage of total shares issued
SMART PACKAGES PTE LTD	32,608,245	24.91
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	25,071,034	19.15
J P MORGAN NOMINEES AUSTRALIA LIMITED	17,879,538	13.66
NATIONAL NOMINEES LIMITED	10,202,621	7.79
BNP PARIBAS NOMS PTY LTD	8,673,713	6.63
CITICORP NOMINEES PTY LIMITED	7,049,841	5.39

### Class of shares and voting rights

At 30 January 2019 there were 2,540 holders of ordinary shares in the Company.

The voting rights attached to the ordinary shares set out in the Company's Constitution are that 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.

*Distribution of shareholders of shares as at 30 January 2019*

Size of holding	Ordinary shareholders
1 – 1,000	1,077
1,001 – 5,000	948
5,001 – 10,000	236
10,001 – 100,000	231
100,001 and over	48
Total shareholders	2,540
Holding less than a marketable parcel	156

**Twenty largest shareholders of ordinary shares as at 30 January 2019**

Name	Number of ordinary shares	Percentage of ordinary shares
SMART PACKAGES PTE LTD	32,608,245	24.91
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	25,071,034	19.15
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	17,879,538	13.66
NATIONAL NOMINEES LIMITED	10,202,621	7.79
BNP PARIBAS NOMS PTY LTD	8,673,713	6.63
CITICORP NOMINEES PTY LIMITED	7,049,841	5.39
DEVENDRA BILLIMORIA	2,040,245	1.56
BNP PARIBAS NOMINEES PTY LTD	2,031,761	1.55
APINTO PTY LTD	2,012,519	1.54
GENTILLY HOLDINGS 2 PTY LIMITED	1,606,897	1.23
HEATHERWOOD COURT PTY LTD	1,246,001	0.95
AMP LIFE LIMITED	732,143	0.56
AOTEAROA INVESTMENT COMPANY PTY LIMITED	728,715	0.56
POINT CAPITAL PTY LTD	636,642	0.49
UBS NOMINEES PTY LTD	515,441	0.39
KPB ENTERPRISES PTY LTD	508,855	0.39
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	500,108	0.38
NETWEALTH INVESTMENTS LIMITED	496,551	0.38
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	416,753	0.32
TIMOTHY LOOI	410,318	0.31
<b>Total</b>	<b>115,367,941</b>	<b>88.14</b>

**Restricted securities or securities subject to voluntary escrow**

The following are all fully paid ordinary shares.

Escrow release date	Number of shares
1 January 2019	589,630
Date after the audited financial statements of the Company for the year ended 2018 are released	49,618
Date after the audited financial statements of the Company for the first half of 2019 are released	223,055
1 January 2020	1,011,269
Date after the audited financial statements of the Company for the year ended 2019 are released	49,618
1 January 2021	912,566
<b>Total</b>	<b>2,835,756</b>

# Five Year Summary

Index	2018	2017	2016	2015	2014
<b>Income statement (\$m)</b>					
Revenue	241.8	205.4	147.1	94.5	75.4
EBITDA	111.8	93.6	63.3	37.4	24.1
NPAT (statutory)	59.3	41.2	32.8	20.2	(1.0)
NPATA	78.0	64.1	44.0	26.2	17.4
<b>Statement of financial position (\$m)</b>					
Assets	464.0	466.7	438.6	167.4	110.5
Liabilities	171.7	262.0	244.3	84.9	44.6
Net assets	292.3	204.7	194.3	82.5	65.9
Net (debt)/cash	(14.6)	(111.1)	(72.0)	(33.5)	5.8
<b>Share information</b>					
Ordinary shares (million shares)	130.9	123.2	121.5	103.7	101.5
<b>Dividends per share (cents per share)</b>					
Interim	20.5	16.5	9.8	7.9	–
Final	21.0	18.5	15.0	8.7	6.1
<b>Total dividends</b>	<b>41.5</b>	<b>35.0</b>	<b>24.8</b>	<b>16.6</b>	<b>6.1</b>
Share price at 31 December (\$)	8.88	10.85	6.28	5.11	1.47
NPATA/ordinary shares (cents per share)	59.6	52.0	36.2	25.3	17.1
<b>Ratios</b>					
Dividend payout ratio	70%	67%	68%	66%	35%
Operating cashflow/NPATA	100%	99%	103%	106%	138%
Net debt/EBITDA	0.1	1.2	1.1	0.9	(0.2)
<b>Operational metrics</b>					
FTEs	695	706	544	398	343
Packages	343,000	325,000	221,000	182,500	118,700
Novated leases under management	65,250	62,500	53,000	34,000	30,900

# Glossary of Terms

<b>AGM</b>	The annual general meeting of the Company
<b>ARC</b>	Audit and Risk Committee
<b>Board</b>	Board of Directors
<b>Company</b>	Smartgroup Corporation Ltd ABN 48 126 266 831
<b>CAGR</b>	Compound annual growth rate
<b>CENL</b>	Chief Executive, Novated Leasing and Fleet
<b>CEO</b>	Managing Director and Chief Executive Officer
<b>CESP</b>	Chief Executive, Salary Packaging
<b>CFO</b>	Chief Financial Officer
<b>CGS</b>	Corporate Governance Statement. Available on the website at <a href="http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance">http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance</a>
<b>CHRO</b>	Chief Human Resources Officer
<b>CIO</b>	Chief Information Officer
<b>CLO</b>	Chief Legal Officer
<b>Director</b>	Director means a director of the Company
<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.
<b>EPS</b>	Earnings per share
<b>Executive</b>	The CEO and each of his direct reports
<b>Executive KMP</b>	The KMP, excluding the Non-Executive Directors
<b>Greenfleet</b>	An environmental not-for-profit organisation, whose mission is to protect the climate by restoring forests.
<b>GRI</b>	The Global Reporting Initiative is an international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption. It developed the GRI Standards.
<b>Group</b>	The consolidated Smartgroup Corporation Ltd entity consisting of the Company and the entities it controlled at the end of or during the year ended 31 December 2018.
<b>GST</b>	Goods and services tax
<b>HRRC</b>	Human Resources and Remuneration Committee
<b>ITIC</b>	IT and Innovation Committee
<b>KMP</b>	Key management personnel, being those employees who had authority and responsibility for planning, directing and controlling the activities of the Group during the 2018 financial year, and includes the Directors.
<b>KPI</b>	Key performance indicator
<b>LFS</b>	Loan funded shares
<b>LTIP</b>	Long-term incentive plan
<b>Net debt</b>	Cash and cash equivalents less corporate borrowings, adjusted to exclude capitalised borrowing costs.
<b>Non-Executive Director</b>	Director who is not an Executive
<b>NPAT</b>	Net Profit After Tax
<b>NPATA</b>	Net Profit After Tax, adjusted to exclude the non-cash tax effected Amortisation of intangibles and significant non-operating items.
<b>NPS</b>	Net promoter score. Net promoter score is a measure of how likely a customer is to provide a word-of-mouth referral, measured on a scale of -100 to +100.
<b>Operating cash flow</b>	Operating cash flow excludes receipts and payments from customers' salary packaging accounts, significant non-operating items and impact of AASB 16 Leases adoption.
<b>PBI</b>	Public benevolent institution
<b>PBT</b>	Profit before tax
<b>Smartgroup</b>	Smartgroup Corporation Ltd ABN 48 126 266 831
<b>STIP</b>	Short-term incentive plan
<b>TFR</b>	Total fixed remuneration
<b>TSR</b>	Total shareholder return
<b>VWAP</b>	Volume-Weighted Average Price
<b>WGEA</b>	Workplace Gender Equality Agency
<b>Website</b>	smartgroup.com.au

# GRI Content Index

The 2018 Smartgroup Annual Report is “GRI-referenced” and has been prepared having regard to the GRI Standards 2016.

Smartgroup makes the following statement in accordance with GRI 101 clause 3.3.1.1 with regards to using selected GRI Standards in this report.

The extent to which Smartgroup has referenced the GRI Standards to its disclosures is set out in the tables in this section. The location of the disclosures are referenced to the relevant pages in this report, to Smartgroup’s Corporate Governance Statement and its website. Where it has not been possible to disclose information, then a brief explanation is given.

Smartgroup intends to develop its reporting and corporate responsibility practices in future years.

GRI Standard	Disclosure	Reference or link
<b>General Disclosures</b>		
<b>GRI 102: General Disclosures 2016</b>		
<b>GRI 102: 1. Organisational Profile</b>		
102-1	Name of the organisation	Smartgroup Corporation Ltd
102-2	Activities, brands, products and services	Website: “About Us”, “What we do”. Pages 2 – 5.
102-3	Location of headquarters	Corporate Directory (page 116)
102-4	Location of operations	Australia – see Website
102-5	Ownership and legal form	ASX-listed public company
102-6	Markets served	Website: “About Us”, “Who we Help”, “What we do”. Pages 2 – 5, 10 – 13.
102-7	Scale of the operation	Pages 2 – 13 and Financial Report (page 49 onwards)
102-8	Information on employees and other workers	Page 22 and Corporate Governance Statement
102-9	Supply chain	Not disclosed
102-10	Significant changes to the organisation and its supply chain	Nil. There were no such changes in FY 2018.
102-11	Precautionary principle or approach	Not applicable
102-12	External initiatives	Not applicable
102-13	Membership of associations	Smartgroup is a member of NALSPA (National Automotive Leasing and Salary Packaging Association)
<b>GRI 102: 2. Strategy</b>		
102-14	Statement from senior decision-maker	Not disclosed. Message from the Chairman (pages 6 – 7).
<b>GRI 102: 3. Ethics and integrity</b>		
102-16	Values, principles, standards and norms of behaviour	Pages 10 – 23 and Corporate Governance Statement
<b>GRI 102: 4. Governance</b>		
102-18	Governance Structure	Corporate Governance Statement
<b>GRI 102: 5. Stakeholder engagement</b>		
102-40	List of stakeholder groups	Disclosed throughout this report, in particular pages 10 – 23 and the Corporate Governance Statement
102-41	Collective bargaining agreements	Nil
102-42	Identifying and selecting stakeholders	Corporate Governance Statement
102-43	Approach to stakeholder engagement	Corporate Governance Statement
102-44	Key topics and concerns raised	Not disclosed

GRI Standard	Disclosure	Reference or link
<b>GRI 102: 6. Reporting practice</b>		
102-45	Entities included in the consolidated financial statements	Financial report of the Company for the year ended 31 December 2018 comprises the Company and its subsidiaries (the Group). Refer page 49 onwards.
102-46	Defining report content and topic Boundaries	Not disclosed
102-47	List of material topics	Reporting is limited to the 17 disclosures most relevant to Smartgroup and are located at pages 14 – 23.
102-48	Restatements of information	No material restatements
102-49	Changes in reporting	Not applicable – did not report against the GRI Standards previously.
102-50	Reporting period	1 January to 31 December 2018
102-51	Date of most recent report	February 2018
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Email: ir@smartgroup.com.au
102-54	Claims of reporting in accordance with the GRI Standards	Page 23
102-55	GRI Content Index	Pages 114 – 115
102-56	External assurance	No external assurance sought for the Environment Social and Governance Report (pages 14 – 23)

## Specific Standard Disclosures

### GRI 200: Economic

#### GRI 205: Anti-corruption

205-1	Operations assessed for risks related to corruption	The whole Smartgroup Group is subject to the risk assessment. No significant risks identified.
205-2	Communication and training about anti-corruption policies and procedures	All employees of the Smartgroup Group undertake training.
205-3	Confirmed incidents of corruption and actions taken	There have been no confirmed incidents

#### GRI 206: Anti-competitive behaviour

206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	None
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### GRI 300: Environmental

#### GRI 302: Energy

302-1	Energy consumption within the organisation	Page 22 (in part)
302-3	Energy intensity	Page 22
305-1	Direct (Scope 1) GHG emissions	Page 22 (in part)
305-2	Energy indirect (Scope 2) GHG emissions	Page 22 (in part)
305-3	Other indirect (Scope 3) GHG emissions	Not measured

### GRI 400: Social

#### GRI 401: Employment

401-3	Parental leave	Page 22
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#### GRI 404: Training and education

404-3	Percentage of employees receiving regular performance and career development reviews	Page 22
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#### GRI 405: Diversity and equal opportunity

405-1	Diversity of governance bodies and employees	Page 22 and Corporate Governance Statement
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#### GRI 418: Customer privacy

418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	There have been no material breaches. For more information on how Smartgroup manages privacy, see the Corporate Governance Statement
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#### GRI 419: Socioeconomic compliance

419-1	Non-compliance with laws and regulations in the social and economic area	No non-compliance identified.
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# Corporate Directory

## Directors

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

## Company secretaries

Sophie MacIntosh  
Amanda Morgan

## Registered office and 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

Pricewaterhouse Coopers  
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: 03 8608 2000

## Bankers

Westpac Group  
275 Kent Street  
Sydney, NSW, Australia 2000

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

[smartgroup.com.au](http://smartgroup.com.au)

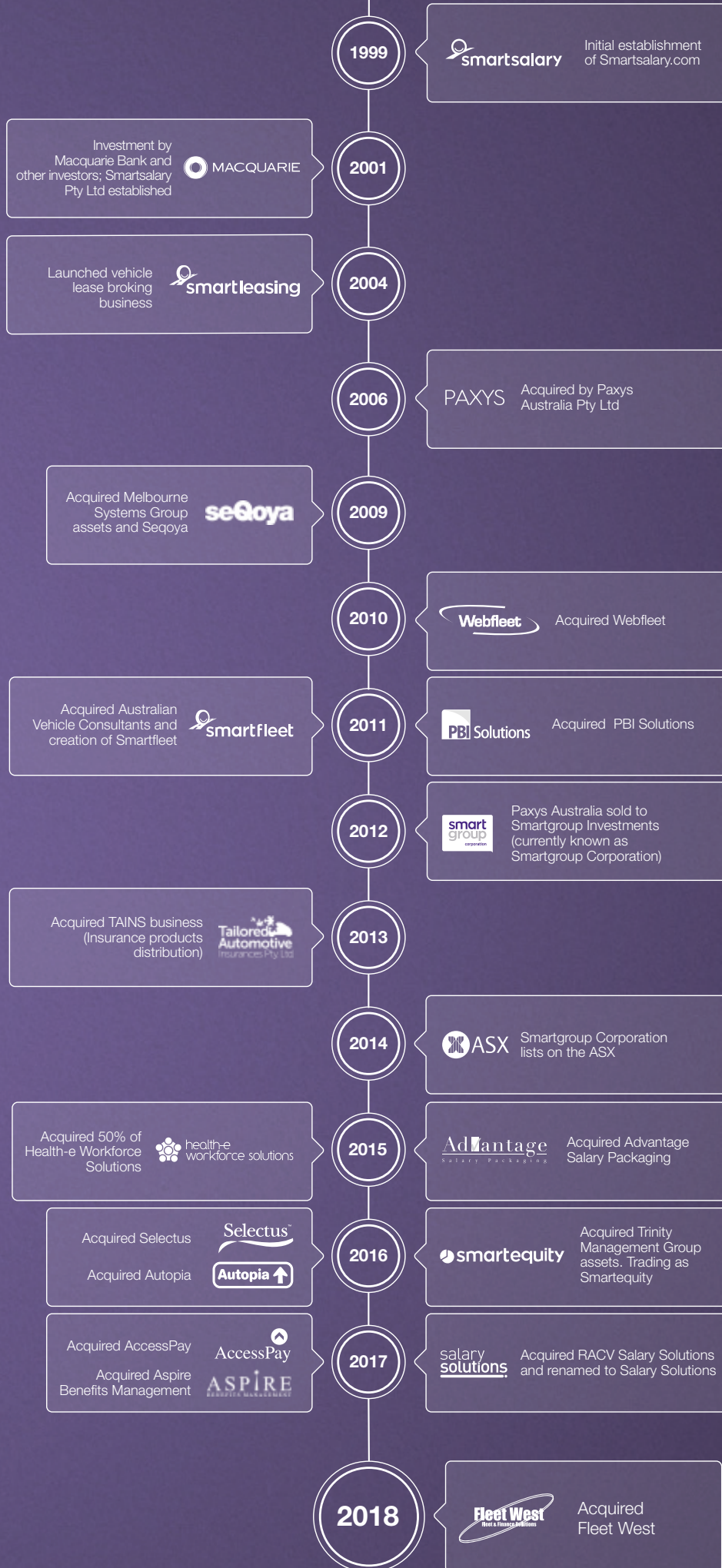
## Corporate Governance Statement

The corporate governance statement, which was approved at the same time as the Annual Report, can be found at: [ir.smartgroup.com.au/Investors/?page=Corporate-Governance](http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance)

## Annual General Meeting

9 May 2019 at 11am.  
Please refer to the website for further details.





**Smartgroup Corporation Ltd**

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

**[smartgroup.com.au](https://www.smartgroup.com.au)**