McMillan Shakespeare Limited

Annual Report 2018

McMillanShakespeareGroup

2018

Collectively, the McMillan Shakespeare Group's businesses provide expertise in novated leasing, salary packaging, associated Fringe Benefits Tax administration and management, operating leases and asset management for 'tool of trade' vehicles and other business assets, retail finance, insurance and warranty. No other provider offers this breadth of service or industry experience.

Financial Calendar

- **22 August 2018**
  Announcement of 2018 Annual Results
  Annual Report Released
- **13 September 2018**
  2018 Final Dividend Ex-Date
- **14 September 2018**
  2018 Final Dividend Record Date
- **28 September 2018**
  2018 Final Dividend Payment Date
- **23 October 2018**
  2018 Annual General Meeting

Annual General Meeting

The Annual General Meeting of the members of McMillan Shakespeare Limited A.B.N. 74 107 233 983 will be held on 23 October 2018 at 10:00 am at the State Library of Victoria, Ground Floor, 328 Swanston Street, Melbourne, Victoria in the Theatrette.

www.mmsg.com.au

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Chairman's Report

I'm pleased to report that the McMillan Shakespeare Limited (MMS) Group performed well during the 2018 financial year (FY18), delivering another solid result that demonstrates the value of our diversified business.

Across the Group we remain committed to leveraging scale, introducing new technology and pursuing strategic growth opportunities that consolidate and enhance our position in a changing, competitive and complex marketplace.

Group revenue for the FY18 period increased 4.2% to $545.4 million, while we achieved a lift in underlying net profit after tax and amortisation (UNPATA) of $93.5 million – up from $87.2 million last year. We were pleased to deliver a fully franked final dividend of 40 cents per share, taking the total dividend for the year to 73 cents per share, a 10.6% increase on the corresponding 2017 financial year (FY17) period.

Return on equity was 25.2% and return on capital employed was 21.2%, reflecting the prudent approach to capital management we have adopted during the past few years, specifically within our Asset Management (AM) business.

In terms of our commitment to technological innovation, this report provides an in-depth introduction to the Group's Beyond 2020 program. This project is a significant investment in the future of our business.

73.0c
FY18 DIVIDEND PER SHARE

$93.5m
FY18 UNPATA

Group Performance

Our Group Remuneration Services (GRS) business delivered another strong performance, with 10% profit growth recorded for the year, surpassing FY17's outstanding result. Pleasingly, this year's result was achieved through strong novated lease unit sales, a combination of further new business wins, improved participation levels and important contract renewals. Whilst the salary packaging and novated leasing market in Australia is increasingly competitive, we are pleased that our GRS business steadfastly continues to be the Group's dominant performer.

New business wins within GRS were achieved primarily in the private sector, whilst contract renewals with major not-for-profit (NFP) health employers in Victoria and New South Wales were highlights. Our market share in major metropolitan areas, and the strength of our existing product and service offering, were key factors in attracting several new clients in regional areas.

In Australia and New Zealand our AM business enjoyed a solid trading year courtesy of an enhanced funding model and disciplined cost management initiatives, contributing to an increase in UNPATA of 17% to $15.8 million. The business achieved an 11% lift in EBITDA, while our enhanced remarketing capability for returned vehicles, via our Just Honk retail car yard, was also an evolving contributor to the result. Importantly, this initiative also enables us to introduce new products to the GRS customers, adding further value to broader Group performance.

The priority for our United Kingdom (UK) business remained the further expansion of our existing platform, to generate revenue growth and higher returns on capital. This includes increasing our geographical footprint and, by extension, increasing market share. We remain focused on continual growth of a bespoke broking platform and the diversified funding panel we have established during the past few years.

Assets under management in the UK increased by more than 11% to in excess of 21,000 units, driven by several new client wins. Growth was also driven by a full year of returns from both CAPEX and EVC (t/a Eurodrive Motor Finance), with both acquired midway through FY17.

During FY18 our Retail Financial Services (RFS) segment was reorganised into two business streams – a retail brokerage business which operates the warranty, insurance and retail finance products, and a finance broker aggregation business.

While our finance broker aggregation business performed in line with expectations, growing volumes by 2.3%, our retail brokerage business performed profitably albeit within a market confronting an ongoing degree of regulatory change. During the year a reduced volume of product was written and margin compression in retail finance originations led to a decrease in RFS segment UNPATA of 31%.

As a result of the challenges within the RFS segment and their likely impact upon future earnings, impairment write-downs to the carrying value of goodwill and other intangible assets, totalling $39.4 million were recognised during the year.

The period also saw the establishment of a new business for the Group, Plan Partners, which provides plan management and support co-ordination services to participants of the National Disability Insurance Scheme (NDIS). We firmly hold the view that for the NDIS to be successful it needs the active support and investment of both the public and private sectors. The core capabilities of our GRS team are highly transferable, in that we are well equipped to manage a high volume of transactions, and we have sound experience in managing payments to a large number of disparate service providers. In all we bring a high level of professionalism and experience to this emerging market and we are positive about the outlook for Plan Partners.

The strategic intent for this new initiative is to build a market leadership position within the NDIS framework, providing customers with more choice, greater control and less complexity.

Our Chief Executive Officer, Mike Salisbury, provides more in-depth analysis of segment performance in his accompanying report.

Chairman's Report

The Regulatory Environment

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services sector, which commenced in the second half of FY18, is broad and accordingly financial services organisations universally will monitor its progress closely.

The Australian Securities and Investments Commission (ASIC) review of finance and add-on insurance products also continued during the year, with findings expected in FY19, whilst a ban on existing arrangements for flex commissions for Consumer lending (National Consumer Credit Protection Act Regulated) will be effective from 1 November 2018.

During the period we initiated a process to review our motor vehicle warranty products, while a wider Group review of our insurance products and related distribution is ongoing. We have a responsibility to ensure our products and services continue to meet both consumer and community expectations.

We remain committed to ensuring our products are market leading in terms of their value for customers. That ethos and commitment have been the underlying driver for the review of these products and remain the central guiding principle of how we take our products and services to market. Whilst this is an ongoing process, we are confident that the customer-focused improvements we have already instigated will leave the Group well placed for the future.

With respect to our GRS business, we are pleased that the two major Federal political parties continue their ongoing support for the current Fringe Benefit Tax (FBT) arrangements for employer provided motor vehicles and the broader exemptions provided to the NFP sector.

Outlook

Your Board and senior management will continue to focus on the Group's core strategic directives we have pursued during the previous few years, with a commitment to drive long term growth, returns and profitability, whilst aiming to reduce risks and operating costs.

Those strategic directives include:

– For the GRS business, long term investment in our operating platforms, driving novated leasing sales growth through enhanced pipeline and sales conversion; and ultimately reducing our cost to serve via technology driven productivity improvements;
– In the AM business, continuing to focus on expanding our remarketing channels and build off-balance sheet funding to drive return on capital employed;
– In the UK, will we will continue to build scale via strategic acquisitions and organic growth, while, as in Australia and New Zealand, maintaining a disciplined approach to capital management to drive return on capital employed;
– In the RFS business, we will continue to monitor the regulatory environment, while building a market leading position with our upgraded warranty products. Our finance aggregation business will maintain its focus on the strengthening of relationships with major lenders and key brokers, consolidating our leading position in a changing marketplace; and
– In our new business initiative, Plan Partners, building upon the base already established in concert with the progressive rollout of the NDIS.

I would like to thank the Executive Team, led by Mike Salisbury, and the entire MMS team for their hard work and commitment to the solid FY18 performance, and I especially appreciate their work in setting the Group up for a strong future.

Tim Poole
Chairman

Chief Executive Officer's Report

The MMS Group delivered a strong year-on-year result, producing a solid uplift in profit from last year's performance.

Against a backdrop of increasing competition and a complex regulatory environment, the Group continued to proactively respond and evolve, with strong organic growth in our customer base, assets under management and net amount financed. Furthermore, I'm pleased to report on our strategic growth priorities: the continued growth in the UK, our investment in the NDIS with Plan Partners, and our Beyond 2020 program, as we continue to focus on building a solid platform for the Group's future long term growth.

The GRS business was once again our lead performer across the period, returning a 9.6% increase in revenue and a 10% increase in UNPATA. As anticipated, following our success in new customer wins in FY17, packaging growth was largely driven by increasing participation levels across the portfolio. New business wins were also a significant contributor to growth in the segment, delivering a number of significant new corporate customers.

We maintained a disciplined approach to growth and capital management in our AM business in Australia and New Zealand, while our UK business continued to perform well. We have built upon our UK broker aggregation platform, established in 2017, generating a 75% increase in the net amount financed (NAF) from the previous period to $887 million. Our focus on a more capital light approach to capital management has delivered improved returns on capital employed.

Our RFS segment experienced another challenging year, as market uncertainty continues around regulatory reform. As I noted in FY17, these reforms are focused on add-on insurance products and flex commission arrangements. Whilst we continue to evolve and adapt our approach to these products and markets in response, the duration of this uncertainty has seen a continuation of the decline in the volumes of product written and margins. As part of our strategic review of the market, a decision was undertaken during the period to exit the Money Now point of sale motor vehicle consumer finance business.

In another busy year, the Group has been able to deliver a result that demonstrates the underlying strength of the core business, as well as the benefits of diversification. Our success is driven by our people, through their commitment, dedication and resilience, and I thank them all for their contribution.

Chief Executive Officer's Report

Segment performance

Our GRS result was very pleasing, achieving 10% profit growth through record novated lease sales, continued strong client retention, increased customer participation, new business wins and improved productivity.

Customer satisfaction rates remain ahead of our Net Promoter Score benchmark, consistent with prior years.

Throughout the year our team delivered 17,715 on site education activities designed to keep our clients fully informed as to how they can benefit from our services. This commitment to on site education has long been one of our key points of competitive advantage and is important in driving organic growth.

One of our major initiatives, through an investment in technology, is aimed at creating an enhanced customer experience. A key pillar of this is our Beyond 2020 program; one of the most ambitious transformation programs the Group has undertaken. More detail on this initiative is provided further in this report, together with our forthcoming long-term technology investment in our GRS operational platforms.

Further new initiatives delivered in FY18 included investment in and the launch of dedicated social media platforms for Maxxia and RemServ. These platforms allow us to join customer conversations and better manage feedback in a social media environment.

We also launched new websites for MMS, Maxxia and Maxxia NZ, offering refreshed design, improved user experience and easy to navigate pathways for customers to better engage with our services.

Our AM Australia and New Zealand business achieved strong profit growth during the year, within a highly competitive market. The segment benefitted from a 12% lift in the value of assets funded, improved returns via principal and agency (P&A) funding and enhanced remarketing capability from our retail distribution network.

During the year we continued our focus on a less capital-intensive funding model, designed to deliver improved returns on capital employed. To that end our P&A funding continued to grow with a further $30 million in vehicles financed off-balance sheet for the year, bringing our total off balance sheet contribution to around 11% of the total portfolio and on track to achieve our targeted 30% by 2020.

Our UK business continues to perform well, as we focus on expanding our geographic footprint. During the year we achieved two notable milestones: in excess of 20,000 assets under management and £500m in finance originations.

Demonstrating the importance the Group places on the UK market, and the depth of scale and opportunity we see in that market a member of the Group executive was relocated to the UK in 2018.

The challenges for our RFS segment have culminated in our decision to exit the retail finance market and to concentrate our focus on broker aggregation, warranty and insurance businesses.

Notwithstanding the uncertainty in the market and changes within the funding landscape, aggregation volumes grew by 2.3% in the year.

Over the past 18 months we have worked hard in the RFS segment to build a business that will be well placed to leverage the growth opportunities that will arise within a changing marketplace. We have focused our attention on product design, pricing, distribution and customer outcomes in building sustainable products and services for the longer term.

Beyond 2020 – taking MMS into the future

We were pleased to announce the launch of the Beyond 2020 program during the year. This is one of the largest transformation projects the Group has undertaken; a customer focused approach designed to improve the way we provide our products and services, now and into the future.

The overall aim is twofold; firstly to reduce operational costs whilst enhancing both customer and employee engagement; and secondly to create a sales environment that can evolve and adapt to stay ahead of consumer mobility trends, competitor and technology changes into the future.

The Beyond 2020 program will provide customers more opportunities to self-serve, when they want, and via the channel of their choice, as part of a shift to a more digital-focused service model.

The program includes the adoption of new technologies and systems, designed to streamline the way we operate, while reducing our operating costs via productivity improvements.

Delivering the Beyond 2020 program will necessitate higher capital and operating expenditure within the GRS segment during FY19 in particular, specifically with respect to dedicated personnel in design, development and implementation. Importantly, these investments will deliver incremental benefits throughout the program as each component is delivered.

In parallel with the Beyond 2020 program, in FY19 we will commence making long-term investment in our core GRS technology platforms.

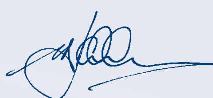
Plan Partners

At our 2017 Annual General Meeting I announced the establishment of Plan Partners, the newest addition to the MMS Group. Developed to leverage the core capabilities within our business, Plan Partners provides plan management and support services to participants of the NDIS.

Following a successful trial in FY17 Plan Partners has now established offices in New South Wales, Victoria, South Australia, and Queensland, and been licensed to provide services in Tasmania and the Northern Territory. Upon receipt of our license in Western Australia we will be the largest national provider of these services in the country.

We note that there has been substantial media coverage regarding the challenges faced by the National Disability Insurance Agency (NDIA). However, we remain pleased with the level of engagement demonstrated by both the Government and the NDIA and are confident that the scheme will deliver the significant benefits to those most in need, and that Plan Partners can play a substantial part in making the NDIS a success.

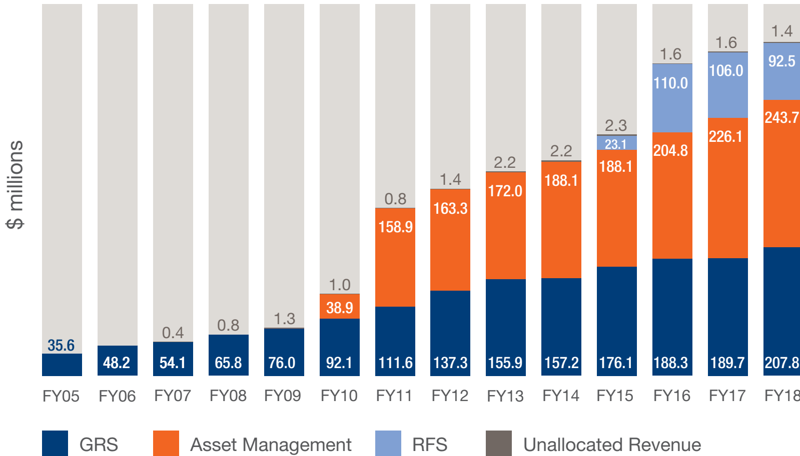
I would like to thank the Board for its ongoing support and in particular its backing of our investments in new technologies and the Beyond 2020 program. I would also like to thank our shareholders for your ongoing investment and I look forward to providing further updates on our progress during FY19.



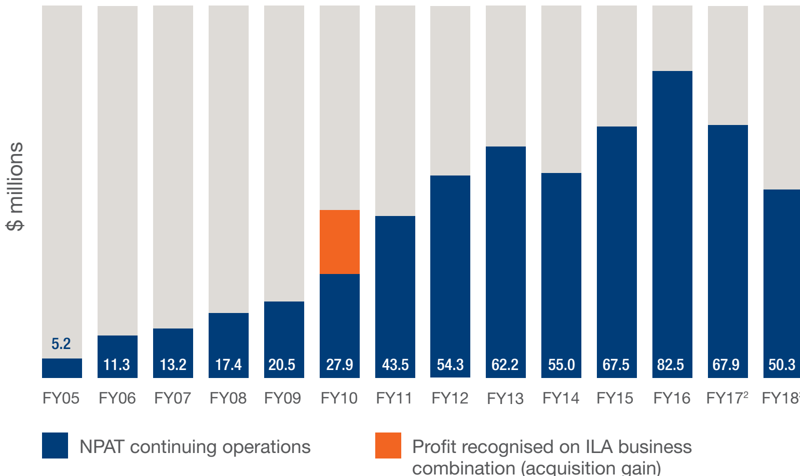
Mike Salisbury
Managing Director and
Chief Executive Officer

Financial History

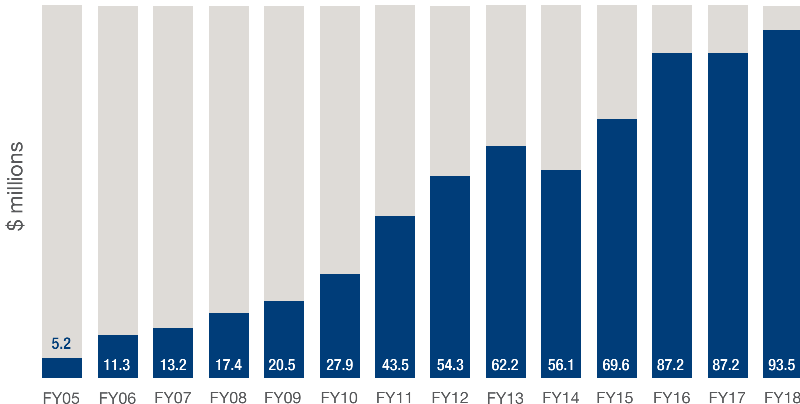
Revenue performance



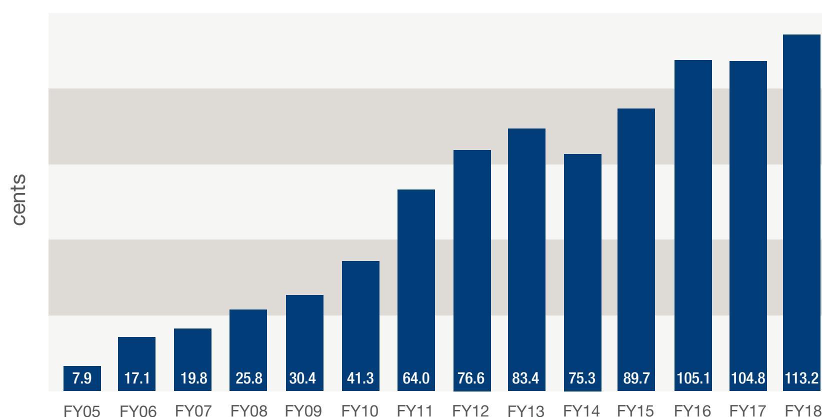
NPAT performance [1]



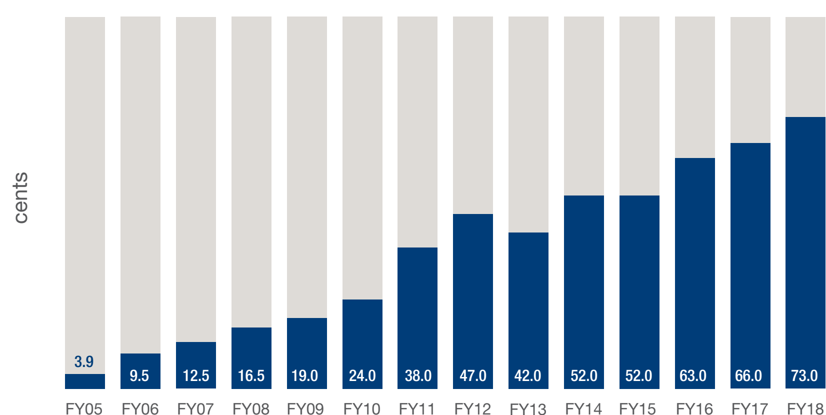
UNPATA performance [4]



Underlying earnings per share[5]



Dividends per share



1 NPAT is normalised to exclude the profit recognised on acquisition of Interleasing (Australia) Limited in FY10 ($17m profit after tax).
2 Includes asset impairment of $15.3 million (after-tax) for the warranty and insurance business.
3 Includes asset impairment and closure of Money Now of $6.9 million and impairment of $38.0 million after-tax.
4 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business.
5 Underlying EPS excludes the profit recognised on acquisition of Interleasing (Australia) Limited, and the after tax acquisition costs and acquired intangibles amortisation.

Key Metrics

Our Customers

334,850
Salary packages
↑ 5.5%

63,300
Novated leases
↑ 5.9%

42,750
Assets managed – units
↑ 2.3%

$521m
Assets managed – WDV[1]
↑ 7.6%

$2,850m
Net amount financed
↑ 18.7%

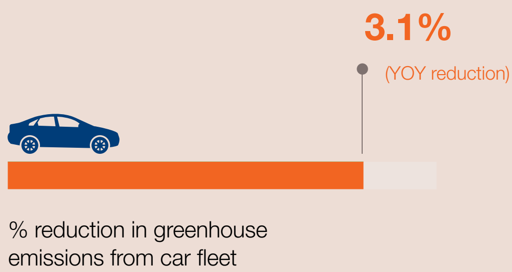
$395m
Average salary packaging float
↑ 3.9%

49.1
Industry leading Net Promoter Score (NPS) (Average monthly score during FY18)

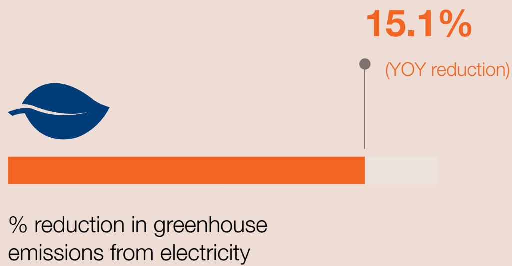
99%
Customer complaints resolved by MMS and our Customer Advocate without referral to an external arbitrator

1 Inclusive of on and off balance sheet funding
Note: Movements compared to prior corresponding period.

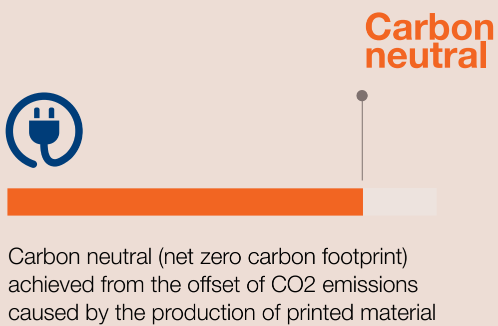
Our Environment



% reduction in greenhouse emissions from car fleet

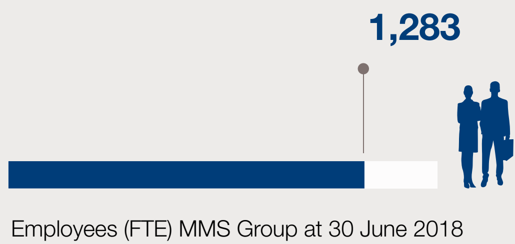


% reduction in greenhouse emissions from electricity

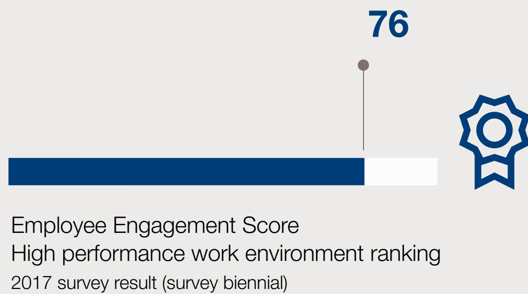


Carbon neutral (net zero carbon footprint) achieved from the offset of CO_2 emissions caused by the production of printed material

Our People



Employees (FTE) MMS Group at 30 June 2018



Employee Engagement Score
High performance work environment ranking
2017 survey result (survey biennial)

Directors' Report

The Directors of McMillan Shakespeare Limited (**Company** or **MMS**) present this report on the consolidated entity, consisting of the Company and the entities that it controlled at the end of, and during, the financial year ended 30 June 2018 (**Group** or **MMSG**).

Directors

The Directors during the whole of the financial year and up to the date of this report (**Directors**) are as follows:

Mr Tim Poole (Independent Non-Executive Director)

Mr John Bennetts (Non-Executive Director)

Mr Ross Chessari (Non-Executive Director)

Mr Ian Elliot (Independent Non-Executive Director)

Ms Sue Dahn (Independent Non-Executive Director)

Mr Mike Salisbury (Managing Director and CEO)

Details of the qualifications, experience and special responsibilities of the Directors at the date of this Annual Report are set out on pages 22 and 23.

The Directors that are noted above as independent Directors, as determined in accordance with the Company's definition of independence, have been independent at all times throughout the period that they held office during the financial year ended 30 June 2018.

Directors' meetings

The number of meetings held by the board of Directors (Board) (including meetings of committees of the Board) and the number of meetings attended by each of the Directors during the financial year ended 30 June 2018 were as indicated in the table below.

Principal activities

The principal activities of the Company and its controlled entities during the course of the financial year ended 30 June 2018 was the provision of salary packaging, vehicle leasing administration, fleet management and retail financial services.

In the opinion of the Directors, there were no significant changes in the nature of the activities of the Company and its controlled entities during the course of the financial year ended 30 June 2018 that are not otherwise disclosed in this Annual Report.

	Board Meetings		Audit, Risk & Compliance Committee Meetings		Remuneration & Nomination Committee Meetings	
Director	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr T Poole (Chairman)	13	13	12	12	5	5
Mr M. Salisbury (Managing Director and CEO)	13	13	-	-	-	-
Mr J. Bennetts	13	12	12	11	-	-
Mr R. Chessari	13	12	-	-	5	4
Mr I. Elliot	13	12	-	-	5	4
Ms S. Dahn	13	13	12	12	-	-

Results

Details of the results for the financial year ended 30 June 2018 are as follows:

Results	2018	2017
Net profit after income tax (NPAT) attributable to owners of the Company	$50,302,815	$67,901,770
Underlying Net profit after income tax (UNPATA)[1]	$93,518,774	$87,166,863
Basic earnings per share (EPS)	60.9 cents	81.6 cents
Underlying earnings per share	113.2 cents	104.8 cents
Earnings per share on a diluted basis (DPS)	60.6 cents	81.5 cents

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business.

Dividends

Details of dividends paid by the Company during the financial year ended 30 June 2018 are as follows:

Dividends	2018	2017
Final dividend for the financial year ended 30 June 2017 of 35.0 cents (2016: 34.0 cents) per ordinary share paid on 13 October 2017 fully franked at the tax rate of 30% (2016: 30%).	$28,938,343	$28,286,110
Interim dividend for the financial year ended 30 June 2018 of 33.0 cents (2017: 31.0 cents) per ordinary share paid on 29 March 2018 fully franked at the tax rate of 30% (2017: 30%).	$27,278,654	$25,790,278
Total	$56,216,997	$54,076,388

Subsequent to the financial year ended 30 June 2018, the Directors declared a final dividend of 40.0 cents per ordinary share (fully franked at the tax rate of 30%) to be paid on 28 September 2018, bringing the total dividend to be paid in respect of the financial year ended 30 June 2018 to 73.0 cents per ordinary share.

Director's Report

Review of operations – Group

FY18 delivered another strong profit result for MMS, recording improved financial and operating metrics for the year. The Group outperformed FY17's UNPATA result of $87.2 million, returning FY18 UNPATA of $93.5 million.

Return on equity was 25.2% and return on capital employed was 21.2%.

In the GRS segment, EBITDA increased by 8.4% to $97.0 million. This result incorporates an increase in employee costs, partly attributable to implementation of the Beyond 2020 program, increased initial investment during the period in our novated lease sales related processes and marketing capability, and also includes revenue and expenses associated with Plan Partners.

Despite the increase in expenditure in the short term, the Beyond 2020 program is beginning to generate financial returns, whilst our increased low-cost investment in novated sales and marketing activity contributed to immediate improved lead conversions during the period.

GRS revenue and UNPATA (including Plan Partners) increased by 9.6% and 9.9% respectively. New business wins particularly in the corporate sector were a solid contributor to growth. Continued high client retention rates, off the back of the renewal of relevant state government contracts in particular, underpinned record novated lease sales and strong vehicle re-lease conversions, providing substantial progress in increasing program participation rates for both salary packaging and novated leasing services. This strong organic growth, particularly with regard to novated leasing, was also driven in part by improved customer engagement rates. Newly adopted sales processes within novated leasing have enabled us to engage with customers in a more insightful and targeted manner, ultimately improving sales conversions and productivity.

The Group maintained a disciplined approach to growth in the AM business, continuing to build a less capital-intensive funding model. The segment delivered 17% UNPATA growth, through cost management, with P&A funding now up to $40.5 million. Segment growth was also supported by the performance of the Just Honk retail motor vehicle sales channel, which provides for cross-segment synergies, particularly with respect to the GRS segment.

In the UK, UNPATA was up 43% to $5.7 million.

Our broker aggregation strategy, which commenced in FY16, continued to progress well as we expanded our geographic footprint, and leveraged our asset finance program to grow market share. We remain focused on building a sustainable, high quality business that complements our existing capabilities and increases our value proposition in the UK market.

The RFS segment continued to face market and regulatory uncertainty with EBITDA totaling $14.0 million, a decline on the previous year. During FY18 we undertook a re-design of our dealer warranty product aimed at creating enhanced value for our customers. This work has created a product which in our view is class-leading in relation to coverage, value proposition and increasing the level of claims paid to customers. A strategic decision was also undertaken during the period to exit the provision of point-of-sale motor vehicle retail finance via the Money Now brand. NPAT for the segment was negatively impacted by impairment write-downs recognised during the period.

The finance aggregation business performed well, delivering an increase in NAF of 2.3% above the previous year. Profitability was in line with expectations, albeit reduced from FY17 as a result of changes in the funding landscape.

Plan Partners, a venture with minority interest holder Disability Services Australia, was successfully launched during FY18, following a successful trial. The business leverages core GRS competencies to provide services to NDIS participants.

At the end of FY18 Plan Partners has established a network in excess of 3,500 service providers. We expect the business to become profitable during FY19 as we aim to build further scale and expand our service provision within the 460,000 NDIS participant market.

Digital innovation – continuing to improve the way we do business

We launched our Beyond 2020 program during the year, a major transformation project designed to change the way we provide our service. The program aims to improve our cost to serve ratio via the creation of a more personalised and user-friendly experience, and encourage customers to engage with our services via their medium of choice, when convenient for them.

The program will also strive to improve customer communications, implement automated systems and processes to improve sales activity and help us to develop a better understanding of customer behaviour.

Uptake of our Maxxia and RemServ Claims apps continued with 142,500 downloads since being launched in 2016. This has led to 82% of all claims being lodged online via websites or the Maxxia and RemServ apps.

In parallel with the Beyond 2020 program, during FY19 we will commence making long-term investment in our core GRS technology platforms.

Key highlights and activities included:

- Group revenue of $545.4 million, an increase of 4.2%.
- Group FY18 UNPATA of $93.5 million.
- Group vehicle assets under management including novated totalled 106,100 units as at 30 June 2018.

State of affairs

Late in FY18 MMS announced the exit from its Money Now point of sale motor vehicle consumer finance business. Accordingly this necessitated MMS writing off goodwill, capitalised software and other assets of approximately $5.7 million after-tax. One off costs of approximately $1.3 million after-tax were also recognised, including redundancy payments, lease commitments and other costs. There were no other significant changes in the state of affairs of the Company and its controlled entities during the financial year ended 30 June 2018 that are not otherwise disclosed in this Annual Report.

Outlook

This year's results are underpinned by organic growth within our customer base, our investment in sales related activity processes and digital improvements in the GRS business. Our investments in the upgrade of core technology platforms (FY19 to FY20) and the Beyond 2020 program (FY19 to FY21), whilst negatively impacting short-term results, are expected to deliver medium and longer-term improved operating ratios and financial returns.

We maintain a strong pipeline of business heading into FY19 and we expect this positive customer activity to continue.

In the AM segment, the expansion of our remarketing channels into New South Wales and the ongoing transition to a fully flexible funding model via P&A agreements, remain an important focus.

We continue to expand the range of P&A agreements globally with a view to a less capital-intensive funding model, and maintaining a focus on enhancing return on capital employed.

Our presence in the UK continues to grow, with our program of strategic acquisitions a continued focus.

In our RFS segment, we continue to focus on product design and our customer value proposition. We are confident our dealer warranty products can continue to provide us with a market leading position. In our finance aggregation business we will further develop relationships with lenders and broker partners.

Strategy and prospects

The Group's strategic direction is focused on employing practices that reduce our cost to serve while simultaneously growing revenue.

This includes digital innovations and long-term investment in technology across core sales and operating platforms in the GRS segment, continued disciplined balance sheet management and an increase in remarketing activity in AM, and improving and refining our product suite in RFS.

In the UK we will continue to assess appropriate acquisitions that add to and complement our existing value proposition and help drive further organic growth.

We expect Plan Partners to continue to gather momentum and to commence becoming profitable during part of FY19, procuring new clients and service providers as part of the business' nationwide expansion in line with the full rollout of the NDIS.

Events subsequent to balance date

On 14 August 2018, the company was served with a class action proceeding for a claim relating to a warranty product business operated by Davantage Group Pty Ltd (trading as "National Warranty Company" (NWC)) which is and was at all relevant times a subsidiary of Presidian Holdings Pty Ltd which the Company acquired in February 2015. The claim is made on behalf of all persons who entered an NWC warranty between 1 July 2013 and 28 May 2015 (provided it was acquired for domestic/personal use and they received an NWC PDS). A significant portion of the relevant period to which the claim relates is in respect of a time when the "National Warranty Company" was not owned by the MMS Group. The proceedings are to seek orders that the NWC warranties are void, and seek either the restitution or a refund of the premium paid and interest on that amount. The Company intends to vigorously defend the proceedings. At the date of this report the Company is not in a position to estimate the impact, if any, of this claim.

Other than the above and matters disclosed in this Annual Report, there were no material events subsequent to reporting date.

Likely developments

Other than information disclosed in this Annual Report, there are no other material likely developments affecting the operations of the Group.

Group Remuneration Services

Group Remuneration Services

The GRS segment delivered a record result in FY18, achieving 10% profit growth which consolidated its market leading position through a combination of new business wins and a high client retention rate. Revenue and UNPATA (including Plan Partners) increased by 9.6% and 9.9% respectively. Salary packaging units grew by 5.5%, mainly through increased participation rates, and novated lease units grew 5.9%. These included an additional 9,300 salary packages and 200 novated leases signing on for the full year from new clients acquired during the period.

In Victoria, our market share in both metropolitan and regional areas, and the strength of our existing product offering were key factors in securing key new clients, including several significant new corporate customers. Pleasingly, these new contracts have performed well to date.

In New South Wales, the whole-of-government salary packaging services contract (known as contract 6036) with the State Government was renewed for a further two years, with an option included for an additional year.

Both Western Australia and South Australia recorded a range of small new contract wins throughout the year, while Tasmania performed very strongly particularly with regard to novated leasing sales.

Driving further improvements in productivity while improving customer experience remained a further core focus in FY18. An increase in the take-up rate of our online claims technology from 85% for Maxxia and 56% for RemServ at June 2017 to 91% for Maxxia and 69% for RemServ at June 2018 was a good reflection of this core key strategic initiative.

The Maxxia and RemServ wallet programs (new payment platforms that provide access to salary packaging funds at any time through a single payments card) which were rolled out in in FY17, progressed well during FY18. 70,000 customers were initially transferred to the new platforms in FY17, with that number growing to 73,359 in FY18.

An improved customer retention rate during the year was assisted by our investment in a data-driven customer engagement system, part of our transition to a fully integrated digital engagement platform for our salary packaging clients. Customer satisfaction rates for FY18 remained strong, with our average monthly Net Promoter Score hitting 49.1 across the period.

Dedicated social media platforms for both Maxxia and RemServ were developed and launched during FY18. These also contributed to improved customer engagement. Engaging in two-way dialogue with customers has led to more timely and effective customer problem resolution.

During the period, we launched new websites for MMS, Maxxia, and Maxxia NZ, as part of our broader focus on digital innovation and a customer centric experience. In keeping with that, the new site's refreshed design is mobile optimised, allowing customers the flexibility to engage with the site via their phone, iPad, laptop or desktop. A new RemServ website will be delivered in FY19.

Also during FY18, a marketing program was developed in order to engage with our novated lease customers 12 months prior to their end of lease. The aim is to educate Maxxia and RemServ customers about the many options available as they near the end of their lease, such as the purchase of a new car, financing new or existing vehicles, or potentially extending their existing lease. Pleasingly, this work contributed to strong re-lease activity during the period.

In terms of outlook for the segment, the salary packaging and novated leasing markets remain highly competitive and as such product differentiation and simplification, paired with an efficient customer experience, remain core areas of focus for the business. FY19 will see progression of our Beyond 2020 program and longer-term investment in our GRS operational platforms.

An overriding Group focus remains on reducing our cost to serve while at the same time increasing our revenue. Product innovation remains central to this focus, which can be seen in our commitment to enhancing our digital offering.

Beyond 2020 – an integrated customer engagement program taking the Group into the future

The most significant of our innovation programs is Beyond 2020; a customer focused program designed to transform the way we provide our products and services. The program aims to reduce operational costs through enhancing the customer and employee experience, while creating a sales environment that is adaptable and flexible, in order to embrace future technological changes.

The program completed a concept and enablement phase in FY18, with delivery and implementation to roll out over FY19 and FY20. It will create a more mobile and user-friendly experience, enabling customers to engage with our services via their channel of choice, when most convenient for them.

Initially conceived as a three-year business transformation program that reimagines how MMS currently operates, Beyond 2020 is designed to drive novated leasing sales growth and a reduction in operating costs via productivity improvements.

With a focus on our people, our processes and connected technology, the program will transition MMS to a collaborative workstyle; enable simple, consistent and digital-first customer services, while simultaneously aiming to drive operating costs down and grow sales.

At the core of the program is developing a culture that supports a more efficient way of working together; re-engineering our processes to make them simpler, and providing our people with enhanced customer-centric technology tools that support automation, collaboration and paper-light behaviours. It will also create an adaptable and flexible sales environment that will leave us well placed to meet future technology improvements.

Key highlights and activities included:

- FY18 UNPATA of $64.1 million up 9.9% on FY17.
- Increased salary packaging units to 334,850 (5.5% increase on FY17) and novated leases to 63,300 (5.9% increase on FY17).
- Several new major business wins in the corporate sector.
- Strong organic growth and high client retention via improved customer engagement rates.
- Successful launch and progression of Beyond 2020 program to drive margin growth.
- Improved on-line claims take-up rates via digital channels (82% of all claims).

Group Remuneration Services

Plan Partners

Plan Partners, our newest business initiative, is an independent provider of plan management and support coordination services to NDIS participants.

The NDIS is a generational Australian Government initiative which aims to provide Australians living with a disability, aged under 65, with the reasonable and necessary supports they need to live a fulfilling life.

Plan Partners was formed as a Joint Venture initiative between MMS and Disability Services Australia in July 2016 to specifically provide plan management services to NDIS participants. Following a successful trial, the business is now established in New South Wales, Victoria, South Australia and Queensland, while we are licensed in Tasmania and the Northern Territory. On receipt of a licence in Western Australia, Plan Partners will be the largest national provider of these services.

The MMS Board has maintained the view that for the NDIS to be successful it requires the support and investment of both the public and private sectors, and the capabilities of our GRS segment were identified as an effective, existing means of delivering such support.

As such, Plan Partners leverages those competencies of high volume transactions and funds management expertise to assist NDIS participants manage their plans, and administer their funding and payment arrangements, amongst other assistance.

The aim is to create a compelling market proposition in order to meaningfully assist a portion of the 460,000 participants who will be part of the scheme once fully implemented. Plan Partners aims to be the only true national service provider in this sector with leading breadth of scale and depth of service.

Whilst the business remains in its infancy, Plan Partners has to date built a very strong base and support network across the Eastern-seaboard and is in the process of expanding the service nationally. As at the end of FY18, the service has established a network of more than 3,500 service providers.

Plan Partners underwent a rebrand late in FY18, (from its original name of Plan Management Partners) which coincided with the business' release of a new Customer Charter.

The Charter is designed to provide a level of accountability and a set of minimum standards for our NDIS customers to hold the business to.

Late in FY18, Plan Partners were privileged to welcome Mr Tim Wilson MP, the Federal Member for Goldstein, to officially open the new headquarters in Richmond, Victoria.

Key activities and highlights

- Plan Partners established to provide NDIS participants with greater choice, less complexity and more control over their management plans.
- Leveraging core GRS competencies to deliver service critical to plan management for NDIS participants.
- National expansion underway, growing a network of more than 3,500 service providers.

Asset Management

Asset Management – AU/NZ

The Australian and New Zealand AM businesses achieved robust profit growth during the FY18, with segment UNPATA increasing by 17% compared with the prior period, within a highly competitive market.

EBITDA of $24.3 million was up 11.0% from FY17, with margin improvement driven by disciplined cost management.

In Australia and New Zealand, total assets managed stood at 21,800 units at the end of the period, while the segment benefitted from a 12.4% increase in the value of assets funded driven by both on and off balance sheet funding.

P&A funding of assets continued to grow, with a further $30.5 million in vehicles financed off-balance sheet for the year, driving improvement in return on our capital employed. As at 30 June 2018 10.8% of assets under management are funded through P&A agreements.

Our equipment finance business progressed soundly, writing over $25 million in new business and building a stronger pipeline for FY19.

A further focus during the year was the diversification and expansion of our Just Honk retail car yard, a sales and remarketing channel. This channel allows us to extract full value from ex-lease vehicles returned from the GRS segment, and presents opportunities for synergies with our RFS segment, through offering warranty and insurance products to customers.

A five-fold increase in returned vehicles during the second half of the financial year drove positive revenue growth via this channel.

Given the positive performance of this remarketing channel we opened a new site in New South Wales in July 2018. We are also exploring plans to expand the Just Honk brand into other states.

Key highlights and activities included:

- FY18 UNPATA of $15.8 million, representing a 17.0% increase on the prior year.
- Fleet asset written down value of $376.7 million, an increase of 12.4% over the FY17 total of $335 million.
- Continued progression towards off balance sheet funding, accounting for 10.8% of the total asset value at period end assisting to drive improved returns.
- Equipment finance opportunities gaining momentum.

Asset Management – UK

The AM businesses in the UK continues to be an important growth priority for the Group. They returned another solid performance in FY18 that continued to build upon the foundation established in recent years.

During the year we recorded two significant milestones. Our overall number of assets managed grew by 11.1% to 21,000 units, with NAF increasing by 75% across the period to $886.6 million compared with FY17.

Our focus on strategic acquisitions continued, with the integrations of EVC and CAPEX successfully completed during FY18, and strong NAF growth recorded in all brokerage businesses. These acquisitions were designed to increase the size of the funding panel and further strengthen our product offering, enhancing scale and leveraging existing core competencies. This approach to strategic and accretive acquisitions will remain a priority for FY19.

As in Australia, the UK AM business is focused on prudent capital management, to drive positive return on capital employed, with off-balance sheet funding totalling $734.8 million at year end a 73.2% increase on FY17.

During the year, all key revenue drivers recorded solid increases with originations increasing by 75% to $886.6 million.

This performance resulted in FY18 total revenue increasing by 31.5% to $61.4 million. UNPATA reached $5.7 million, a 43% increase over the prior year.

The strategic focus in the UK remains on further leveraging of the scale we have built in the region. Across our product suite we are striving to establish standardised processes, improve productivity and create a more streamlined customer experience. Despite a highly competitive local market, we are confident that the broking platform and diverse finding panel we have established provides us with an attractive value proposition in the UK.

Key highlights and activities included:

- FY18 revenue of $61.4 million, a 31.5% increase on the prior period.
- FY18 UNPATA of $5.7 million, representing a 42.5% increase over the FY17 result.
- Achieved strong NAF of 75.0% over the prior period to $886.6 million.
- Established bespoke broking platform and diversified funding panel.
- Appointed senior MMS executive as Managing Director, reflecting management's view of the importance of the region to the Group.

Retail Financial Services

Retail

During the year, the RFS segment was reorganised into two distinct streams – an aggregation business which contains our finance brands, and a retail business that operates our warranty, insurance and retail finance brokerage products.

Overall RFS UNPATA declined to $8.6 million compared with the prior year, mainly attributable to reduced volume and margins in retail finance originations.

During the period we conducted a thorough review and enhancement of our dealer warranty product and commission structure, with the specific objective to improve the customer value proposition and create better customer outcomes. We are confident that we now have a best in class warranty product. Redesign of this product led to an increase in claims ratios within the warranty business. We anticipate this increased claims experience to continue into future financial periods.

We also commenced a review of our insurance products and distribution as part of a Group wide review designed to maximise value to both the Group and consumers during a time of significant market and regulatory change.

During the period, a decision was made to exit the Money Now point of sale motor vehicle consumer finance business. This resulted in a $5.7 million after-tax write-off of goodwill, capitalised software, and other assets. In addition, one-off costs of approximately $1.3 million after tax were recognised, including redundancy payments, lease commitments and other costs.

As a result of decreased margins, increased competition and the uncertain regulatory environment, the segment recognised after-tax impairment charges totalling $38 million during the period. These charges were attributable to the carrying value of goodwill and other intangible assets within the retail business and have been excluded for reporting purposes from UNPATA.

Aggregation

The finance aggregation business performed in line with expectation, generating NAF growth of 2.3% year-on-year. Profitability was in line with expectations, albeit reduced on FY17 as a result of changes in the funding landscape, including changes taking place across the sector ahead of ASIC's decision to introduce a cap on flex commissions in FY19.

While it remains unclear how the impact of the cap on flex commissions will affect market dynamics overall, and by extension earnings and revenue, the aggregation business is well placed to deal with such change.

The business enjoys good relationships with a wide and deep panel of lenders, and we are confident that our aggregation service will be of increasing value to brokers, offering choice and providing stability and continuity, in the instance of lender withdrawal.

Lenders recognise our value is our ability to deliver substantial volumes of new business. We have made it a priority over the course of the year to focus on strengthening relationships with major lenders and with key brokers to promote, enhance and improve that value proposition.

We will continue high levels of partner engagement and monitor the impact of any further regulatory changes closely.

Key highlights and activities included:

- Segment FY18 UNPATA of $8.6 million, down from the previous year result of $12.4 million.
- Aggregation volumes grew by 2.3% in the year, to a total net amount financed of $969 million.
- Focus on product design, distribution and customer value proposition. Redesign of the RFS dealer warranty product undertaken during the period, creating a product which leads the sector in terms of customer value.
- The segment continues to operate with market and regulatory uncertainty with impairment charges recognised during the period.

Directors’ experience and special responsibilities

Tim Poole B Com

Appointed: 17 December 2013 (Non-Executive Director), 28 October 2015 (Chairman)

Positions: Chairman of the Board
Member of the Audit, Risk and Compliance Committee
Member of the Remuneration and Nomination Committee

Mr Poole is currently Chairman of Aurizon Holdings Limited and Lifestyle Communities Limited and a Non-Executive Director of Reece Limited. Mr Poole was previously an executive of the unlisted infrastructure and private equity manager, Hastings Funds Management (1995 to 2007), including being the Managing Director from 2005. He was formerly a Non-Executive Director of Newcrest Mining Limited and Japara Healthcare Limited. Mr Poole is considered an independent director under the Company’s definition of independence.

Mike Salisbury MBA

Appointed: 1 October 2014 (as Chief Executive Officer), 5 February 2015 (as Managing Director)

Positions: Managing Director and Chief Executive Officer

Mr Salisbury joined MMS as Managing Director of RemServ in April 2008 and was appointed to the position of Chief Executive Officer in October 2014. Before joining the company in April 2008, Mr Salisbury was a member of the senior management team at AAMI. Mr Salisbury held a variety of management positions within the organisation, including a number of state management roles and the position of Product Manager for Compulsory Third Party Insurance. Mr Salisbury is a member of the Australian Institute of Company Directors, and is a Director of the National Automotive Leasing & Salary Packaging Association. Mr Salisbury is a graduate of the Advanced Management Program at Harvard Business School.

John Bennetts B Ec, LLB

Appointed: 1 December 2003

Positions: Non-Executive Director
Member of the Audit, Risk and Compliance Committee

Mr Bennetts is an experienced investor and has been the founder and director of many successful Australian companies with businesses in technology, finance and manufacturing. He was a founder of Cellestis Limited and private equity investment firm, Mooroolbark Investments Pty Limited (M-Group). He has also previously provided advisory services to a range of companies in Australia and Asia. Prior to the establishment of the M-Group, he was a member of the senior executive of the pioneering Australian multinational IT company, Datacraft Limited.

Ross Chessari LLB, M Tax

Appointed 1 December 2003

Positions: Non-Executive Director
Member of the Remuneration and Nomination Committee

Mr Chessari is a founder and director of the investment manager, SciVentures Investments Pty Limited (SciVentures). Prior to founding SciVentures, Mr Chessari was the Managing Director of ANZ Asset Management and the General Manager of ANZ Trustees.

Ian Elliot

Appointed: 27 May 2014

Positions: Non-Executive Director
Chairman of the Remuneration and Nomination Committee

Mr Elliot is Non-Executive Chairman of Impelus Limited and Chairman of the Dry July Foundation. Formerly, Mr Elliot was a Non-Executive Director of Salmat Limited (2005-2016), Hills Industries Limited (2003-2016) and the Australian Rugby League Commission (2012-2016). Mr Elliot was previously Chairman and CEO at Australia's largest advertising agency George Patterson Bates, is a Fellow of the Australian Institute of Company Directors and a graduate of the Advanced Management Program at Harvard Business School. Mr Elliot is considered an independent director under the Company's definition of independence.

Sue Dahn BCom, MBA, FCPA, FAICD

Appointed: 1 January 2016

Positions: Non-Executive Director
Chair of the Audit, Risk and Compliance Committee

Ms Dahn is a partner in Investment Advisory Services at Pitcher Partners and Chair of the firm's Investment Committee. She is also a Non-Executive Director of MTAA Super and serves on the Victorian Council of the Australian Institute of Company Directors. Prior to joining Pitcher Partners Ms Dahn spent 14 years in senior positions within the Victorian Government including the Departments of Premier and Cabinet and Treasury and Finance. Before this she was an accountant with big 4 chartered accounting firms. Ms Dahn is considered an independent director under the Company's definition of independence.

Mark Blackburn Dip Bus (Acct), CPA, GAICD

Positions: Chief Financial Officer and Company Secretary

Mark Blackburn, joined McMillan Shakespeare Group as Chief Financial Officer in October 2011. Mr Blackburn commenced as Company Secretary on 26 October 2011.

Mr Blackburn has over 30 years' experience in finance, working across a broad range of industries for companies such as WMC, Ausdoc, Laminex Industries, Westpac, AAMI/Promina and Olex Cables. In particular, he has public company experience in financial management and advice, management of financial risks, management of key strategic projects, acquisitions and establishing joint ventures. Prior to his employment with MMS, Mr Blackburn was Chief Financial Officer of IOOF Holdings Ltd and iSelect Pty Ltd.

Remuneration Report (audited)

Executive Remuneration Guide

This short guide is intended to provide shareholders with an overview of executive remuneration outcomes for FY18 having regard to the Company's performance, as well as a brief update on the actions the Board and Remuneration and Nomination Committee (RNC) have taken to improve the structure of the Company's remuneration practices. This guide is audited and is in addition to the audited information set out in the formal Remuneration Report.

Company performance

The Board undertakes quarterly strategic reviews and sets the strategy agenda for the Company. Three year financial plans, annual budgets, forecasts and financial and operational targets are prepared by executive management. These are reviewed and approved by the Board. In the approval process the Board considers Company financial returns and targets, strategic issues such as markets and competition for its products and businesses, regulatory and operating risks, operating capability and importantly, how these plans measure against stakeholder expectations. Current performance is reviewed by the Board through periodic reporting against approved targets. This framework of strategic management and the rollout of plans enable the Board to set Long Term Incentive (LTI) targets.

As noted in last year's Remuneration Report, during FY17, the RNC undertook a comprehensive review of the Company's LTI structure. As a result of this review, the Company decided to introduce a new Long Term Incentive Plan (LTIP) from 1 July 2017. The LTIP was approved by Shareholders at the AGM held on 24 October 2017.

The RNC determined that from 1 July 2017, the annual bonus program would cease. The average historical level of short term incentive for KMP was reallocated: approximately 70% to fixed remuneration and 30% to at risk remuneration through LTIs. The LTI component is made up of a mix of performance options and performance rights which will be issued on an annual basis vesting over a three year period (with an additional initial two year vesting component in FY18), discussed further below.

The Company historically used Net Profit After Tax (NPAT) and Earnings Per Share (EPS) as key metrics for assessing LTI awarded to executive management.

For the FY18 grant of performance rights and performance options, approximately 54.5% of those incentives were based on underlying EPS CAGR targets based on UNPATA and approximately 45.5% based on average ROCE targets based on Adjusted EBIT (see pages 30 and 33 of the Remuneration Report for further information).

The Company's performance against key metrics for both the FY15 and FY18 LTI grants is summarised in the table below.

Indices	FY18[2]	FY17[1]	FY16	FY15
Net profit attributable to Company members (NPAT)	$50,302,815	$67,901,770	$82,469,341	$67,486,611
Underlying net profit after income taxt (UNPATA)[3]	$93,518,774	$87,166,863	$87,172,942	$69,570,837
UNPATA growth	7.2%	-	25.3%	24.1%
Basic earnings per share (EPS)	60.9 cents	81.6 cents	99.4 cents	87.0 cents
Underlying earning per share	113.2 cents	104.8 cents	105.1 cents	89.7 cents
Dividend per share (DPS)	73.0 cents	66.0 cents	63.0 cents	52.0 cents

1 Impacted by the after-tax impairment charge of $15.3 million.
2 Impacted by the after-tax impairment charge of $38.0 million
3 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business.

FY18 Remuneration outcomes

538,129 performance options granted to KMP on 28 August 2014 (FY15 Performance Options) vested on 31 August 2017. These options are exercisable at $10.18, subject to a 12 month holding lock and expire on 30 September 2019.

The vesting of the FY15 Performance Options were measured against target underlying EPS. The target for FY15 was based on the MMS budget with annual increases in EPS over the FY15 year of 15%, 15% for FY16 and a further 15% for FY17. The performance hurdles are discussed in detail on pages 28 to 30 of the FY17 Remuneration Report. As previously disclosed the vesting entitlement for FY17 was nil (FY16 was 89% and FY15 was 75%). This results in total vesting for the FY15 LTIs (across the three years) of 55%.

In respect of the LTI securities issued to KMP in FY18 under both the two-year and three-year vesting tranches, the performance hurdles are based on targets that are either aggregate or average outcomes over those time frames.

Details of KMP remuneration for FY18 and FY17, prepared in accordance with statutory obligations and accounting standards, are contained in section 3 (Executive KMP remuneration in detail) of the Remuneration Report.

In addition to this Guide the report includes:

- clearer disclosure in relation to LTI opportunities and the terms and conditions that apply to the current grant;
- additional discussion of the Company's remuneration governance structures and the link between the company's performance and remuneration outcomes; and
- more information about Non-Executive Directors' fees.

Remuneration Report

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1. Who does this Report cover?

This Report sets out the remuneration arrangements for the Group's KMP (who are listed in the table below) during FY18. Throughout this Remuneration Report, the KMP are referred to as either Executive KMP or Non-Executive Directors.

All individuals held their positions for all of FY18.

Non-Executive Directors

Name	Position
Mr T. Poole	Non-Executive Chairman
Mr J. Bennetts	Non-Executive Director
Mr R. Chessari	Non-Executive Director
Mr I. Elliot	Non-Executive Director
Ms S. Dahn	Non-Executive Director

Executive KMP

Name	Position
Mr M. Salisbury	CEO and Managing Director
Mr G. Kruyt	Managing Director Maxxia UK
Mr M. Blackburn	Group CFO and Company Secretary
Mr A. Tomas[1]	Managing Director, Fleet and Financial Products

1 Mr A.Tomas has resigned and his last day of service was 13 July 2018.

2. Remuneration policy and guiding principles

Overview

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 its growth and success.

The Group's remuneration structure consists of cash and non-cash components. The table below shows which KMP are eligible for the various components.

	Fixed Remuneration	LTI's – Performance Options
Non-Executive Directors	✓	x
Executive KMP	✓	✓

	LTI's-Voluntary Options	Annual Cash Bonus
Non-Executive Directors	x	x
Executive KMP	✓	x

Non-Executive Director remuneration

The Board's policy is to remunerate the Chairman and the Non-Executive Directors at market rates for comparable companies for the time and commitment involved in meeting their obligations.

The Non-Executive Directors are remunerated for their services from the maximum annual aggregate amount approved by the shareholders of the Company on 29 October 2014 (currently $900,000 per annum). The Board sets the fees for the Chairman and the other Non-Executive Directors.

Neither the Chairman nor the other Non-Executive Directors are entitled to any performance related remuneration. There is no direct link between the remuneration of the Chairman or any other Non-Executive Director and the short term results of the Group because the primary focus of the Board is on the long term strategic direction and performance of the Group. There are no termination payments payable to the Chairman or the other Non-Executive Directors on their retirement from office other than payments relating to the accrued superannuation entitlements included in their remuneration.

See key section 4 (Non-Executive Director remuneration in detail) for further information.

Executive KMP remuneration

The components of remuneration for Executive KMP consist of fixed remuneration (including superannuation and benefits) and LTIs (in the form of options and performance rights). As previously stated, on and from 1 July 2017, the previous annual bonus program has ceased. The average historical level of short term incentive for Executive KMP has been reallocated: approximately 70% to fixed remuneration (including superannuation and benefits) and 30% to at risk remuneration through LTIs.

The Board believes that this is an appropriate mix as it ensures that executives are focused on generating value for shareholders over the long term (based on targeted financial metrics).

The RNC considers that the changes to the LTI scheme: align with the market practices of comparative companies; provide strong alignment between executive performance and shareholder outcomes; and is an attractive scheme to motivate and retain Executive KMP and other executives.

See section 3 (Executive remuneration in detail) for further information.

Remuneration governance

Role of the Remuneration and Nomination Committee (RNC)

The Board has established a RNC whose objectives are to oversee the formulation and implementation of remuneration policy and make recommendations to the Board on remuneration policies and packages applicable to the Directors and executives. For further details of the composition and responsibilities of the RNC, please refer to the Corporate Governance Statement www.mmsg.com.au/overview/#governance

Remuneration consultants and other advisors

The RNC obtains external independent advice when required, and will use it to guide and inform their decision-making. During FY18, no remuneration recommendations (as defined in the *Corporations Act 2001* (Cth) (Corporations Act) were received.

3. Executive KMP remuneration in detail

As outlined above, the key components of Executive KMP remuneration are fixed remuneration and long term incentive grants.

Fixed Remuneration

Components

- Fixed remuneration comprises base salary, superannuation and, in some cases, non-cash benefits, such as motor vehicle lease payments and car parking benefits
- It is determined on an individual basis, reflecting the duties, responsibilities and performance levels of the relevant executive, general market conditions and comparable remuneration offered in similar industry sectors
- It does not vary over the course of a year based on performance
- No KMP is remunerated separately for acting as an officer of the Company or any entities in the Group

Review

- Fixed remuneration is reviewed by the RNC annually (or on promotion) to ensure fixed remuneration remains competitive in the market place and reflects the individual's skills, knowledge, accountability and general performance
- The Company conducts market based reviews
- The Company generally positions itself at the median
- There is no guarantee that fixed remuneration will be increased as a result of the annual review

The RNC has reviewed remuneration based on analysis from multiple data sources and taken into consideration factors such as annual revenue, employee numbers, market capitalisation and comparable companies. The Company generally positions itself at the market median. The Company has sourced additional data through external remuneration consultancies to inform RNC decision making.

Remuneration Report

Long-term incentives

On and from 1 July 2017, the Company has introduced a new LTIP for certain executives and employees. The LTIP was approved by shareholders on 24 October 2017. Two types of LTI may be granted under the LTIP, being Performance Options and Performance Rights:

Performance options

Options granted for nil consideration, which may be exercised into ordinary shares subject to satisfaction of specified performance hurdles and continuity of employment, with participants required to pay an exercise price.

Performance rights

Rights granted for nil consideration, which will convert to ordinary shares subject to satisfaction of specified performance criteria and continuity of employment, with participants not required to pay an exercise price.

Voluntary options

The Company has also made offers of Voluntary Options to select senior managers outside of the LTIP of up to $20,000 vesting over three years and up to $20,000 vesting over two years, on similar terms to those previously issued in FY15.

Voluntary Options are not subject to performance hurdles, but:

- Executives must purchase them and they will only vest if the Executive continues in employment (and thereby contributes to the performance of the Company); and
- Executives will only realise value if the Company's share price increases above a set 'strike price' and the premium paid for the options.

No Executive can enter into a transaction that is designed or intended to hedge the Executive's exposure to any unvested option or right. Executives are required to provide declarations to the Board on their compliance with this policy from time to time.

Further details of the incentive securities are set out on pages 40 to 41 of this Report.

Performance Options – FY18 LTI grant

During FY18 the Company granted Performance Options that vest after three years to executives as part of their LTI **(3 Year Performance Options)**. The Company made an additional grant of Performance Options to executives in FY18 as part of their LTI that vest after two years **(2 Year Performance Options)**. This is due to the intention of the Board, moving forward, to make annual grants for smaller amounts that will, over time, start to vest on an annual basis, rather than once every three years.

Approximately 15% of the total remuneration of Executive KMP is comprised through the issue of Performance Options. The number of Performance Options issued was calculated by dividing the total value assigned to the Performance Options by the fair value of the underlying Company's share at grant. Fair value is determined by the 5 day volume-weighted share price of the Company.

All Performance Options issued have an exercise price (or strike price) and only become valuable to the extent that the share price rises above the exercise price. Given that Performance Options are issued at or above the prevailing market price at the date the Board approves the grant, increased shareholder wealth is required before the senior executive will receive any value from these options.

Details of the key terms and conditions of the 3 Year Performance Options and 2 Year Performance Options are outlined below.

What are Performance Options?	An option to acquire a fully paid ordinary share in the Company (subject to payment of an exercise price), that will only vest and become exercisable if performance hurdles and service conditions are satisfied.
Do Executives pay for Performance Options?	Performance Options are granted as part of remuneration and therefore there is no payment required for a grant. However, executives are required to pay an exercise price to exercise them and receive shares.
What is the performance period?	In respect of the 3 Year Performance Options, three years. In respect of the 2 Year Performance Options, two years.
What are the performance hurdles and why were they chosen?	In addition to a condition of on-going employment: (a) approximately 54.5% of the Performance Options offered are subject to the Company's underlying EPS achieving a CAGR target of: (i) 14% for the three financial years FY18 to FY20 in respect of the 3 Year Performance Options; and (ii) 14% for the two financial years FY18 to FY19 in respect of the 2 Year Performance Options; and (b) approximately 45.5% of the Performance Options offered are subject to average ROCE targets of: (i) 22.5% for the three financial year period FY18 to FY20 (inclusive) in respect of the 3 Year Performance Options; and (ii) 22% for the two financial year period FY18 to FY19 (inclusive) in respect of the 2 Year Performance Options. Calculation of CAGR shall be based on the cumulative underlying EPS results for the relevant financial years using the underlying EPS results for the FY17 as the base year. The ROCE performance condition is based on the Company's average ROCE over the performance period. The Board considers that a ROCE target is best aligned with the Company's focus on both earnings and capital optimisation. The Board considers that the underlying EPS CAGR and ROCE targets are realistic but challenging.

Remuneration Report

How does the performance hurdle work?

3 Year Performance Options

In addition to meeting the condition of ongoing employment, the 3 Year Performance Options can vest (pro-rata on a straight line basis) upon the lodgement of the Company's financial statements with ASX for FY20 as follows:

Metric	0% Vesting	41.66% - 83.34% Vesting	83.34% - 100% Vesting
Underlying EPS CAGR in the period FY18, FY19 and FY20 (inclusive)	<6%	Between 6% and 10%	Between 10% and 14%

Metric	0% Vesting	50% - 100% Vesting
Average ROCE in the period FY18 to FY20 (inclusive)	<20.6%	Between 20.6% and 22.5%

In the event that the executive takes unpaid leave for a period exceeding three months during FY18, FY19 or FY20, the vesting criteria outlined above with respect to the financial performance of the Company and the executive's continued employment will be deemed on a pro-rata basis to reflect the period of continuous service during the relevant financial year, unless the Board in its discretion determines otherwise.

2 Year Performance Options

In addition to meeting the condition of ongoing employment, the 2 Year Performance Options can vest (pro-rata on a straight line basis) upon the lodgement of the Company's financial statements with ASX for FY19 as follows:

Metric	0% Vesting	41.66% - 83.34% Vesting	83.34% - 100% Vesting
Underlying EPS CAGR in the period FY18 and FY19 (inclusive)	<6%	Between 6% and 10%	Between 10% and 14%

Metric	0% Vesting	50% - 100% Vesting
Average ROCE in the period FY18 and FY19 (inclusive)	<20.6%	Between 20.6% and 22%

In the event that the executive takes unpaid leave for a period exceeding three months during FY18 or FY19, the vesting criteria outlined above with respect to the financial performance of the Company and the executive's continued employment will be deemed on a pro-rata basis to reflect the period of continuous service during the relevant financial year, unless the Board in its discretion determines otherwise.

Process for assessing performance conditions

To determine the extent to which the performance hurdles are satisfied, the RNC relies on audited financial results and vesting is determined in accordance with the LTIP.

The RNC believes this method of assessment provides an appropriate and objective assessment of performance.

The RNC will take account of capital raisings and acquisitions where necessary or appropriate to do so.

What are the rights attaching to the Performance Options?	No voting rights or entitlements to dividends are attached to Performance Options.
What is the exercise price and how was it determined?	In respect of both the 3 Year Performance Options and 2 Year Performance Options issued in FY18, the exercise price was the 5 day Volume Weighted Average Price of Shares traded in the period immediately prior to 30 June 2017, being $13.45.
When do the Performance Options expire?	**3 Year Performance Options** The 3 Year Performance Options cannot be exercised before lodgement of the Company's financial statements with ASX for the year ended 30 June 2020 (expected to be in September 2020) (the 3 Year Lodgement Date), and cannot be exercised after the date being 12 months following the 3 Year Lodgement Date. **2 Year Performance Options** The 2 Year Performance Options cannot be exercised before lodgement of the Company's financial statements with ASX for the year ended 30 June 2019 (expected to be in September 2019) (the 2 Year Lodgement Date), and cannot be exercised after the date being 12 months following the 2 Year Lodgement Date.
What happens on cessation of employment?	**3 Year Performance Options** If the employee leaves employment with the Group before the 3 Year Lodgement Date, the 3 Year Performance Options lapse without any payment to the employee. **2 Year Performance Options** If the employee leaves employment with the Group before the 2 Year Lodgement Date, the 2 Year Performance Options lapse without any payment to the employee.
What happens on a change of control?	On a change of control, the Board has discretion to waive the exercise conditions or performance conditions attached to the Performance Options.
What Performance Options were granted in FY18?	Performance Options were granted to Executive KMP in FY18 as set out in the table on page 41.

Remuneration Report

Performance Rights – FY18 LTI grant

During FY18 the Company granted Performance Rights that vest after three years to executives as part of their LTI **(3 Year Performance Rights)**. The Company also made an additional grant of Performance Rights to executives as part of their LTI that vest after two years **(2 Year Performance Rights)**.

Approximately15% of the total remuneration of Executive KMP is comprised through the issue of Performance Rights.

The number of Performance Rights issued was calculated by dividing the total value assigned to the Performance Rights by the fair value of each Performance Right.

Performance Rights become valuable to participating KMPs when they vest. Included in the vesting conditions are the achievement of performance hurdles that will outperform earnings and the underlying value of equity which ultimately, accrue to shareholders.

Details of the key terms and conditions of the 3 Year Performance Rights and 2 Year Performance Rights are outlined below.

What are Performance Rights?	A right to acquire a fully paid ordinary share in the Company for nil consideration, subject to the achievement of performance hurdles and service conditions being satisfied.
Do Executives pay for Performance rights?	No amount is payable for the grant of the Performance Rights or on exercise of the Performance Rights after vesting.
What is the performance period?	In respect of the 3 Year Performance Rights, three years. In respect of the 2 Year Performance Rights, two years.
What are the performance hurdles and why were they chosen?	In addition to a condition of on-going employment: (a) approximately 54.5% of the Performance Rights offered are subject to the Company's underlying EPS achieving a CAGR target of: (i) 14% for the three financial years FY18 to FY20 in respect of the 3 Year Performance Rights; and (ii) 14% for the two financial years FY18 to FY19 in respect of the 2 Year Performance Rights; and (b) approximately 45.5% of the Performance Rights offered are subject to average ROCE targets of: (i) 22.5% for the three financial year period FY18 to FY20 (inclusive) in respect of the 3 Year Performance Rights; and (ii) 22% for the two financial year period FY18 to FY19 (inclusive) in respect of the 2 Year Performance Rights. Calculation of CAGR shall be based on the cumulative underlying EPS results for the relevant financial years using the underlying EPS results for the FY17 as the base year. The ROCE performance condition is based on the Company's average ROCE over the performance period. The Board considers that a ROCE target is best aligned with the Company's focus on both earnings and capital optimisation. The Board considers that the underlying EPS CAGR and ROCE targets are realistic but challenging.

How does the performance hurdle work?

3 Year Performance Rights

In addition to meeting the condition of ongoing employment, the 3 Year Performance Rights vest (pro-rata on a straight line basis) upon the lodgement of the Company's financial statements with the ASX for FY20 as follows:

Metric	0% Vesting	41.66% - 83.34% Vesting	83.34% - 100% Vesting
Underlying EPS CAGR in the period FY18, FY19 and FY20 (inclusive)	<6%	Between 6% and 10%	Between 10% and 14%

Metric	0% Vesting	50% - 100% Vesting
Average ROCE in the period FY18 to FY20 (inclusive)	<20.6%	Between 20.6% and 22.5%

In the event that the executive takes unpaid leave for a period exceeding three months during FY18, FY19 or FY20, the vesting criteria outlined above with respect to the financial performance of the Company and the executive's continued employment will be deemed on a pro-rata basis to reflect the period of continuous service during the relevant financial year, unless the Board in its discretion determines otherwise.

2 Year Performance Rights

In addition to meeting the condition of ongoing employment, the 2 Year Performance Rights vest (pro-rata on a straight line basis) upon the lodgement of the Company's financial statements with the ASX for FY19 as follows:

Metric	0% Vesting	41.66% - 83.34% Vesting	83.34% - 100% Vesting
Underlying EPS CAGR in the period FY18 and FY19 (inclusive)	<6%	Between 6% and 10%	Between 10% and 14%

Metric	0% Vesting	50% - 100% Vesting
Average ROCE in the period FY18 and FY19 (inclusive)	<20.6%	Between 20.6% and 22%

In the event that the executive takes unpaid leave for a period exceeding three months during FY18 or FY19, the vesting criteria outlined above with respect to the financial performance of the Company and the executive's continued employment will be deemed on a pro-rata basis to reflect the period of continuous service during the relevant financial year, unless the Board in its discretion determines otherwise.

Process for assessing performance conditions

To determine the extent to which the performance hurdles are satisfied, the RNC relies on audited financial results and vesting is determined in accordance with the LTIP.

The RNC believes this method of assessment provides an appropriate and objective assessment of performance.

The RNC will take account of capital raisings and acquisitions where necessary or appropriate to do so.

Remuneration Report

What are the rights attaching to the Performance Rights?	No voting rights or entitlements to dividends are attached to Performance Rights.
What is the exercise price and how was it determined?	No amount is payable on exercise of the Performance Rights after vesting.
When do the Performance Rights expire?	**3 Year Performance Rights** The 3 Year Performance Rights cannot vest before the 3 Year Lodgement Date. **2 Year Performance Rights** The 2 Year Performance Rights cannot vest before the 2 Year Lodgement Date.
What happens on cessation of employment?	**3 Year Performance Rights** If the employee leaves employment with the Group before the 3 Year Lodgement Date, the 3 Year Performance Rights lapse without any payment to the employee. **2 Year Performance Rights** If the employee leaves employment with the Group before the 2 Year Lodgement Date, the 2 Year Performance Rights lapse without any payment to the employee.
What happens on a change of control?	On a change of control, the Board has discretion to waive the exercise conditions or performance conditions attached to the Performance Rights.
What Performance Rights were granted in FY18?	Performance Rights were granted to Executive KMP in FY18 as set out in the table on page 41.

Voluntary Options

During FY18 the Company offered Voluntary Options that vest after three years to executives (3 Year Voluntary Options). The Company also made an additional offer of Voluntary Options that vest after two years to executives (2 Year Voluntary Options). Details of the key terms and conditions of the Voluntary Options granted in FY18 are as follows.

What are Voluntary Options?	An option to acquire a fully paid ordinary share in the Company (subject to payment of a subscription price for the issue and an exercise price for the exercise of the option) that may be purchased by executives. Voluntary Options provide executives with an additional opportunity to invest in the Company. A Voluntary Option may be purchased by the Executive when offered by the Company.
Do Executives pay for Voluntary Options?	Yes. The maximum amount that can be applied towards the purchase of Voluntary Options is $20,000 (in multiples of $5,000), and the number of Voluntary Options to be granted is determined by dividing the amount invested by the discounted value of the option at grant date. The consideration payable per option is based on the fair value of the option at grant date less a 25% discount. In addition, an exercise price is payable when the Voluntary Options are exercised for shares.
What is the vesting period?	In respect of the 3 Year Voluntary Options, three years. In respect of the 2 Year Voluntary Options, two years.
What is the performance hurdle and why was it chosen?	No performance hurdles. The executive buys the Voluntary Option at grant date.
What are the rights attaching to the Voluntary Options?	No voting rights or entitlements to dividends are attached to Voluntary Options.
What is the exercise price and how was it determined?	In respect of both the 3 Year Voluntary Options and 2 Year Voluntary Options issued to Executive KMP, the exercise price is based on the 5 day Volume Weighted Average Price of Shares traded in the period immediately prior to 30 June 2017, being $13.45.
When do the Voluntary Options expire?	**3 Year Voluntary Options** The 3 Year Voluntary Options cannot be exercised before the 3 Year Lodgement Date, and cannot be exercised 12 months following the 3 Year Lodgement Date. **2 Year Voluntary Options** The 2 Year Voluntary Options cannot be exercised before the 2 Year Lodgement Date, and cannot be exercised fter the date being 12 months following the 2 Year Lodgement Date.
What happens on cessation of employment?	**3 Year Voluntary Options** If the Executive leaves employment with the Group before the 3 Year Lodgement Date, the Executive will forfeit 25% (representing the discount) of their entitlement for consideration, for the amount of $1. **2 Year Voluntary Options** If the Executive leaves employment with the Group before the 2 Year Lodgement Date, the executive will forfeit 25% (representing the discount) of their entitlement for consideration, for the amount of $1.
What happens on a change of control?	On a change of control, the Board has discretion to waive the exercise conditions or performance conditions attached to the Voluntary Options.
What Voluntary Options were granted in FY17?	Voluntary Options were granted to executives in FY18 as per the table set out on page 44.

Remuneration Report

Fixed vs performance based remuneration

The relevant proportions of fixed versus performance based remuneration received in FY18 based on actual outcomes are set out in the table below.

The KMP received an LTI allocation in respect of FY18.

	Fixed remuneration		At risk – Annual Bonus		At risk – LTI	
	FY18	FY17	FY18	FY17	FY18	FY17
Mr M. Salisbury	76%	92%	Nil	8%	24%	-
Mr G. Kruyt	82%	89%	Nil	11%	18%	-
Mr M. Blackburn	78%	93%	Nil	7%	22%	-
Mr A. Tomas[1]	100%	95%	Nil	5%	0%	-

1 Mr A.Tomas resigned during FY18 and his current LTI was cancelled.

Consequences of performance on shareholders' wealth

The table below sets out the Company's performance over the past five years in respect of key financial and non-financial indicators. In addition to the links between remuneration and shareholder value discussed above, when reviewing the Group's performance and benefits for shareholder wealth, and the link to the remuneration policy, these indicators are generally considered:

Indices	FY18	FY17	FY16	FY15	FY14[2]
Net profit attributable to Company members	$50,302,815	$67,901,770	$82,469,341	$67,486,611	$54,969,799
Underlying net profit after income tax (UNPATA)[1]	$93,518,774	$87,166,863	$87,172,942	$69,570,837	$56,113,781
NPAT growth	(25.9%)	(17.7%)	22.2%	22.8%	(11.6%)
UNPATA growth	7.2%	-	25.3%	24.1%	(9.8%)
Total dividend paid in the FY	$60,346,611	$54,076,388	$46,588,889	$43,912,091	$29,064,347
Dividend payout ratio[3]	64.5%	63.0%	60.1%	61.4%	70.0%
Share price as at 30 June	$16.00	$13.40	$13.68	$12.09	$9.17
Market capitalisation (A$m)	1,331.3	1,210.0	1,138.1	973.9	683.4
Earnings per share	60.9 cents	81.6 cents	99.4 cents	87.0 cents	73.8 cents
Underlying earnings per share[4]	113.2 cents	104.8 cents	105.1 cents	89.7 cents	75.3 cents

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items).
2 Impacted by an announcement on 16 July 2013 of possible changes to the treatment of FBT on vehicles.
3 Dividend payout ratio is calculated as total dividends declared for the financial year divided by UNPATA for the financial year.
4 Underlying earnings per share is based on UNPATA.

Key terms of Executive KMP service agreements

All Executive KMP are party to a written executive service agreement. The key terms are set out below.

Key terms of Executive Service Agreements for Executive KMP (other than the CEO)	
Duration	Ongoing
Periods of notice required to terminate	Generally, 6 months written notice, by the Company or the Executive KMP. The agreement may, however, be terminated by the Company for cause without notice or any payment.
Termination payments	The Company has discretion to make a payment in lieu of notice. No contracted retirement benefits are in place with any of the Company's Executive KMP.
Restraint of trade	The Company can elect to invoke a restraint period not exceeding 6 months.

Key terms of Executive Service Agreement for CEO	
Duration	Ongoing
Periods of notice required to terminate	9 months written notice by the Company or CEO. The agreement may, however, be terminated by the Company for cause without notice or any payment.
Termination payments	The Company has discretion to make a payment in lieu of notice. No contracted retirement benefits are in place with any of the Company's executives.
Restraint of trade	The Company can elect to invoke a restraint period not exceeding 6 months.

4. Non-Executive Director remuneration in detail

The remuneration of Non-Executive Directors comprises Directors' fees and superannuation contributions, and takes into account the size and complexity of the Company's operations, their responsibility for the stewardship of the Company and their workloads.

As stated in the Non-Executive Director Remuneration section, total fees are not to exceed the annual limit of $900,000 approved by shareholders in October 2014.

Details of the fees paid to the Non-Executive Directors are set out in the table below.

<table>
<tr><td rowspan="7">Directors' Fees</td><td colspan="2">The annual Directors' fees (including superannuation contributions) payable to Non-Executive Directors for FY18 were as follows:</td></tr>
<tr><td>Position</td><td>Fee ($)</td></tr>
<tr><td>Chairman</td><td>205,000 (from 1 January 2016)</td></tr>
<tr><td>Audit, Risk and Compliance Committee Chair</td><td>150,000 (from 1 January 2017)</td></tr>
<tr><td>Remuneration and Nomination Committee Chairman</td><td>130,000 (from 1 January 2017)</td></tr>
<tr><td>Director (base fee)</td><td>115,000 (from 1 January 2016)</td></tr>
<tr><td colspan="2">No fees are payable in respect of membership of Board Committees.</td></tr>
<tr><td>Superannuation contributions</td><td colspan="2">Contributions required under legislation are made by the Company on behalf of Non-Executive Directors.</td></tr>
<tr><td>Retirement Benefits</td><td colspan="2">There is no scheme for the payment of retirement benefits.</td></tr>
</table>

Remuneration Report

5. Statutory remuneration disclosures

Non-Executive Director remuneration – statutory disclosures

The tables below set out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with the Accounting Standards.

Non-Executive Directors		Cash salary/ fees[1] $	Other Benefits[2] $	Superannuation $	Total Remuneration $	Total value of remuneration received $
Mr T. Poole (Non-Executive Chairman)	FY18	187,215	-	17,785	205,000	205,000
	FY17	187,215	-	17,785	205,000	205,000
Mr J. Bennetts (Non-Executive Director)	FY18	105,023	-	9,977	115,000	115,000
	FY17	105,023	-	9,977	115,000	115,000
Mr R. Chessari (Non-Executive Director)	FY18	86,130	18,893	9,977	115,000	115,000
	FY17	86,455	18,568	9,977	115,000	115,000
Mr I. Elliot (Non-Executive Director)	FY18	118,722	-	11,278	130,000	130,000
	FY17	118,722	-	11,278	130,000	130,000
Ms S. Dahn (Non-Executive Director)	FY18	136,986	-	13,014	150,000	150,000
	FY17	127,854	-	12,146	140,000	140,000

1 The amounts shown for the Non-Executive Directors reflect directors' fees only.
2 Other benefits comprise salary packaging.

Executive KMP remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with the Accounting Standards.

		Short-term benefits			Post-employment benefits	Long-term benefits	Share based payments			
		Cash salary/ fees	Current year Cash Bonus	Other Benefits [1]	Super-annuation	Long Service Leave	Options [2] and Rights [3]	Total remuneration	Percentage of remuneration as options and rights	Total value of remuneration received [4]
Non-Executive Directors		$	$	$	$	$	$	$	%	$
Mr M. Salisbury (CEO and Managing Director)	FY18	797,700	-	93,800	24,989	21,920	288,956	1,227,365	24%	893,016
	FY17	732,605	75,000	49,270	34,288	16,081	-	907,244	-	916,409
Mr G. Kruyt (Managing Director Maxia UK)	FY18	642,255	-	186,717	23,659	24,615	194,099	1,071,345	18%	795,786
	FY17	540,180	75,000	56,015	19,779	22,698	-	713,672	-	674,393
Mr M. Blackburn (Group CFO and Company Secretary)	FY18	613,271	-	36,492	24,989	13,450	194,544	882,746	22%	654,513
	FY17	580,530	50,000	25,994	33,267	11,073	-	700,864	-	670,240
Mr A. Tomas[5] (Managing Director, Fleet and Financial Products)	FY18	437,559	-	134,109	24,989	11,363	-	608,020	-	576,512
	FY17	408,265	30,000	117,675	33,906	10,155	-	600,001	-	586,000

In the case of redundancy, the company Redundancy Policy will apply to the extent that the payment is greater than the payment made to an Executive KMP on termination. No payments were made to any Executive KMP in respect of termination of services in FY18.

1 Other benefits reflect annual leave entitlements, motor vehicle packaging payments, travel benefits, housing allowance and car parking benefits.

2 The equity value comprises the value of Performance Options issued. No shares were issued to any Non-Executive Director (and no Performance Options were granted to any Non-Executive Director) during the financial years ended 30 June 2018 and 30 June 2017. The value of Performance Options issued to Executive KMP (as disclosed above) are the assessed fair values (less any payments for the options) at the date that the Performance Options were granted to the executives, allocated equally over the period from when the services are provided to vesting date. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the expected term of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. There was no option expense in FY17 due to not meeting the performance hurdle for the year. Options were granted to Executive KMPs during the year ended 30 June 2018 (as disclosed in this Report).

3 Performance Rights were granted to Executive KMPs during the year ended 30 June 2018 (as disclosed in this Report). The value of Performance Rights issued to Executive KMP are the assessed fair values at the date that the Performance Rights were granted to the executives, allocated equally over the period from when the services are provided to vesting date. Fair values at grant date are determined using the share price of the Company at the date grant and discounting it by the dividend yield of the Company.

4 Value of remuneration received comprises salary, benefits and superannuation salary packaged, annual and long service leave used and bonuses paid in the year.

5 Mr A Tomas resigned and ended service on 13 July 2018.

Remuneration Report

LTI Details

The terms and conditions of each grant of Performance Options, Performance Rights and Voluntary Options to Executive KMP affecting their remuneration in FY18 and each relevant future financial year are as follows:

Grant Date[1]	Type of LTI securities	Expiry Date	Share price at valuation date	Exercise Price	Value per option at grant date[2]	Date Exercisable
03/07/17	2 Year Performance Options	12 months following the 2 Year Lodgement Date	$13.45	$13.45	$2.97	2 Year Lodgement Date (expected to be September 2019)
03/07/17	2 Year Performance Rights	12 months following the 2 Year Lodgement Date	$13.45	-	$11.83	2 Year Lodgement Date (expected to be September 2019)
24/10/17	2 Year Performance Options	12 months following the 2 Year Lodgement Date	$15.23	$13.45	$3.13	2 Year Lodgement Date (expected to be September 2019)
24/10/17	2 Year Performance Rights	12 months following the 2 Year Lodgement Date	$15.23	-	$13.92	2 Year Lodgement Date (expected to be September 2019)
03/07/17	3 Year Performance Options	12 months following the 3 Year Lodgement Date	$13.45	$13.45	$3.20	3 Year Lodgement Date (expected to be September 2020)
03/07/17	3 Year Performance Rights	12 months following the 3 Year Lodgement Date	$13.45	-	$11.23	3 Year Lodgement Date (expected to be September 2020)
24/10/17	3 Year Performance Options	12 months following the 3 Year Lodgement Date	$15.23	$13.45	$3.20	3 Year Lodgement Date (expected to be September 2020)
24/10/17	3 Year Performance Rights	12 months following the 3 Year Lodgement Date	$15.23	-	$13.29	3 Year Lodgement Date (expected to be September 2020)

1 The issue to Mr Mike Salisbury occurred on 24 October 2017, after shareholder approval at the Company's AGM.
2 Reflects the fair value at grant date for options granted as part of remuneration calculated in accordance with AASB 2: Share-based Payment.

Details of the LTI securities over ordinary shares in the Company provided as remuneration to each Executive KMP are set out below. When exercised each Performance Option, Performance Right and Voluntary Option is convertible into one ordinary share of the Company.

Name	Date of grant	Type of LTI securities	Number of securities granted	Value of securities granted during the year $	Number of securities vested during year	Vested %	Number of securities forfeited/ lapsed during the year	Forfeited or lapsed %	Year in which securities may vest	Maximum value of securities yet to vest[1]
Mr M. Salisbury	19/08/14	FY15 Performance Options[2]	302,158	-	166,187	55%	135,971	45%	FY18	-
	24/10/17	2 Year Performance Options	71,140	3.13	-	-	-	-	FY19	140,187
	24/10/17	2 Year Performance Rights	17,860	13.92	-	-	-	-	FY19	156,520
	24/10/17	3 Year Performance Options	66,027	3.20	-	-	-	-	FY20	158,899
	24/10/17	3 Year Performance Rights	18,814	13.29	-	-	-	-	FY20	188,042
Mr G. Kruyt	19/08/14	FY15 Performance Options[2]	215,827	-	118,705	55%	97,122	45%	FY18	-
	03/07/17	2 Year Performance Options	52,846	2.97	-	-	-	-	FY19	98,814
	03/07/17	2 Year Performance Rights	13,266	11.83	-	-	-	-	FY19	98,804
	03/07/17	3 Year Performance Options	49,047	3.20	-	-	-	-	FY20	118,035
	03/07/17	3 Year Performance Rights	13,975	11.23	-	-	-	-	FY20	118,027
Mr M. Blackburn	19/08/14	FY15 Performance Options[2]	256,248	-	140,936	55%	115,312	45%	FY18	-
	03/07/17	2 Year Performance Options	52,965	2.97	-	-	-	-	FY19	99,036
	03/07/17	2 Year Performance Rights	13,297	11.83	-	-	-	-	FY19	99,035
	03/07/17	3 Year Performance Options	49,159	3.20	-	-	-	-	FY20	118,305
	03/07/17	3 Year Performance Rights	14,007	11.23	-	-	-	-	FY20	118,297
Mr A. Tomas[3]	19/08/14	FY15 Performance Options[2]	204,184		112,301	55%	91,883	45%	FY18	-

1 There is no minimum value attached to the securities at the vesting date. Maximum value is defined as the fair value at grant less amount expensed.
2 Subject to a holding lock.
3 Mr Tomas resigned and ended service on 13 July 2018 and as a consequence forfeited all unvested options and rights. During the year 89,822 securities were granted and then forfeited following Mr Tomas' resignation.

Remuneration Report

Movement of LTI securities granted to Executive KMP

The table below reconciles the Performance Options, Performance Rights and Voluntary Options held by each Executive KMP from the beginning to the end of FY18.

Name	LTI Securities	Balance at the start of the year	Number Granted during year	Vested during the year	Exercised during the year	Forfeited during year	Other changes during the year	Vested and exercisable at the end of the year	Unvested at the end of the year
Mr M. Salisbury	Performance Options	302,158	137,167	166,187	-	135,971	-	166,187	137,167
	Performance Rights	-	36,674	-	-	-	-	-	36,674
Mr G. Kruyt	Performance Options	215,827	101,893	118,705	-	97,122	-	118,705	101,893
	Performance Rights	-	27,241	-	-	-	-	-	27,241
Mr M. Blackburn	Performance Options	256,248	102,124	140,936	-	115,312	-	140,936	102,124
	Performance Rights	-	27,304	-	-	-	-	-	27,304
Mr A. Tomas	Performance Options	204,184	-	112,301	-	91,883	-	112,301	-
	Performance Rights	-	-	-	-	-	-	-	-

Shares issued on exercise of Performance Options or Voluntary Options

No ordinary shares in the Company were issued following the exercise of Performance Options or Voluntary Options by Executive KMP during FY18. Any shares issued on exercise of options were acquired on market under the terms of the Company's Share Trust Plan.

Equity instrument details relating to key management personnel

The tables below show the number of shares in the Company held during the financial year by each Director and each of the Executive KMP, including their personally related parties. There were no shares granted during the year as compensation.

	Balance at the start of the year	Shares acquired through option exercise	Other changes during the year	Balance at the end of the year
Non-Executive Directors				
Mr T. Poole	19,000	-	-	19,000
Mr J. Bennetts	3,343,025	-	-	3,343,025
Mr R. Chessari	6,050,941	-	-	6,050,941
Mr I. Elliot	-	-	-	-
Ms S Dahn	4,000	-	-	4,000
Key Management Personnel				
Mr M. Salisbury	10,276	-	-	10,276
Mr G. Kruyt	7,953	-	-	7,953
Mr M. Blackburn	3,000	-	-	3,000
Mr A. Tomas	102,050	-	(102,050)	-

End of the audited Remuneration Report

Directors' Report

Unissued shares

At the date of this Annual Report, unissued ordinary shares of the Company under option are:

Option class	No. of unissued ordinary shares	Exercise price	Expiry date
Performance Options	538,129	$10.18	30 September 2019
Performance Options	414,909	$13.45	30 September 2020
Performance Options	17,340	$14.97	30 September 2020
Performance Options	385,084	$13.45	30 September 2021
Performance Options	15,920	$14.97	30 September 2021
Performance Rights	108,512	-	30 September 2020
Performance Rights	114,306	-	30 September 2021
Voluntary Options	8,979	$13.45	30 September 2020
Voluntary Options	12,500	$13.45	30 September 2021

No options were granted to the Directors or any of the five highest remunerated officers of the Company since the end of the financial year.

Directors' interests

At the date of this Annual Report, the relevant interest of each Director in the securities issued by the Company and its controlled entities, as notified by the Directors to the Australian Stock Exchange Limited (ASX) in accordance with section 205G(1) of the *Corporations Act 2001* (Cth), is as follows:

Director	Rights	Options	Ordinary shares
Mr. T Poole (Chairman)		-	19,000
Mr M. Salisbury (Managing Director)	36,674	303,354	10,276
Mr J. Bennetts		-	3,343,025
Mr R. Chessari		-	6,050,941
Mr I Elliot		-	-
Ms S Dahn		-	4,000

No Director during FY18, became entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors shown in the Remuneration Report or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a controlled entity with the Director or an entity in which the Director has a substantial financial interest or a firm in which the Director is a member.

Directors' Report

Environmental regulations

The Directors believe that the Company and its controlled entities have adequate systems in place for the management of relevant environmental requirements and are not aware of any breach of those environmental requirements as they apply to the Company and its controlled entities.

Indemnification and insurance

Under the Company's Constitution, the Company indemnifies the Directors and officers of the Company and its wholly-owned subsidiaries to the full extent permitted by law against any liability and all legal costs in connection with proceedings incurred by them in their respective capacities.

The Company has also entered into a Deed of Access, Indemnity and Insurance with each Director, each Company Secretary, and each responsible manager under the licenses which the Company holds (Deed), which protects individuals acting as officeholders during their term of office and after their resignation. Under the Deed, the Company also indemnifies each officeholder to the full extent permitted by law.

The Company has a Directors & Officers Liability Insurance policy in place for all current and former officers of the Company and its controlled entities. The policy affords cover for loss in respect of liabilities incurred by Directors and officers where the Company is unable to indemnify them and covers the Company for indemnities provided to its Directors and officers. This does not include liabilities that arise from conduct involving dishonesty. The Directors have not included the details of the premium paid with respect to this policy as this information is confidential under the terms of the policy.

Non-audit services

Details of the amounts paid or payable to the auditor of the Company, Grant Thornton Audit Pty Ltd and its related practices, for non-audit services provided, during FY18, are disclosed in Note 31 to the Financial Statements.

The Company's policy is that the external auditor is not to provide non-audit services unless the Audit, Risk and Compliance Committee (ARCC) has approved that work in advance, as appropriate.

The ARCC has reviewed a summary of non-audit services provided during the financial year ended 30 June 2018 by Grant Thornton Audit Pty Ltd.

Given that the only non-audit services related to client contract audits and review of banking covenant and trust account compliance, the ARCC has confirmed that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). This has been formally advised to the Board. Consequently, the Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of the *Corporations Act 2001* (Cth).

Corporate governance practices

Our full corporate governance statement is available on our website at **www.mmsg.com.au/overview/#governance**

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* (Cth), is set out on page 110 of this Annual Report.

Directors' declaration

The Directors have received and considered written representations from the Chief Executive Officer and the Chief Financial Officer in accordance with the ASX Principles. The written representations confirmed that:

- the financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operating results of the Company and its controlled entities and are in accordance with all relevant accounting standards; and
- the above statement is founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board and that compliance and control is operating efficiently and effectively in all material respects.

Signed in accordance with a resolution of the Directors.

Tim Poole
Chairman

Mike Salisbury
Managing Director

22 August 2018
Melbourne, Australia

Five year summary

FIVE-YEAR SUMMARY 2014 – 2018	2018	2017	2016	2015	2014
Financial Performance					
Group					
Revenue ($m)	545.4	523.4	504.7	389.6	347.5
NPAT ($m)	50.3	67.9	82.5	67.5	55.0
UNPATA ($m)[1]	93.5	87.2	87.2	69.6	56.1
Group Remuneration Services segment					
Segment revenue ($m)	207.8	189.7	188.3	176.1	157.2
Segment NPAT ($m)	64.1	58.3	58.7	54.3	42.0
Segment UNPATA ($m)	64.1	58.3	58.7	54.3	42.0
Asset Management segment					
Segment revenue ($m)[2]	243.7	226.1	204.8	188.1	188.1
Segment NPAT ($m)	25.5	16.6	14.6	11.3	13.6
Segment UNPATA ($m)	21.6	17.5	15.3	11.6	13.6
Retail Financial Services segment					
Segment revenue ($m)	92.5	106.0	110.0	23.1	-
Segment NPAT ($m)	(38.5)	(5.0)	11.8	3.0	-
Segment UNPATA ($m)	8.6	12.4	14.0	3.3	-
Shareholder Value					
Dividends per share (cps)	73.0	66.0	63.0	52.0	52.0
Dividend payout ratio (%)[3]	65	63	60	58	69
Basic earnings per share (cps)	60.9	81.6	99.4	87.0	73.8
Return on equity (%)[4]	25	24	26	26	27
Underlying earnings per share (cps)[5]	113.2	104.8	105.1	89.7	75.3
Return on capital employed (%)[6]	21	20	21	20	23
Other					
Employees (FTE)[7]	1,283	1,195	1,124	1,087	881
Employee engagement score (%)[8]	No survey	76	No survey	81	No survey

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business.
2 Revenue in 2017 has been re-stated to recognise the proceeds from the sale of motor vehicles as revenue to replace profit from the sale of motor vehicles.
3 Dividend payout ratio is calculated as total dividends declared for the financial year divided by UNPATA for the financial year.
4 Return on equity has been adjusted to reflect 12 months trading for acquisitions made in each financial year.
5 Underlying earnings per share is based on UNPATA.
6 Return on capital employed has been adjusted to reflect 12 months trading for acquisitions made in the financial year.
7 As at 30 June.
8 Employee engagement survey conducted biennially.

Financial Report 2018

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Note	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
Revenue and other income	7	545,404	523,443	56,449	54,220
Employee benefits expense		(132,096)	(121,421)	(962)	(884)
Depreciation and amortisation expenses	8(a)	(86,036)	(89,046)	-	-
Leasing and vehicle management expenses		(92,894)	(82,493)	-	-
Brokerage commissions and incentives		(42,018)	(45,746)	-	-
Claims incurred		(11,103)	(9,392)	-	-
Consulting expenses		(2,396)	(3,265)	(201)	(337)
Marketing expenses		(4,930)	(4,102)	-	-
Property and corporate expenses		(11,130)	(11,371)	(336)	(335)
Technology and communication expenses		(11,909)	(10,560)	-	-
Other expenses		(12,353)	(11,360)	-	(2)
Finance costs		(9,644)	(11,353)	(1,154)	(1,507)
Share of equity accounted joint venture loss	16	(1,365)	(1,260)	-	-
Impairment	8(a)	(39,388)	(20,000)	(44,587)	(20,000)
Loss on disposal of business	8(a)	(8,559)	-	-	-
Contingent consideration fair valuation	22	5,348	349	-	-
Acquisition expenses		-	(1,076)	-	-
Profit before income tax		84,931	101,347	9,209	31,155
Income tax (expense) / benefit	9(a)	(35,097)	(33,445)	783	876
Net profit for the year		49,834	67,902	9,992	32,031
Profit is attributable to:					
Owners of the Company		50,303	67,902	9,992	32,031
Non-controlling interests		(469)	-	-	-
		49,834	67,902	9,992	32,031
Other comprehensive income					
Items that may be re-classified subsequently to profit or loss:					
Changes in fair value of cash flow hedges		169	685	(68)	-
Exchange differences on translating foreign operations		3,457	(3,662)	-	-
Income tax on other comprehensive income		(37)	(165)	20	-
Other comprehensive income / (loss) for the year		3,589	(3,142)	(48)	-
Total comprehensive income for the year		53,423	64,760	9,944	32,031
Total comprehensive income for the year is attributable to:					
Owners of the Company		53,892	64,760	9,944	32,031
Non-controlling interests		(469)	-	-	-
Total comprehensive income for the year		53,423	64,760	9,944	32,031
Basic earnings per share (cents)	10	60.9	81.6		
Diluted earnings per share (cents)	10	60.6	81.5		

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

Statements of Financial Position

As at 30 June 2018

	Note	Consolidated Group		Parent Entity	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current assets					
Cash and cash equivalents	12	99,667	59,416	3,991	5,835
Trade and other receivables	13	52,402	45,922	7,258	7,415
Finance lease receivables	14	71,137	60,920	-	-
Assets under operating lease	17(a)	70,910	75,195	-	-
Inventory		10,896	6,047	-	-
Prepayments		5,449	6,564	-	-
Deferred warranty acquisition costs		2,385	2,246	-	-
Derivative financial instruments		37	-	-	-
Total current assets		312,883	256,310	11,249	13,250
Non current assets					
Property, plant and equipment	17(a)	238,461	231,536	-	-
Finance lease receivables	14	100,495	107,255	-	-
Intangible assets	6	205,939	250,746	-	-
Other financial assets	15	1,169	1,583	282,246	320,307
Deferred warranty acquisition costs		2,226	1,375	-	-
Deferred tax assets	9(c)	729	175	-	-
Total non current assets		549,019	592,670	282,246	320,307
TOTAL ASSETS		861,902	848,980	293,495	333,557
Current liabilities					
Trade and other payables	18	95,267	73,301	150,099	133,227
Other liabilities	19	12,821	14,007	-	-
Provisions	20	15,406	12,997	-	-
Unearned premium liability		7,566	6,949	-	-
Current tax liability		2,812	7,833	6,535	8,951
Borrowings	4, 21	14,505	88,727	11,500	11,500
Contingent consideration	22	1,756	-	-	-
Derivative financial instruments		-	134	68	-
Total current liabilities		150,133	203,948	168,202	153,678
Non current liabilities					
Borrowings	4, 21	323,371	250,877	18,583	30,057
Contingent consideration	22	4,402	10,815	-	-
Unearned premium liability		6,359	3,926	-	-
Provisions	20	2,327	2,900	-	-
Deferred tax liabilities	9(c)	3,933	5,519	558	568
Total non current liabilities		340,392	274,037	19,141	30,625
TOTAL LIABILITIES		490,525	477,985	187,343	184,303
NET ASSETS		371,377	370,995	106,152	149,254
Equity					
Issued capital	23(a)	135,868	141,088	135,868	141,088
Reserves		5,568	(5,948)	11,543	3,200
Retained earnings		229,941	235,855	(41,259)	4,966
TOTAL EQUITY		371,377	370,995	106,152	149,254

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

Statements of Changes in Equity

For the year ended 30 June 2018

Consolidated Group

2018	Note	Issued capital $'000	Treasury reserve $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Outside Equity Interest $'000	Total $'000
Equity as at beginning of year	23	141,088	(6,892)	235,855	10,092	(95)	(9,053)	-	370,995
Profit attributable to members of the parent entity		-	-	50,303	-	-	-	(469)	49,834
Other comprehensive income after tax		-	-	-	-	132	3,457	-	3,589
Total comprehensive income for the period		-	-	50,303	-	132	3,457	(469)	53,423
Transactions with owners in their capacity as owners:									
Share-based expense		-	-	-	1,499	-	-	-	1,499
Exercise of employee options		4,477	-	-	-	-	-	-	4,477
Premium from grant of options		50							50
Treasury shares	24(d)	(9,747)	6,892	-	-	-	-	-	(2,855)
Dividends paid	11	-	-	(56,217)	-	-	-	-	(56,217)
Equity Contribution		-	-	-	-	-	-	5	5
Equity as at 30 June 2018		135,868	-	229,941	11,591	37	(5,596)	(464)	371,377

Consolidated Group

2017	Note	Issued capital $'000	Treasury reserve $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
Equity as at beginning of year	23	144,380	-	222,029	10,092	(615)	(5,391)	370,495
Profit attributable to members of the parent entity		-	-	67,902	-	-	-	67,902
Other comprehensive income after tax		-	-	-	-	520	(3,662)	(3,142)
Total comprehensive income for the period		-	-	67,902	-	520	(3,662)	64,760
Transactions with owners in their capacity as owners:								
Treasury shares	24(d)	(3,292)	(6,892)	-	-	-	-	(10,814)
Dividends paid	11	-	-	(54,076)	-	-	-	(54,076)
Equity as at 30 June 2017		141,088	(6,892)	235,855	10,092	(95)	(9,053)	370,995

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

Statements of Changes in Equity

For the year ended 30 June 2018

2018	Note	Parent Entity Issued Capital $'000	Treasury Reserve $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Total $'000
Equity as at beginning of year	23	141,088	(6,892)	4,966	10,092	-	149,254
Profit attributable to members of the parent entity		-	-	9,992	-	-	9,992
Other comprehensive income after tax		-	-	-	-	(48)	(48)
Total comprehensive income for the year		-	-	9,992	-	(48)	9,944
Transactions with owners in their capacity as owners:							
Share-based expense		-	-	-	1,499	-	1,499
Exercise of employee options		4,477	-	-	-	-	4,477
Premium from grant of options		50	-	-	-	-	50
Treasury Shares	24(d)	(9,747)	6,892	-	-	-	(2,855)
Dividends paid	11	-	-	(56,217)	-	-	(56,217)
Equity as 30 June 2018		135,868	-	(41,259)	11,591	(48)	106,152

2017	Note	Parent Entity Issued Capital $'000	Treasury Reserve $'000	Retained Earnings $'000	Option Reserve $'000	Total $'000
Equity as at beginning of year	23	144,380	-	27,011	10,092	181,483
Profit attributable to members of the parent entity		-	-	32,031	-	32,031
Other comprehensive income after tax		-	-	-	-	-
Total comprehensive income for the year		-	-	32,031	-	32,031
Transactions with owners in their capacity as owners:						
Treasury Shares	24(d)	(3,292)	(6,892)	-	-	(10,184)
Dividends paid	11	-	-	(54,076)	-	(54,076)
Equity as at 30 June 2017		141,088	(6,892)	4,966	10,092	149,254

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

Statements of Cash Flows

For the year ended 30 June 2018

	Note	Consolidated Group		Parent Entity	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cash flows from operating activities					
Receipts from customers		586,545	570,101	-	-
Payments to suppliers and employees		(257,172)	(254,380)	(1,463)	(1,376)
Proceeds from sale of assets under lease		86,036	63,587	-	-
Proceeds from sale of lease portfolio	26(b)	91,601	-	-	-
Payments for assets under lease		(336,694)	(281,412)	-	-
Interest received		1,598	1,410	43	144
Interest paid		(11,217)	(10,531)	(1,134)	(1,507)
Dividends received		-	-	56,406	54,076
Income taxes paid		(43,037)	(40,635)	-	-
Subsidiaries' acquisition expense		-	(1,076)	-	-
Net cash from operating activities	26(a)	117,660	47,064	53,852	51,337
Cash flows from investing activities					
Payments for capitalised software	6(c)	(11,095)	(6,888)	-	-
Payments for plant and equipment		(3,081)	(1,353)	-	-
Payments for subsidiary investments (net of cash acquired)		-	(8,919)	(4,929)	(2,403)
Payments for joint venture subordinated loans		(868)	(1,220)	-	-
Net cash used in investing activities		(15,044)	(18,380)	(4,929)	(2,403)
Cash flows from financing activities					
Proceeds from borrowings		133,231	58,032	-	-
Repayment of borrowings		(141,408)	(58,042)	(11,500)	(11,500)
Payments for treasury shares		(2,855)	(10,184)	(2,489)	(10,184)
Proceeds from exercise of share options		4,527	-	4,161	-
Dividends paid by parent entity	11	(56,217)	(54,076)	(56,217)	(54,076)
Proceeds from controlled entities		-	-	15,278	26,945
Net cash used in financing activities		(62,722)	(64,270)	(50,767)	(48,815)
Effect of exchange changes on cash and cash equivalents		357	(581)	-	-
Net increase / (decrease) in cash and cash equivalents		40,251	(36,167)	(1,844)	119
Cash and cash equivalents at beginning of year		59,416	95,583	5,835	5,716
Cash and cash equivalents at end of year	12	99,667	59,416	3,991	5,835

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 General information

The financial report of McMillan Shakespeare Limited and its subsidiaries for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 22 August 2018 and covers McMillan Shakespeare Limited ('the Company' or the 'parent entity') as an individual entity as well as 'the Group', consisting of McMillan Shakespeare Limited and its subsidiaries ('the Group') as required by the *Corporations Act 2001* (Cth).

The financial report is presented in Australian dollars, which is the Group's functional and presentation currency.

McMillan Shakespeare Limited is a company limited by shares and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange.

2 Significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board (AASB), and *Corporations Act 2001* (Cth). McMillan Shakespeare Limited is a for-profit entity for the purpose of preparing the financial statements. Material accounting policies adopted in the preparation of these financial statements are presented below and have been applied consistently unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Compliance with IFRS

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with IFRSs.

(b) Rounding of amounts

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

(c) New accounting standards and interpretations adopted during the year

The amended accounting standards and interpretations issued by the AASB during the year that were mandatory for the year were adopted. None of these amendments and interpretations materially affected any of the amounts recognised in the current period or prior period.

(d) New accounting standards and interpretations

The following new accounting standards, amendments to standards and interpretations (Standards) have been issued and are effective for annual reporting periods beginning after 30 June 2018, but have not been applied in preparing this financial report. The Consolidated Group has not adopted these Standards early and the extent of their impact has not been fully determined unless otherwise noted below. None of these are expected to have a significant effect on the financial report of the Consolidated Group unless otherwise noted in the Standards below.

(i) *AASB 9 Financial Instruments (effective for annual reporting periods on or after 1 January 2018)*

AASB 9 introduces new requirements for the classification and measurement and de-recognition of financial assets and financial liabilities. The new standard replaces AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The new standard also sets out new rules for hedge accounting and introduces expanded disclosure requirements and changes in presentation. In relation to the impairment of financial assets, the new requirement is for the use of an expected credit loss model, to replace the current incurred credit loss model.

The Group has completed its assessment of the impact of AASB 9 and will adopt the new standard on the required effective date in the year ending 30 June 2019. Findings from the assessment are commented below.

Principle classifications

There are three new financial asset classifications; measurement at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) to replace the current classifications in held to maturity, loans and receivables and available for sale. The new classification if applied at 30 June 2018 would not have a significant impact on the accounting for trade receivables which are accounted for at amortised cost.

Impairment

AASB 9 introduces the expected loss model (ECL) to replace the incurred loss model in the current standard. The ECL model requires an assessment of expected credit losses and changes to those losses at each reporting date. This effectively means a credit default event need not have occurred and the assessment will inherently require considerable judgement for factors affecting the recoverable rate in a probability-weighted calculation. The loss allowance will be measured under the following methods:

- 12 month ECL (simplified approach) as a measure of possible default within the next 12 months; and
- Lifetime ECLs that measure all possible default events over the life of the financial assets where there has been or is expected to be a significant change in credit risk.

Trade receivables ECL using the simplified approach is not significantly different to the current provision for doubtful debts of $714,000 (note 13) at 30 June 2018.

The Group continues to assess the impact of the new impairment model on finance lease receivables.

Hedging

Hedge accounting under AASB 9 introduces greater flexibility to the type of transactions that can be hedged and the type of risk components in non-financial items that qualify as hedging instruments. The effectiveness test in the current standard has been replaced and now includes a qualitative approach to the assessment or the in-principle economic relationship between the hedging instrument and the hedged item.

The Group uses interest rate swaps to manage its exposure to the volatility in interest rates as part of its Asset Management operations and in line with the group's risk management objectives. The hedging relationship will qualify under the new standard relatively unchanged as the group is nearly always highly effectively hedged.

Notes to the Financial Statements

For the year ended 30 June 2018

(ii) AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods on or after 1 January 2018)

AASB 15 contains principles to determine the amount and timing of revenue recognition. The new standard is based on the principle that revenue is recognised when control of goods or services transfers to a customer.

The Group has completed its assessment of AASB 15 and will adopt the new standard on the required effective date in the year ending 30 June 2019. Findings from the assessment are commented below.

Remuneration services

The Group generates revenue from the provision of remuneration services. Revenue from the administration of salary packaging services is recognised over the period that the service is completed. This revenue stream is stand-alone and separate as it is not linked to the provision of leases or any other services being provided as part of a single contractual arrangement. In respect of commissions, the Group receives this revenue acting in the capacity of an agent. Fees and commissions for the procurement of novated leases are recognised when the customer receives the items procured. Trail commissions are recognised as revenue when services are rendered and all performance obligations are fulfilled.

Lease rental service

Revenue from lease rental services relate to the Asset Management segment and include rental and interest income from operating and finance leasing, tyre and maintenance services and other in-life asset management services.

Operating lease rental income is recognised on a straight line basis over the term of the contract. Interest from finance leases is recognised over the term of the lease for a constant periodic return on the amount invested in the lease asset. Both of these revenue streams are recognised in accordance with AASB 117 Leases. Revenue from other in-life-services such as tyre and maintenance services revenue are recognised to the extent that services are completed less a deferral as an unearned provision for expected future services. The unearned liability is currently disclosed as a separate provision to recognise the contractual condition to meet the costs of future services based on the services provided up to reporting date.

Brokerage commissions and financial services

The Group's revenue from retail financial services include fees earned from financiers and insurers for the origination of financial products as well as volume based commissions. The Group earns revenue from the third party distribution of insurance products and the administration of risk warranty product. The Group acts in the capacity as agent and does not carry the risk as underwriter for the sale of warranty products, however the Group applies its discretion to assist dealers to meet the cost of customer claims in relation to the dealer warranty products it administers. The Group does not expect to be considered as a provider of insurance to be accounted under AASB 17 Insurance Contracts when it becomes applicable in 2021.

For the aggregation business, commission revenue is currently recognised on completion of the service provided to the customer or the customer has taken delivery of the product, whichever is later. Where there is a potential for the commission to be clawed back by the financial services provider when a policy is cancelled, a provision is calculated and expensed. It has been preliminarily assessed that under AASB 15, revenue from contracts that are variable because of refunds or rebates are to be measured at their expected recoverable amount net of estimated clawbacks.

Revenue from dealer network products is recognised over the warranty period based on expected claims. We are still assessing the impact of the new revenue standard but do not expect this to be significant.

There is no material impact from AASB 15 on current policies for the recognition of revenue.

(iii) AASB 16 Leases (effective for annual reporting periods on or after 1 January 2019)

AASB 16 introduces a single comprehensive on-balance sheet accounting model for lease arrangements that apply to lessors and lessees. This effectively removes the distinction between operating leases (off-balance sheet) and finance leases (on-balance sheet) with the exception for short term leases and leases of low value assets. Lessees will now have to bring operating leases onto the balance sheet and recognise a right-of-use asset (ROU) being the asset that is leased and a corresponding lease liability for the amount used to finance the ROU. Committed payments that are now recognised as rental expense will be replaced by the depreciation of ROU and the interest expense from the lease liability.

The Group has completed a preliminary assessment of the impact of AASB 16 and is finalising for mandatory adoption in the year ending 30 June 2020.

Notes to the Financial Statements

For the year ended 30 June 2018

Accounting for the Group's operating lease assets as lessor
The Asset Management segment provides operating leasing finance to its customers and the investment in the assets for this business is recognised as assets under operating lease as disclosed in note 17 to the financial statements. Income from the leasing of these assets is disclosed in lease rental service revenue (note 7). The accounting for lessors is not expected to change.

Accounting for the Group's operating lease commitments as lessee
All leases will be required to be recognised on the balance sheet. Historical information about operating lease commitments that may be required to be recognised on balance sheet is included in Note 27(a). The preliminary assessment indicates that these arrangements meet the definition of a lease under AASB 16.

The other impacts on the adoption of AASB 16 have been considered below.

- For reporting periods post-transition, rental expense currently recognised will be replaced by the depreciation of the ROU and the interest expense on the lease liability. This will consequently increase EBITDA and EBIT respectively.
- Borrowing arrangements could be affected. Interest cover ratio will improve and the lease liability will add to the total borrowings and consequently, affects the borrowing ratio. The Group is in discussion with its bank lenders and it is not expected that it will have material impact on the borrowing facilities, capacity or covenants.
- The consolidated statement of cash flows will recognise changes to the lease liability and interest in the period as financing activities in contrast to rental expenses currently recognised as operating activity.

(e) Correction of error in accounting for revenue

A subsidiary in the Asset Management segment that provides brokerage services for financing of motor vehicles is also engaged in the selling of motor vehicles. In this process, the entity acquires the cars and receives all of the profit or loss that results from the ultimate sale of the car. As the entity assumes ownership of the motor vehicles and all the risk attached to them, the proceeds from disposal of the motor vehicles would have been recognised as revenue. In the previous year, the profit from the sale of motor vehicles was recorded as revenue and was under-stated accordingly. The error has been corrected and consolidated revenue of the Asset Management segment in 2017 has been re-stated to include the proceeds from the sale of motor vehicles by $10,411,000 with a corresponding increase to cost of sales.

There was no impact to net profit after tax, equity, assets or liabilities.

3 Critical judgements and significant accounting estimates

The preparation of financial statements requires the Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Goodwill and indefinite life intangible assets
Goodwill and brands that have indefinite lives are tested for impairment bi-annually and more frequently if there are indications of impairment. The recoverable amounts of cash generating units have been determined using the value-in-use methodology. The variables used in the calculation requires the use of assumptions that affect earnings projections and the estimation of a discount rate that uses a cost of capital and risk premia specific to the cash generating unit amongst other factors.

Lease assets residual value
The Group has proprietary interest in assets held under operating leases and accordingly, carry an inherent risk for the residual value of the asset. Estimates of significance are used in determining the residual values of operating lease and rental assets at the end of the contract date and income from maintenance services, which is recognised on a percentage stage of completion. The assessment of residual values includes critical forecast of the future value of the asset lease portfolio at the time of sale and considers the potential impact, economic and vehicle market conditions and dynamics.

Under the Principal and Agency (P&A) financing arrangement with an external financier, the Group acquires the lease assets on the termination of the lease contract and is thereby, exposed to the residual value of the underlying asset. A provision for residual value risk is recognised and this assessment similarly includes the forecast of the future value of these P&A funded assets.

Notes to the Financial Statements

For the year ended 30 June 2018

Tyre and maintenance services

The Group holds the residual risk for the provision of tyre and maintenance services. Profit is attributable to contracts over the life of the contract and losses are provided in full in the period that the loss making contract is first determined. The assessment of attributable profit and the loss provision requires significant estimates in relation to factors that affect expected realisable margins. Calculations are performed monthly and key estimates and underlying assumptions are reviewed on an ongoing basis.

Underwriting premium revenue

Underwriting premium revenue is recognised over the period earned and the unearned position is deferred as unearned premium in liabilities. The measurement is based upon the expected future pattern of incidence of risk in relation to warranty contracts. In determining the estimated pattern of incidence of risk, the Group uses a variety of estimation techniques generally based on statistical analysis of the Group and industry experience that assumes that the development pattern of current claims will be consistent with past experience as appropriate.

No other judgements, estimates or assumptions are considered significant.

4 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management approach is to identify the risk exposures and implement safeguards which seek to manage these exposures and minimise potential adverse effects on the financial performance of the Group. The Board is responsible for monitoring and managing the financial risks of the Group. The Board monitors these risks through monthly board meetings, via regular reports from the Risk and Compliance Committee and ad hoc discussions with senior management, should the need arise. A risk report is presented to the Audit, Risk and Compliance Committee at least four times per year. The Credit and Treasury reports are provided to the Credit Committee and Interest Committee respectively, by the Group Treasurer/Head of Credit, including sensitivity analysis in the case of interest rate risk and aging / exposure reports for credit risk. These committee reports are discussed at Board meetings monthly, along with management accounts.
All exposures to risk and management strategies are consistent with prior year, other than as noted below.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Liquidity management strategy

The Asset Management business and the resultant borrowings exposes the Group to potential mismatches between the refinancing of its assets and liabilities. The Group's objective is to maintain continuity and flexibility of funding through the use of committed revolving bank club facilities based on common terms, asset subordination and surplus cash as appropriate to match asset and liability requirements.

The Group's policy is to ensure that there is sufficient liquidity through access to committed available funds to meet at least twelve months of average net asset funding requirements augmented with uncommitted principle and agency facilities. This level is expected to cover any short term financial market constraint for funds. The Group monitors daily positive operating cash flows and forecasts cash flows for twelve month period. Significant cash deposits have been maintained which enable the Group to settle obligations as they fall due without the need for short term financing facilities. The Chief Financial Officer and the Group Treasurer monitor the cash position of the Group daily.

Financing arrangements

The Group's committed borrowing facilities for the Asset Management segment to finance its fleet management portfolio and other borrowing requirements are as follows.

Asset Management revolving borrowing facilities in local currency	2018			2017		
	Facility	Used	Unused	Facility	Used	Unused
Revolving borrowing facilities (AUD '000)	375,922	293,029	82,893	344,659	281,972	62,687

Secured bank borrowings (excluding borrowing costs)	Maturity dates	Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/03/2018	-	-	-	50,000	49,800	200
AUD'000	31/03/2020	65,000	65,000	-	65,000	41,200	23,800
AUD'000	31/03/2021	75,000	60,000	15,000	60,000	60,000	-
AUD'000	31/03/2021	50,000	45,500	4,500	-	-	-
NZD'000	31/03/2020	10,900	10,900	-	10,500	4,800	5,700
NZD'000	31/03/2020	21,800	15,600	6,200	10,500	9,850	650
GBP'000	03/04/2018	-	-	-	12,000	11,550	450
GBP'000	31/12/2019	35,000	22,300	12,700	35,000	35,000	-
GBP'000	31/03/2020	42,000	30,500	11,500	42,000	22,600	19,400
GBP'000	31/03/2021	12,000	3,550	8,450	35,000	35,000	-

The revolving borrowing facilities above have been provided by a financing club of three major Australian banks operating under common terms and conditions. These facilities are further augmented by uncommitted P&A facilities of $45 million. The Group believes that this balanced arrangement improves liquidity, provides funding diversification and provides a lower overall funding cost. The bank loans are denominated in local currency of the principal geographical markets to remove associated foreign currency cash flow exposure.

The revolving facilities of $50 million that matured on 31 March 2018 were extended for three years with a new maturity date of 31 March 2021. The existing headroom from committed facilities and uncommitted principal and agency facilities, together with contractual lease receivable cash flows, will provide the necessary funding requirements for the next twelve months of forecast new lease additions.

Other amortising borrowing facilities in local currency	2018			2017		
	Facility	Used	Unused	Facility	Used	Unused
Amortising borrowing facilities (AUD '000)	45,284	45,284	-	57,993	57,993	-
Total Borrowings (AUD '000)	421,206	338,313	82,893	402,652	339,965	62,687

Secured bank borrowings (excluding borrowing costs)	Maturity dates	Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/03/2020	30,125	30,125	-	41,625	41,625	-
GBP'000	31/03/2018	-	-	-	3,950	3,950	-
GBP'000	31/01/2021	3,500	3,500	-	-	-	-
GBP'000	31/03/2022	5,015	5,015	-	5,723	5,723	-

The above amortising facility of $30.1 million was established to fund the acquisition of the Presidian Group, the facility of GBP3.5 million which was re-financed by another bank during the year was to fund the acquisition of CLM Fleet Management plc and the facility for GBP5.0 million to fund the acquisition of European Vehicle Contracts Limited and Capex Asset Finance Limited.

Maturities of financial liabilities

The table below analyses the Group's and the parent entity's financial liabilities into relevant maturity groupings based on their contractual maturities and based on the remaining period to the expected settlement date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.

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For the year ended 30 June 2018

Consolidated Group – at 30 June 2018: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount / liabilities $'000
Trade payables	28,078	-	-	-	-	28,078	28,078
Other creditors and liabilities	80,939	5,635	4,364	3,811	-	94,749	94,825
Borrowings	13,416	13,111	143,790	192,490	-	362,807	337,876
	122,433	18,746	148,154	196,301	-	485,634	460,779

Consolidated Group – at 30 June 2017: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount / liabilities $'000
Trade payables	19,198	-	-	-	-	19,198	19,198
Other creditors and liabilities	65,728	6,315	4,170	10,007	-	86,220	85,426
Borrowings	11,275	86,450	85,882	184,850	-	368,457	339,965
	96,201	92,765	90,052	194,857	-	473,875	444,589

Parent – at 30 June 2018: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/ liabilities $'000
Amounts payable to wholly owned entities and other payables	150,099	-	-	-	-	150,099	150,099
Borrowings	6,320	6,203	19,091	-	-	31,614	30,083
Financial guarantee contracts	7,096	6,909	124,698	192,490		331,193	307,793
	163,515	13,112	143,789	192,490	-	512,906	487,975

Parent – at 30 June 2017: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/ liabilities $'000
Amounts payable to wholly owned entities and other payables	132,952	-	-	-	-	132,952	132,952
Borrowings	6,327	6,243	12,234	18,960	-	43,764	41,625
Financial guarantee contracts	4,947	80,296	73,648	165,890	-	324,781	298,340
	144,226	86,539	85,882	184,850	-	501,497	472,917

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations. The Company and Group have exposure to credit risk through the receivables' balances, customer leasing commitments and deposits with banks. The following carrying amount of financial assets represent the maximum credit exposure at reporting date.

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Trade and other receivables	52,402	45,922	-	20
Deposits with banks	99,667	59,416	3,991	5,759
Finance lease & hire purchase receivables	171,632	168,175	-	-
Operating lease assets	302,128	299,189	-	-
	625,829	572,702	3,991	5,779

Lease assets of the Asset Management business represents future lease rentals that have yet to be invoiced. Such assets are secured against underlying assets.

Credit risk management strategy

Credit risk arises from cash and cash equivalents and deposits with banks as well as exposure from outstanding receivables and unbilled future rentals for leased vehicles and counterparty risks associated with interest and currency swaps. For deposits with banks, only independently rated institutions with upper investment-grade ratings are used, in accordance with the Board approved Investment Policy.

Credit risk relating to the leasing of assets is managed pursuant to the Board approved Credit Policy by the Group CFO and the Group Treasurer/ Head of Credit. The policy is reviewed annually and prescribes minimum criteria in the credit assessment process that includes credit risk rating of the customer, concentration risk parameters, type and intended use of the asset under lease and the value of the exposure. A two tiered Credit Committee structure is in place to stratify credit applications for assessment; a Local Credit Committee and an Executive Credit Committee reviewing applications based on volume, nature and value of the application. The Board receives a monthly report from the Credit Committee and periodically reviews concentration limits that effectively spread the risks as widely as possible across asset classes, client base, industries, regions and asset manufacturer. There is a broad spread of credit risk concentration through the Group's exposure to individual customers, industry sectors, asset types, asset manufacturers or regions.

Where customers are independently rated, these ratings are taken into account. If there is no independent official rating, management assesses the credit quality of the customer using the Group's internal risk rating tool, taking into account information from an independent national credit bureau, its financial position, business segment, past experience and other factors using an application scorecard or other risk-assessment tools. Collateral is also obtained where appropriate, as a means of mitigating risk of financial loss from defaults. The overall debtor aging position is reviewed monthly by the Board, as is the provision for any impairment in the trade receivables balance.

(c) Market risk

(i) Interest rate risk

The Group's strong cash flow from operations and borrowings exposes the Group to movements in interest rates where movements could directly affect the margins from existing contracts and the pricing of new contracts for assets leased and income earned from surplus cash.

Exposure to interest rate volatility is managed via the Group's Treasury and pricing policies. The policies aim to minimise mismatches between the amortised value of lease contracts and the sources of financing to mitigate repricing and basis risk. Mismatch and funding graphs including sensitivity analysis, are reported monthly to the Board.

Interest rate risk arises where movements in interest rates affect the net margins on existing contracts for assets leased. As the Group carries significant cash and borrowings, movements in interest rates can affect net income to the Group, particularly for the Group Remuneration Services segment.

Notes to the Financial Statements

For the year ended 30 June 2018

Borrowings issued at variable rates expose the Group to repricing interest rate risk. As at the end of the reporting period, the Group had the following variable rate borrowings under long-term revolving facilities attributable to the Asset Management business and other loan facilities drawn on.

	2018		2017	
	Borrowings '000	Weighted average interest rate %	Borrowings '000	Weighted average interest rate %
AUD'000	222,836	3.36%	206,584	3.01%
GBP'000	64,865	1.88%	78,823	1.58%
Total AUD'000	**338,311**	**2.85%**	**339,604**	**2.62%**

The weighted average interest rate of each borrowing is used as an input to asset repricing decisions for the geographical markets operated in. An analysis of maturities is provided in note 4(a).

To mitigate the cash flow volatility arising from interest rate movements, the Group has entered into interest rate swaps with counterparties rated as AA- by Standard & Poors, to exchange, at specified periods, the difference between fixed and variable rate interest amounts calculated on contracted notional principal amounts. The contracts require settlement of net interest receivable or payable on a quarterly basis. These swaps are designated to hedge underlying borrowing obligations and match the interest-repricing profile of the lease portfolio in order to preserve the contracted net interest margin. At 30 June 2018, the Group's borrowings for the Asset Management business and the loan of $293,029,000 (2017: $281,972,000) were covered by interest rate swaps at a fixed rate of interest of 3.00% (2017: 2.61%).

The Group's interest rate risk also arises from cash at bank and deposits, which are at floating interest rates.

At reporting date, the Group had the following variable rate financial assets and liabilities outstanding:

	2018	2017
	Balance $'000	Balance $'000
Cash and deposits	99,667	59,416
Bank loans (Asset Management segment) [1]	(308,187)	(298,340)
Interest rate swaps (financed amounts)	259,843	255,818
Bank loans (Presidian Group acquisition) [1]	(30,125)	(41,625)
Net exposure to cash flow interest rate risk	**21,198**	**(24,731)**

1. Excluding capitalised borrowing costs of $394,000 (2016: $293,000) for Asset Management and $42,000 (2016 $68,000) for the bank loan for Presidian.

Sensitivity analysis – floating interest rates:

At 30 June 2018, the Group's and parent entity's cash and cash equivalents give rise to credit and interest rate risk. Cash and cash equivalent funds held by the Group and the parent entity include funds at bank and in deposit net of bank borrowings that are not hedged. The Group also holds cash and cash equivalent funds in trust to which the Group has contractual beneficial entitlement to the interest. If the Australian interest rate weakened or strengthened by 25 basis points, being the Group's view of possible fluctuation, and all other variables were held constant, the Group's post-tax profit for the year would have been $700,755 (2017: $528,000) higher or lower and the parent entity $45,000 (2017: $63,000) higher or lower, depending on which way the interest rates moved based on the cash and cash equivalents and borrowings balances at reporting date.

(ii) Foreign currency risk

The Group's exposure to foreign currency risk arises when financial instruments that are denominated in a currency other than the functional currency in which they are measured. This includes the Group's inter-company receivables and payables which do not form part of the net investment in the UK and New Zealand entities. The Group's exposure to translation related risks from financial and non-financial items of the UK and New Zealand entities do not form part of the Group's risk exposure given that these entities are part of longer term investments and consequently, their sensitivity to foreign currency movements are not measured.

The Group's transactions are pre-dominantly denominated Australian dollars which is the functional and presentation currency.

(iii) Other market price risk

The Consolidated Group does not engage in any transactions that give rise to any other market risks.

(d) Asset risk

The Group's exposure to asset risk is mainly from the residual value of assets under lease and the maintenance and tyre obligations to meet claims for these services sold to customers. Residual value is an estimate of the value of an asset at the end of the lease. This estimate, which is formed at the inception of the lease and any subsequent impairment, exposes the Group to potential loss from resale if the market price is lower than the value as recorded in the books. The risk relating to maintenance and tyre services arises where the costs to meet customer claims over the contracted period exceed estimates made at inception.

The Group continuously reviews the portfolio's residual values via a Residual Value Committee comprising experienced senior staff with a balance of disciplines and responsibilities, who measure and report all matters of risk that could potentially affect residual values and maintenance costs and matters that can mitigate the Group from these exposures. The asset risk policy sets out a framework to measure and factor into their assessment such critical variables as used car market dynamics, economic conditions, government policies, the credit market and the condition of assets under lease.

At reporting date, the portfolio of motor vehicles under operating lease of $302,128,000 (2017: $299,189,000) included a residual value provision of $4,654,000 (2017: $4,829,000).

5 Segment Reporting

Reportable segments

(a) Description of Segments

The Group has identified its operating segments based on the internal reports reviewed and used by the Group's chief decision maker (the CEO) to determine business performance and resource allocation. Operating segments have been identified after considering the nature of the products and services, nature of the production processes, type of customer and distribution methods.

Three reportable segments have been identified, in accordance with AASB 8 Operating Segments based on aggregating operating segments taking into account the nature of the business services and products sold and the associated business and financial risks and how they affect the pricing and rates of return.

Group Remuneration Services - This segment provides administrative services in respect of salary packaging and facilitates the settlement of motor vehicle novated leases for customers, but does not provide financing. The segment also provides ancillary services associated with motor vehicle novated lease products.

Asset Management - This segment provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment. In the previous the year, the segment acquired European Vehicle Contracts Limited and Capex Asset Finance Limited to complement the existing business and provide extended geographical coverage in the UK.

Retail Financial services - This segment provides retail brokerage services, aggregation of finance originations and extended warranty cover, but does not provide financing.

(b) Segment information managed by the CEO

The CEO uses several bases to measure Segment performance amongst which is Underlying Net Profit After Tax and Amortisation (UNPATA) that is presented below, being net profit after-tax but before the impact of acquisition-related items and discontinuation and disposal of busineses. Segment revenue and expenses are reported as attributable to the shareholders of the Company and exclude outside equity interests share.

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For the year ended 30 June 2018

2018	Group Remuneration Services	Asset Management $'000	Retail Financial Services $'000	Unallocated $'000	Consolidated $'000
Revenue	207,712	243,726	92,547	1,419	545,404
Underlying net profit after tax and amortisation (UNPATA)	64,148	21,601	8,634	(864)	93,519
Reconciliation to statutory net profit after tax attributable to members of the parent entity					
Disposal of business	-	-	(8,559)	-	(8,559)
Amortisation of intangible assets acquired on business combination	-	(1,620)	(3,145)	-	(4,765)
Fair valuation of contingent consideration	-	5,348	-	-	5,348
Amortisation of contingent consideration financing charge	-	(311)	-	-	(311)
Impairment of goodwill and intangible assets	-	-	(39,388)	-	(39,388)
Total UNPATA adjustments	-	3,417	(51,092)	-	(47,675)
Income tax	-	477	3,982	-	4,459
UNPATA adjustments after-tax	-	3,894	(47,110)	-	(43,216)
Statutory net profit after-tax attributable to members of the parent entity	**64,148**	**25,495**	**(38,476)**	**(864)**	**50,303**

2017	Group Remuneration Services	Asset Management[1] $'000	Retail Financial Services $'000	Unallocated $'000	Consolidated $'000
Revenue (re-stated)[2]	189,709	226,159	106,023	1,553	523,443
Underlying net profit after tax and amortisation (UNPATA)	58,341	17,506	12,379	(1,059)	87,167
Reconciliation to statutory net profit after tax attributable to members of the parent entity					
Amortisation of intangible assets acquired on business combination	-	(1,223)	(2,915)	-	(4,138)
Fair valuation of contingent consideration	-	349	-	-	349
Amortisation of contingent consideration financing charge	-	(240)	-	-	(240)
Impairment of goodwill and intangible assets	-	-	(20,000)	-	(20,000)
Acquisition expenses	-	-	-	(1,076)	(1,076)
Total UNPATA adjustments	-	(1,114)	(22,915)	(1,076)	(25,105)
Income tax	-	226	5,530	84	5,840
UNPATA adjustments after-tax	-	(888)	(17,386)	(992)	(19,265)
Statutory net profit after-tax attributable to members of the parent entity	**58,341**	**16,618**	**(5,006)**	**(2,051)**	**67,902**

1. Asset Management includes EVC from 1 December 2016 and CAPEX from 6 January 2017.
2. Revenue in 2017 has been re-stated to include $10,411,000 for proceeds from sale of motor vehicles when previously profit from the sale was recognised as revenue.

Notes to the Financial Statements

For the year ended 30 June 2018

(c) Other segment information

(i) Segment revenue

Segment revenue is reconciled to the Statement of Profit of Loss as follows:

	2018 $'000	2017 $'000
Total segment revenue	545,404	523,443

Segment revenue above represents sales to external customers and excludes inter-segment sales, consistent with the basis by which the financial information is presented to the Chief Decision Maker.

The accounting policies of the reportable segments are the same as the Group's policies. Segment profit includes the segment's share of centralised general management and operational support services which are shared across segments based on the lowest unit of measurement available to allocate shared costs that reasonably measure each segment's service level requirements and consumption. Segment profit does not include corporate costs of the parent entity, including listing and company fees, director's fees and finance costs relating to borrowings not specifically sourced for segment operations, costs directly incurred in relation to the acquisition of specific acquisition and strategic investment targets or interest revenue not directly attributable to a segment.

Included in the revenue for the Group Remuneration Services segment are revenues of $53,139,000 (2017: $54,747,000) from the Group's largest contract.

(ii) Other segment information

The segment information with respect to total assets is measured in a consistent manner with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. The parent entity's borrowings are not considered to be segment liabilities. The reportable segments' assets and liabilities are reconciled to total assets as follows:

2018	Group Remuneration Services	Asset Management $'000	Retail Financial Services $'000	Unallocated[1] $'000	Consolidated $'000
Segment assets	74,973	578,958	128,228	78,611	861,902
Segment liabilities	54,136	373,121	32,053	30,083	490,525
Additions to segment non-current assets	12,233	132,075	-	-	144,308
Segment depreciation and amortisation[2]	6,189	75,516	50,491	-	132,196
2017					
Segment assets	89,503	538,717	172,069	48,691	848,980
Segment liabilities	56,189	351,691	28,548	41,557	477,985
Additions to segment non-current assets	7,175	146,730	168	-	154,073
Segment depreciation and amortisation[2]	5,074	79,820	24,152	-	109,046

1. Unallocated assets comprise cash and bank balances of segments other than Asset Management, maintained as part of the centralised treasury and funding function of the Group. Unallocated liabilities comprise borrowings for the acquisition of the Retail Financial Services segment, utilising the Group's borrowing capacity and equity to fund the initial acquisition and ongoing loan maintenance utilising centralised treasury controlled funds.
2. RFS depreciation and amortisation includes impairment of goodwill and other intangibles of $39.4 million (2017: $20.0 million) and goodwill and other intangibles written off in the disposal of Money Now of $6.7 million.

(d) Geographical segment information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets[1]	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Australia	476,356	469,693	452,856	569,449
United Kingdom	61,396	36,278	65,668	78,962
New Zealand	7,652	7,061	25,097	17,696
	545,404	**523,443**	543,621	**666,107**

1. Non-current assets do not include deferred tax asset and subordinated loans.

6 Intangible Assets

(a) Carrying values

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Goodwill				
Cost	197,616	195,705	-	-
Impairment loss	(42,336)	(4,519)	-	-
Net carrying value	155,280	191,186	-	-
Brands				
Brands at cost - indefinite life	22,443	22,443	-	-
Impairment loss and disposal	(13,171)	(12,479)	-	-
Sub-total	9,272	9,964	-	-
Brands at cost - finite life	6,598	6,598	-	-
Impairment loss and disposal	(4,319)	(2,828)	-	-
Net carrying value	11,551	13,734	-	-
Dealer relationships				
Cost	28,566	28,120		
Accumulated amortisation	(9,640)	(3,973)	-	-
Impairment loss and disposal	(5,029)	(3,038)	-	-
Net carrying value	13,897	21,109	-	-
Software development costs				
Cost [1]	47,994	39,774	-	-
Accumulated amortisation and disposal	(25,852)	(20,055)	-	-
Net carrying value	22,142	19,719	-	-
Contract rights				
Cost	13,070	13,070	-	-
Accumulated amortisation	(12,985)	(12,523)	-	-
Net carrying value	85	547	-	-
Customer list and relationships				
Cost	6,634	6,361	-	-
Accumulated amortisation	(3,650)	(1,910)	-	-
Net carrying value	2,984	4,451	-	-
Total Intangibles	**205,939**	**250,746**	**-**	**-**

1 Software includes capitalised internal costs.

(b) Recognition and measurement

Intangible assets acquired in a business combination are recognised at their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at their initial value less any accumulated amortisation and accumulated impairment losses. Specific criteria for various classes of intangible assets are stated below.

Intangible assets in software development costs and contract costs, which are not acquired from business combination, are initially measured at cost and subsequently re-measured at cost less amortisation and impairment.

(i) Goodwill

Goodwill represents the excess of the cost of the business combination over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Any impairment is recognised immediately in the statement of profit or loss.

(ii) Identifiable intangible assets acquired from business combination

Identifiable intangible assets with finite lives are amortised over their useful lives and assessed for impairment. Amortisation of identifiable intangible assets is calculated on a straight-line basis over the estimated useful lives as follows:

Intangible asset	Useful life
Dealer relationships and networks	10 to 13 years
Customer contracts	13 years
Brand names	6 years to indefinite

Brand names that have indefinite useful lives will consequently, not be amortised but are subject to annual impairment assessments. Brand names that are restructured or consolidated with other brands and which consequently are considered to have a finite life are amortised over a useful life that represents the expected run-off of economic benefits expected from them.

Brand names that have an indefinite life is pursuant to the Group's plan for its continued use into the foreseeable future and there is no reasonable basis to establish a useful life and consequently any amortisation would be random and may not align with the economic benefit it generates.

(iii) Capitalised software development costs

Software development costs are capitalised when it is probable that future economic benefits attributable to the software will flow to the entity through revenue generation and / or cost reduction. Development costs include external direct costs for services, materials and licences and internal labour related costs directly involved in the development of the software. Capitalised software development costs are amortised from the date of commissioning on a straight line basis over three to five years during which the benefits are expected to be realised.

(iv) Contract rights

Contract rights acquired and amounts paid for contract rights are recognised at the value of consideration paid plus any expenditure directly attributable to the transactions. Contracts are amortised over the life of the contract and reviewed annually for indicators of impairment in line with the Consolidated Group's impairment policy.

(c) Reconciliation of written down values

Consolidated Group

2018	Goodwill $'000	Brands $'000	Dealer relationships $'000	Customer lists and relationships $'000	Software development costs $'000	Contract rights $'000	Total $'000
Net book amount							
Balance beginning of year	191,186	13,734	21,109	4,451	19,719	547	250,746
Additions	-	-	-	-	10,332	-	10,681
Impairment[1]	(34,761)	(639)	(3,095)	(893)	-	-	(39,388)
Disposal of business	(3,056)	(209)	(1,934)	-	(1,500)	-	(7,048)
Amortisation	-	(1,335)	(2,692)	(737)	(6,409)	(462)	(11,635)
Changes in foreign currency	1,911	-	509	163	-	-	2,583
Closing balance	**155,280**	**11,551**	**13,897**	**2,984**	**22,142**	**85**	**205,939**

1 Impairment of intangible assets relating to RFS Retail (refer note 8).

Notes to the Financial Statements

For the year ended 30 June 2018

(c) Reconciliation of written down values (continued)

	Consolidated Group						
2017	Goodwill $'000	Brands $'000	Dealer relationships $'000	Customer lists and relationships $'000	Software development costs $'000	Contract rights $'000	Total $'000
Net book amount							
Balance beginning of year	189,362	27,509	19,914	5,407	17,644	1,529	261,365
Additions	-	-	-	-	6,888	-	6,888
Acquisition through business combination	8,127	-	6,451	-	1,112	-	15,690
Impairment	(4,483)	(12,479)	(3,038)	-	-	-	(20,000)
Amortisation		(1,296)	(2,019)	(677)	(5,994)	(982)	(10,968)
Changes in foreign currency	(1,820)	-	(199)	(279)	69	-	(2,229)
Closing balance	191,186	13,734	21,109	4,451	19,719	547	250,746

(d) Impairment test of goodwill

At each reporting date, the Group reviews the carrying amount of its intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the affected assets are evaluated. An impairment loss is recognised in profit or loss for the amount that the asset's carrying value exceeds the recoverable amount. The recoverable amount of an asset is determined as the higher of the asset's fair value less costs to sell and its value in use. For the purpose of assessing fair value, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of cash inflows from other assets (cash-generating units). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying amount of goodwill is allocated to the Group's cash-generating units (CGUs) below based on the organisation and management of its businesses.

	Consolidated Group	
	2018 $'000	2017 $'000
Maxxia Pty Limited (Maxxia)	24,190	24,190
Remuneration Services (Qld) Pty Limited (RemServ)	9,102	9,102
CLM Fleet Management plc (CLM)	12,840	12,264
Anglo Scottish Finance Limited (Anglo Scottish)	16,685	15,817
Retail Financial Services segment warranty and insurance business (RFS risk)[1]	-	50,902
Retail Financial Services segment retail finance business (RFS finance) [1]	-	70,717
Retail Financial Services segment aggregation business (RFS aggregation) [1]	65,859	-
Retail Financial Services segment retail business (RFS retail) [1]	17,985	-
European Vehicle Contracts Limited (EVC)	3,473	3,301
Capex Asset Finance Limited (CAPEX)	5,146	4,893
	155,280	191,186

1 This change to the carrying value of the RFS CGUs follows from a reorganisation of its businesses (refer note e).

The carrying value of intangible assets of the RFS warranty and insurance business was adjusted for impairment following a revision of the projected cash flows and the disposal of the Money Now business.

(e) Key assumptions used for value-in-use calculations

In performing the value-in-use calculations for each CGU, the Group has applied pre-tax discount rates to discount pre-tax cash flow projections. The pre-tax discount rates discussed below reflect specific risks relating to the relevant business each operates in and have been externally tested with capital market practitioners. The recoverable value assessment also uses the after-tax model and compares the fair value to the value-in-use calculation. The growth rate used to evaluate terminal value does not exceed the long-term average growth rate for the business in which the CGU operates in.

Cash flow projections

The cash flow projections are based off the FY19 budget that incorporates Board approved business plans and initiatives. The growth assumptions used for subsequent years reflect strategic business plans and forecast growth rates. Financial projections also take into account any risk exposures to changes to the trading, market and regulatory environments. The average growth rates used in the five year projection varies depending on the businesses in the CGU between 1% and 9%. The higher growth rates are assumed by the newly acquired businesses that are operating from an expanded business platform than previously. Cash flows beyond the five-year period are extrapolated using conservative growth rates between 0% and 2%.

Sensitivity analysis and discount rates

GRS CGUs

The Maxxia and RemServ CGUs that form the GRS segment operate largely in the same business environment and are exposed to similar risks. A pre-tax discount rate of 13.8% (2017: 11.5%) was applied to pre-tax cash flows for the value-in-use calculation.

The extent of current GRS segment cash flows comprising Maxxia and RemServ indicate that any reasonable changes to the key assumptions would not cause an impairment and consequently, no sensitivity assessments have been presented. One of the key assumptions in the GRS segment is that there is not significant change to Australian tax legislation that could affect the salary packaging and novated lease businesses however, the recoverable amounts will have to be re-assessed if there is anything significant to the contrary. RemServ generates a substantial portion of its salary packaging and novated leasing business from the provision of services to employees of the Queensland Government pursuant to contractual arrangements that extend to April 2019 and November 2019 respectively plus a two year extension at the option of the client.

Asset Management CGUs

EVC and CAPEX operate largely in the same business environment and are exposed to relatively similar types of risks. The value-in-use assessment for Anglo Scottish and CLM used a pre-tax discount rate of 13.0% (2017: 14.0%).

The EVC and CAPEX CGUs have performed in line with expectations to date since their acquisition during the year and any reasonable change to the key assumption sin unlikely to cause an impairment and consequently, no sensitivity assessments have been presented. A 5% change to the key assumptions for CLM and Anglo Scottish is unlikely to cause impairment.

Retail Financial Services CGUs

During the year, the RFS segment re-organised its operations within the Aggregation and Retail business groups; these business groups now target the wholesale and retail markets respectively. These business groups are now re-organised to new CGUs to replace Risk and Warranty CGUs identified in prior periods. Goodwill and other intangible assets were re-allocated to these new CGUs accordingly, using fair values based on prospective contributing cash flows of the businesses.

The Aggregation and Retail CGUs applied a pre-tax discount rate of 14.0% (2017: 13.9% to 14.0%) for the pre-tax value-in-use calculations.

The sensitivity of the RFS Aggregation CGU estimated recoverable amount is calculated to potentially vary by $3.8 million for every 0.50% change to the discount rate and for a 5% change to the revenue growth assumption, the estimated recoverable amount could vary by $2.2 million. The sensitivity of the RFS Retail CGU estimated recoverable amount is calculated to potentially vary by $1.1 million for every 0.5% change to the discount rate and for a 5% change to the revenue growth assumption, the estimated recoverable amount could vary by $0.5 million.

The RFS segment is exposed to a range of regulatory risks that may affect the business in originating insurance and consumer lending products. It is not currently possible to measure the impact of any potential regulations until they are mandated and accordingly, are not included in the key assumptions. As disclosed in note 34, the Company was served a class action proceeding relating to a warranty product business operated by Davantage Group Pty Ltd, an entity that is part of the RFS Retail CGU. Any impact from the action is not incorporated in the key assumptions as there is insufficient information to identify or measure the impact.

Notes to the Financial Statements

For the year ended 30 June 2018

7 Revenue

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue from continuing operations				
Remuneration services[1]	207,714	190,094	-	-
Lease rental services	133,100	136,587	-	-
Proceeds from sale of leased assets (iii)	78,133	68,135	-	-
Brokerage commissions and financial services	123,887	124,615	-	-
Interest – other persons	1,598	1,410	43	144
Dividends received	-	-	56,406	54,076
Other	972	2,602	-	-
Total revenue	545,404	523,443	56,449	54,220
Underwriting premium from direct business included in Retail Financial Services Revenue				
Gross written premium	32,011	31,853	-	-
Movement in deferred income	3,050	2,155	-	-
Premium revenue	35,061	34,008	-	-

1 Included in remuneration services revenue is interest income derived from the holding of trust funds (refer note 12(b)).

Recognition and measurement

Revenue is recognised at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured. Amounts disclosed as revenue are shown net of returns, trade allowances and duties, amortisation of pre-paid fee discounts included in deferred contract establishment costs and taxes paid. The Group has concluded that it acts as agent in some of its revenue arrangements and principal in other arrangements. The following are specific criteria that are applied for the recognition of revenue:

(i) Remuneration services

Revenue from remuneration services is recognised for the period that services have been rendered and does not include fees and account operating costs collected on behalf of customers and third parties. Remuneration services revenue includes interest earned for managing funds held in trust for clients pursuant to and as part payment for remuneration services rendered.

(ii) Lease rental services

Operating lease rental revenue is made up of operating lease interest and the principal that forms the net investment in the leased asset and is measured in a straight line basis over the term of the contract. Interest from finance lease receivables is included in lease rental services revenue and measured using the effective interest method and the principal portion upon receipt reduces the net investment in the leased asset.

Revenues from maintenance service contracts are recognised for services rendered when it is probable that economic benefits from the transaction will flow to the Group. When the amounts are uncollectable or recovery is not considered probable, an expense is recognised immediately. Revenue is recognised for each reporting period by reference to the stage of completion when the outcome of the service contracts can be estimated reliably. The stage of completion of service contracts is based on the proportion that costs incurred to date bear to total estimated costs. When the outcome cannot be measured reliably, revenue is deferred and recognised 60 days after the contract terminates.

(iii) Sale of leased assets

Revenue includes the proceeds from the routine sale of motor vehicles previously leased and included within property, plant and equipment following the cessation of the rental of these assets by a customer.

Revenue in 2017 has been re-stated to include the proceeds from sale of motor vehicles of $10,411,000 (refer note 3(e)).

(iv) Brokerage commissions

Revenue from the provision of financial services is recognised by reference to the stage of completion of the services provided to the customer. Brokerage service provided by the Group include acting as agent for the procurement of financial products for the customer where commission revenue is earned on a transaction basis and a volume based commission from financial product providers where the Group provides a sub-origination service. Brokerage commission revenue also includes P&A services where the Group has performed mainly as agent for the procurement of lease asset financing with an external financier. Under a P&A arrangement, the Group does not possess credit risk or carry on risks of ownership of the underlying financial arrangement with the customer. Where the P&A arrangement with the financier has a put and call option for the lease asset to be sold/ purchased by the Group at the end of the lease, the option is fair valued at reporting date and included in the residual value provision included in operating lease assets. The Group earns trailing commission and recognises as revenue in the period when services are completed and free from performance obligations.

Group revenue is recognised when the customer accepts delivery of the financial product or lease asset or on completion of the contract for the underlying financial arrangement with the financier or insurer.

(v) Warranty revenue

Warranty revenue included in brokerage and financial services revenue comprises product income from direct business charged to product holders excluding stamp duties, GST and other amounts collected on behalf of third parties.

Warranty revenue, including that on unclosed business, is recognised when it has been earned, calculated from attachment date over the period of the contract for direct business. Where time does not reasonably approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The proportion of revenue received or receivable not earned in the profit and loss at reporting date is recognised in the consolidated statement of financial position as an unearned income.

Income on unclosed business is brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

(vi) Interest

Revenue from interest is recognised as interest accrues using the effective interest rate method. The effective interest rate method uses the rate that exactly discounts the estimated future cash flows over the expected life of the financial asset.

(vii) Dividends

Revenue from dividends is recognised when the Group's right to receive payment is established.

Notes to the Financial Statements

For the year ended 30 June 2018

8 Expenses

(a) Profit before income tax includes the following specific expenses	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
Depreciation and amortisation expenses				
Amortisation of software development	6,409	5,994	-	-
Amortisation of contract rights acquired	462	491	-	-
Depreciation of assets under operating lease	71,218	75,544	-	-
Depreciation of plant and equipment	3,183	3,024	-	-
Amortisation of intangibles	4,764	3,993	-	-
	86,036	89,046	-	-
Impairment[1]				
Impairment of goodwill	34,761	4,483	-	-
Impairment of other intangible assets	4,627	15,517	-	-
Impairment of investment in subsidiaries	-	-	44,587	20,000
	39,388	20,000	44,587	20,000
Rental expense on operating leases				
Minimum lease payments	9,238	9,225	-	-
Superannuation				
Defined contribution superannuation expense	8,520	7,948	-	-

1 The impairment of intangible assets relate to the RFS Retail businesses.

Loss on disposal of business[2]	2018 $
Goodwill written-off	3,056
Intangible assets written-off	2,142
Redundant assets written-off	1,500
Termination costs of contractual arrangements, employees and property	1,471
Other closure costs	390
	8,559

2 The loss on disposal of business followed from a strategic review of the RFS segment that has resulted in the exit from its Money Now point of sale motor vehicle finance business. The expense comprises the following items of closure costs and the write-off of redundant assets and acquired intangible assets.

Notes to the Financial Statements

For the year ended 30 June 2018

9 Income Tax Expense / (Benefit)

(a) Components of tax expense / (benefit)

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current tax expense / (benefit)	37,237	37,275	(773)	(904)
Adjustments for current tax of prior years	(190)	200	-	-
Deferred tax	(1,950)	(4,030)	(10)	28
Income tax expense / (benefit)	**35,097**	**33,445**	**(783)**	**(876)**

(b) The prima facie tax payable on profit before income tax is reconciled to the income tax expense / (benefit) as follows:

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Profit before income tax	84,931	101,347	9,209	31,155
Prima facie tax payable on profit before income tax at 30% (2017: 30%)	25,479	30,404	2,763	9,347
Add tax effect of:				
– non-deductible costs	344	475	-	-
– non-deductible impairment expense	11,345	1,345	13,376	6,000
– contingent consideration fair valuation	(1,040)	-	-	-
– share of joint venture loss	410	378	-	-
– share-based payments	123	-	-	
– overseas tax rate differential of subsidiaries	(1,351)	(478)	-	-
– acquisition expenses	-	120	-	-
– under-provision of tax from prior year	(213)	1,201	-	-
	35,097	33,445	16,139	15,347
Less tax effect of:				
– dividends received	-	-	(16,922)	(16,223)
Income tax expense / (benefit)	**35,097**	**33,445**	**(783)**	**(876)**
Unrecognised temporary differences				
Foreign currency translation of investments in subsidiaries for which no deferred tax assets have been recognised	(5,598)	(9,053)	-	-

Notes to the Financial Statements

For the year ended 30 June 2018

(c) Deferred tax asset / (liability)	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
The balance comprises temporary differences and tax losses attributed for:				
Amounts recognised in profit or loss				
Doubtful debts	168	101	-	-
Provisions	6,581	6,305	-	-
Property, plant and equipment	(7,680)	(5,222)	-	-
Accrued expenses	8,450	6,366	-	-
Other receivables/prepayments	(2,549)	(1,753)	(696)	(831)
Other	(2,062)	(1,926)	-	-
Losses	916	181	-	-
Deferred acquisition expenses	806	1,027	158	263
Intangible assets	(7,644)	(10,759)	-	-
Unearned income	(342)	313	-	-
Employee share rights	151	51	-	-
	(3,205)	(5,316)	(538)	(568)
Amounts recognised in equity				
Derivatives recognised directly in equity	1	(28)	(20)	-
Closing balance at 30 June	(3,204)	(5,344)	(558)	(568)
Recognised as:				
Deferred tax asset	729	175	-	-
Deferred tax liability	(3,933)	(5,519)	(558)	(568)
	(3,204)	(5.344)	(558)	(568)

	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
Movements in deferred tax asset / (liability)				
Opening balance at 1 July	(5,344)	(7,790)	(568)	(540)
Charged to profit or loss	1,963	4,196	10	(28)
Charged to other comprehensive income	(37)	(161)	-	-
Acquired from business combination	-	(1,584)	-	-
FX	214	(5)	-	-
Closing balance at 30 June	(3,204)	(5,344)	(558)	(568)

(d) Recognition and measurement

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the entities in the Group operate and generate taxable income.

(i) Deferred tax

Deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those rates which are enacted or substantially enacted. Deferred tax is not recognised if they arise from the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and the carrying value is reduced to the extent that it is probable future taxable profits will be available to utilise these temporary differences. Deferred tax assets and liabilities are offset only if certain criteria are met with respect to legal enforceability and within the same tax jurisdiction.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amounts and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax on items that are accounted for in other comprehensive income or equity are recognised in other comprehensive income and equity respectively. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred taxes relate to the same taxable entity and the same taxing authority.

(ii) Tax consolidation

The Company and its wholly-owned Australian resident entities are members of a tax consolidated group under Australian taxation law. The Company is the head entity in the tax consolidated group. Entities within the tax consolidated group have entered into a tax funding agreement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, the Company and each of the entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the head entity.

(iii) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances) or a tax credit under the Incentive regime in Australia in relation to eligible Research & Development expenditure.
The Consolidated Group accounts for such allowances as a reduction in income tax payable and current tax expense.
A deferred tax asset is recognised for unclaimed tax credits.

Notes to the Financial Statements

For the year ended 30 June 2018

10 Earnings Per Share

	Consolidated Group	
Basic earnings per share	2018	2017
Basic EPS – cents per share	60.9	81.6
Net profit after tax ($'000)	$50,303	$67,902
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	82,616	83,205

Basic earnings per share is calculated by dividing the profit attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share	2018	2017
Diluted EPS – cents per share	60.6	81.5
Earnings used to calculate basic earnings per share ($'000)	**$50,303**	**$67,902**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	82,616	83,205
Weighted average number of options and rights on issue outstanding ('000)	461	132
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS ('000)	**83,077**	**83,337**

Diluted earnings per share is calculated from earnings and the weighted average number of shares used in calculating basic earnings per share adjusted for the dilutive effect of all potential ordinary shares from employee options.

11 Dividends

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Final fully franked ordinary dividend for the year ended 30 June 2017 of $0.35 (2016: $0.34) per share franked at the tax rate of 30% (2016: 30%)	28,938	28,286	28,938	28,286
Interim fully franked ordinary dividend for the year ended 30 June 2018 of $0.33 (2017: $0.31) per share franked at the tax rate of 30% (2017: 30%)	27,279	25,790	27,279	25,790
	56,217	**54,076**	**56,217**	**54,076**
Franking credits available for subsequent financial years based on a tax rate of 30% (2017 – 30%)	111,752	92,723	111,752	92,723

The above amounts represent the balance of the franking account at the end of the financial year end adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Recognition and measurement

Dividends are brought to account when declared and appropriately authorised before the end of the financial year but not distributed at balance date.

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For the year ended 30 June 2018

12 Cash and Cash Equivalents

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cash on hand	9	5	4	-
Bank balances	69,839	32,566	3,987	76
Short term deposits	29,819	26,845	-	5,759
	99,667	59,416	3,991	5,835

(a) Cash and cash equivalents

This asset is controlled by the Company and the contractual rights transfer to the Company substantially all of the benefits and risks of ownership.

For statement of cash flow purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are subject to interest rate risk as they earn interest at floating rates. Cash at bank is invested at floating rates. In 2018, the floating interest rates for the Group and parent entity were between 1.35% and 1.60% (2017: 1.35% and 1.60%). The short term deposits are also subject to floating rates, which in 2018 were between 1.80% and 2.20% (2017: 1.80% and 2.20%). These deposits have an average maturity of 90 days (2017: 90 days) and are highly liquid.

(b) Cash and cash equivalents held in trust and not recognised in the statement of financial position

Pursuant to contractual arrangement with clients, the GRS segment administers the cash flows on behalf of clients as part of the remuneration benefits administration service. Cash held in trust for clients are therefore not available for use in the Group's operations. For some clients, cash is held in bank accounts specified in their name and other client monies are held in bank accounts specifically designated as monies in trust for clients. All client monies are segregated from the Group's own cash and not included in the Consolidated Statement of Financial Position. At reporting date, the balance of monies held in bank accounts in trust for clients representing all client contributions to operate their accounts were as follows.

	Consolidated Group		Consolidated Group	
	2018		2017	
	Average interest rate %	$'000	Average interest rate %	$'000
Client monies in trust interest accruing to Company	2.30%	373,485	2.50%	380,794
Client monies in trust interest accruing to clients	2.23%	33,085	2.34%	29,755
		406,570		410,549

The parent entity did not hold any client monies at the end of the current and preceding reporting period.

Pursuant to contractual agreement with clients, the Company received the following interest for managing client monies and as part substitute for administration service fees.

	Consolidated Group	
	2018 000	2017 000
Interest received	9,077	9,489

Notes to the Financial Statements

For the year ended 30 June 2018

13 Trade and Other Receivables

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current				
Trade receivables	28,747	23,130	-	-
Other receivables	23,655	22,792	-	20
Amounts receivable from wholly owned entities	-	-	7,258	7,395
	52,402	45,922	7,258	7,415

The carrying amount of all current receivables are equal to their fair value as they are short term and fully recoverable.

(a) Ageing and impairment losses

The ageing of trade receivables for the Group at reporting date was:

	2018			2017		
Consolidated Group	Total $'000	Amount impaired $'000	Amount not impaired $'000	Total $'000	Amount impaired $'000	Amount not impaired $'000
Not past due	23,155	-	23,155	17,006	-	17,006
Past due 30 days	4,198	-	4,198	3,265	-	3,265
Past due 31-60 days	746	(87)	659	1,781	(30)	1,751
Past due 61-90 days	301	(102)	199	496	(76)	420
Past due >90 days	1,061	(525)	536	953	(265)	688
Total	**29,461**	**(714)**	**28,747**	**23,501**	**(371)**	**23,130**

(b) Recognition and measurement

Trade receivables represent amounts invoiced to and owing from customers for services rendered or goods delivered and are recognised initially at fair value, and subsequently at amortised cost, less provision for impairment. All trade and other receivables are classified as current as they are due for settlement within the agreed credit terms of settlement which are usually no more than 30 days from the date of recognition. 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.

(c) Concentration of risk

The Group's maximum exposure to credit risk at reporting date by geographic region is predominantly in Australia based on the location of originating transactions and economic activity.

(d) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. None of the other current receivables are impaired or past due.

(e) Doubtful debts policy

The recoverability of trade receivables is reviewed on an ongoing basis. Recoverable amounts are calculated using a probability based assessment of cash flows and takes into account the period that an amount owing is past due from the agreed payment period, payment history and information about customer financial capacity. Recoverable cash flows are discounted to their present value but short-term receivables are not discounted as they are not considered material. A provision for impairment is recognised for the difference between the carrying amount and the assessed recoverable amount or is written off if it is assessed that there is no possible recovery of the amount owing.

14 Finance Lease Receivables

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current finance lease receivables	71,137	60,920	-	-
Non-current finance lease receivables	100,495	107,255	-	-
	171,632	**168,175**	**-**	**-**

Recognition and measurement

Asset Management finance lease contracts entered into with customers are recognised as finance lease receivables. A finance lease arrangement transfers substantially all the risk and rewards of ownership of the asset to the lessee. The Group's net investment in the lease equals the net present value of the future minimum lease payments. Finance lease income is recognised as income in the period to reflect a constant periodic rate of return on the Consolidated Group's remaining net investment in respect of the lease.

	Consolidated Group			
Amounts receivable under finance lease receivables	Minimum lease payments 2018 $'000	Present value of lease payments 2018 $'000	Minimum lease payments 2017 $'000	Present value of lease payments 2017 $'000
Within one year	81,432	74,638	65,926	61,061
Later than one but not more than five years	98,253	93,357	110,898	106,407
Later than five years	3,756	3,637	727	707
	183,441	**171,632**	**177,551**	**168,175**
Less: unearned finance income	(11,809)	-	(9,376)	-
Present value of minimum lease payments	**171,632**	**171,632**	**168,175**	**168,175**

There were no guaranteed residual values of assets leased under finance leases at reporting date (2017: nil).

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For the year ended 30 June 2018

15 Other Financial Assets

(a) Investment in subsidiaries

	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
Shares in subsidiaries at cost	-	-	282,246	320,307

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 33.

Name	Country of Incorporation	% Owned 2018	% Owned 2017	Principal activities
Parent entity				
McMillan Shakespeare Limited	Australia			
Subsidiaries in Group				
Maxxia Pty Limited [1]	Australia	100%	100%	Remuneration services provider
Remuneration Services (Qld) Pty Limited [1]	Australia	100%	100%	Remuneration services provider
Interleasing (Australia) Ltd [1]	Australia	100%	100%	Asset management and services
TVPR Pty Ltd [1]	Australia	100%	100%	Asset management and services
Presidian Holdings Pty Ltd	Australia	100%	100%	Retail financial services
Davantage Group Pty Ltd	Australia	100%	100%	Retail financial services
Money Now Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Choice Pty Ltd	Australia	100%	100%	Retail financial services
Franklin Finance Group Pty Ltd	Australia	100%	100%	Retail financial services
Australian Dealer Insurance Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Solutions Pty Ltd	Australia	100%	100%	Retail financial services
National Insurance Choice Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Network Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services (Queensland) Pty Ltd	Australia	100%	100%	Retail financial services
Just Honk Pty Ltd	Australia	100%	100%	Asset management
Plan Management Partners Pty Ltd	Australia	75%	100%	Asset management
Maxxia (UK) Limited	United Kingdom	100%	100%	Investment holding
Maxxia Finance Limited	United Kingdom	100%	100%	Asset management
CLM Fleet Management plc	United Kingdom	100%	100%	Fleet management services
Anglo Scottish Asset Finance Limited plc	United Kingdom	100%	100%	Fleet management services
European Vehicle Contracts Limited	United Kingdom	100%	-	Fleet management services
Capex Asset Finance Limited	United Kingdom	100%	-	Fleet management services
Maxxia Limited (NZ)	New Zealand	100%	100%	Dormant
Maxxia Fleet Limited	New Zealand	100%	100%	Asset management and services
Wuxi McMillan Software Co. Ltd	Peoples Republic of China	100%	-	Software development

1 These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission. For further information refer to Note 32.

(b) Loan receivable from joint venture	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Loan receivable	4,634	4,046	-	-
Other expense receivable	2,599	1,745	-	-
Share of losses of equity accounted joint venture	(6,129)	(4,764)	-	-
Changes in foreign currency	65	556	-	-
Carrying value at end of the financial year	**1,169**	**1,583**	**-**	**-**

The loan and other expense receivable is made up of advances to the joint venture entity as part of the working capital facility provided pursuant to the Group's investment arrangement and forms part of the net investment in the joint venture. At reporting date, the fair value of the loan was not materially different to the carrying value. The carrying value includes the share of the joint venture's loss of $1,365,000 (2017: $1,260,000) recognised under the equity method that is in excess of the Company's fully written down carrying value of its investment (2017: $nil - refer note 16).

Risk exposure

The maximum facility under the arrangement is GBP3.0 million together with other expenses agreed between the joint venture parties to accelerate growth are being re-negotiated for an extended term. Under the existing agreement, certain conditions of default on the repayments, provides the Group with an option to convert a portion of the amount outstanding to increase the Group's interest in the joint venture from 50% to 60%. The loan accrues interest at commercial rates and the balance at reporting date approximates to fair value. At reporting date, the fair value of the option was not material.

16 Investment in Joint Venture

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Acquired	337	337	-	-
Share of losses after income tax	(337)	(337)	-	-
Carrying value at end of the financial year	**-**	**-**	**-**	**-**

(a) Recognition and measurement

A subsidiary has a 50% interest in Maxxia Limited (UK, "JV"), a company resident in the UK and the principal activity of which is provider of financing solutions and associated management services on motor vehicles. The contract is being re-negotiated and under the current contractual agreement, the Group together with the joint venture partner jointly control the economic activities and key decisions of the joint venture entity. The arrangement requires unanimous consent of the parties for key strategic, financial and operating policies that govern the joint venture. By agreement, the Group assumes responsibility for key decisions of the joint venture entity when its interest is greater than 75%. The Group has an option to acquire the residual interest in the joint venture entity from the joint venture partner after five years from acquisition and the joint venture partner has an option to sell its interest to the Group during the same period. At reporting date, the fair value of the option is not materially different to the carrying value.

The interest in the JV is equity accounted in the financial statements where the Group's share of the post-acquisition net result after tax is recognised in the Group's consolidated profit after income tax. The Group's share of losses exceeds its investment cost in the JV and accordingly, the excess is applied to the extent of the loan receivable from the JV that forms part of the net investment until it is reduced to zero, and thereafter the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the joint venture entity. The Group's share of intra-group balances, transactions and unrealised gains or losses on such transactions between the Group and the joint venture are eliminated.

Information relating to the joint venture investment is set out below.

	Consolidated Group	
	2018 $'000	2017 $'000
Current assets	6,144	3,820
Non-current assets	81	74
Total assets	**6,225**	**3,894**
Current liabilities	11,382	6,914
Non-current liabilities	7,233	6,114
Total liabilities	**18,615**	**13,028**
Net liabilities	**(12,390)**	**(9,134)**

The net liabilities of Maxxia Limited (UK) is reconciled to the carrying amount of the Group's interest is as follows.

	2018 $'000	2017 $'000
Net liabilities of JV	(12,390)	(9,134)
Group ownership interest (50%)	(6,195)	(4,567)
Carrying amount	-	-
Cumulative losses of JV equity accounted	**(6,466)**	**(5,101)**

The Group's share of the JV losses is limited to its carrying value.

	Consolidated Group	
Joint venture financial results	2018 $'000	2017 $'000
Revenue	4,040	2,567
Expenses	(6,770)	(5,087)
Loss before income tax	(2,730)	(2,520)
Income tax	-	-
Loss after income tax	(2,730)	(2,520)
Group's share of loss after income tax	(1,365)	(1,260)
Share of joint venture capital commitments	**-**	**-**

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17 Property, Plant and Equipment

(a) Plant and equipment

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
At cost	23,278	21,738	-	-
Less accumulated depreciation	(16,035)	(14,196)	-	-
	7,243	7,542	-	-
Assets under operating lease			-	
At cost	458,732	461,485	-	-
Less accumulated depreciation	(156,604)	(162,296)	-	-
	302,128	**299,189**	-	-
Total plant and equipment	**309,371**	**306,731**	**-**	**-**
Total current	70,910	75,195	-	-
Total non-current	238,461	231,536	-	-
Total plant and equipment	**309,371**	**306,731**	**-**	**-**
Carrying value of assets under operating lease			-	-
Written down value of operating lease assets terminating within the next 12 months	70,910	75,195	-	-
Written down value of operating lease assets terminating after more than 12 months	231,218	223,994	-	-
	302,128	**299,189**	-	-

(b) Movements in cost and accumulated depreciation

	Consolidated Group		
	Plant and equipment $'000	Assets under operating lease[1] $'000	Total $'000
Year ended 30 June 2018			
Balance at the beginning of year	7,542	299,189	306,731
Additions	2,581	131,046	133,627
Disposals / transfers to assets held for sale	-	(56,163)	(56,163)
Depreciation expense	(3,183)	(71,218)	(74,401)
Change in foreign currency	303	(726)	(423)
Balance at 30 June	**7,243**	**302,128**	**309,371**
Year ended 30 June 2017			
Balance at the beginning of year	9,307	292,825	302,132
Additions	1,240	131,882	133,122
Acquisitions through business combination	73	-	73
Disposals / transfers to assets held for sale	131	(49,976)	(49,845)
Depreciation expense	(3,024)	(75,544)	(78,568)
Change in foreign currency	(185)	2	(183)
Balance at 30 June	**7,542**	**299,189**	**306,731**

1 Accumulated provision for impairment loss at reporting date is $4,654,000 (2017: $4,829,000).

Notes to the Financial Statements

For the year ended 30 June 2018

(c) Recognition and measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss provision. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating as intended.

Assets under operating lease

Assets held under operating leases are for contracts with customers other than finance leases. The Group's initial investment in the lease is added as a cost to the carrying value of the leased assets and recognised as lease income on a straight line basis over the term of the lease. Operating lease assets are amortised as an expense on a straight line over the term of the lease based on the cost less residual value of the lease.

Depreciation and impairment

Depreciation on assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20% – 40%
Motor vehicles under operating lease	20% – 33%

The useful lives and residual value of assets are reviewed and adjusted for impairment, if appropriate, at the end of the reporting period.

(d) Security

The above assets form part of the security supporting the fixed and floating charge pledged to the Group's financiers.

(e) Property, plant and equipment held for sale

Property, plant and equipment no longer held under operating leases are classified as inventory.

18 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Unsecured liabilities				
Trade payables	28,078	19,198	-	-
GST payable	2,515	1,166	-	-
Sundry creditors and accruals	64,674	52,937	246	275
Amounts payable to wholly owned entities	-	-	149,853	132,952
	95,267	73,301	150,099	133,227

Recognition and measurement

Trade and other payables are recorded initially at fair value, and subsequently at amortised cost. Given their short term their carrying value is representative of fair value and undiscounted. Trade and other payables are non-interest bearing are unsecured. Financial liabilities are derecognised when the Group's obligations are discharged, cancelled or expire pursuant to its commitments.

Notes to the Financial Statements

For the year ended 30 June 2018

19 Other Liabilities

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Maintenance instalments received in advance	3,746	4,794	-	-
Receivables in advance	3,498	3,821	-	-
Unearned property incentives	5,577	5,392	-	-
	12,821	14,007	-	-

Recognition and measurement

Maintenance instalments received in advance

Maintenance instalments received in advance is income from maintenance service contracts that are unearned using the stage of completion method. The unearned portion represents costs to complete attributed to the stage of the contract and is measured by reference to the proportion of cumulative costs to date to estimated total costs to completion.

Receivables in advance

Receivables in advance are receipts from customers for future services to be rendered.

Unearned property incentives

Property Incentives received are amortised over the term of the lease.

20 Provisions

	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current				
Employee benefit liabilities	9,729	9,276	-	-
Provision for rebate and cancellations	5,209	3,356	-	-
Provision for onerous contracts	468	365	-	-
	15,406	12,997	-	-
Non current				
Provision for long service leave	1,391	1,379	-	-
Provision for onerous contracts	936	1,521	-	-
	2,327	2,900	-	-

Recognition and measurement

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and where it is probable that the Group is required to settle the obligation, and the obligation can be reliably estimated.

Provisions are measured at the present value of expenditure expected at settlement. The discount rate used to determine the present value reflects the current pre-tax market rate of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Employee entitlements to annual and long service leave have been provided for based on amounts expected to be paid when the leave entitlements are used. Employee leave provisions are presented as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Notes to the Financial Statements

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Annual leave and long service leave that are not expected to be settled wholly within twelve months have been measured at the present value of the estimated future cash outflows to be made for those benefits. Expected future payments are discounted using interest rates attaching to high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Employee liabilities other than annual leave and long service leave are included in other payables.

Rebate and cancellations

Specific provisions are provided for cancellation of contracts and the consequential clawback of commissions received at the time revenue is recognised. This provision reflects an obligation to refund commissions received from the financier or insurer for early termination of a loan or policy.

Rebate provisions relate to the clawback of commission from financiers, based on various financier clawback policies.

Onerous contracts

The provision for onerous contracts is for the outstanding property lease commitments for a vacant property. It represents the unavoidable costs of meeting the lease obligations that exceed the economic benefits expected to be received. The provision is measured on the net cash outflow and present valued using the pre-tax rate that reflects current market rates to reflect the time value of money and any specific risks to the liability.

21 Borrowings

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current				
Bank loans – at amortised cost	14,505	88,727	11,500	11,500
Non-current				
Bank loans – at amortised cost	323,371	250,877	18,583	30,057

(a) Recognition and measurement

Borrowings are initially recorded at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method exactly discounts the estimated cash flows through the expected life of the borrowing. Transaction costs comprise fees paid for the establishment of loan facilities and are amortised over the term of the borrowing facilities.

(b) Security

The parent entity guarantees all bank loans of subsidiaries in the Group, totalling $337,876,000 (2017: $339,965,000).

Fixed and floating charges are provided by the Group in respect to financing facilities provided to it by its syndicate of financiers.

The Group's loans are also secured by the following financial undertakings from all the entities in the Group.

The following are other undertakings that have been provided by entities in the Group receiving the loans.

(i) Negative pledge that imposes certain covenants including a restriction to provide other security over its assets, a cap on its maximum finance debt, acquire assets which are non-core business to the Group, not to dispose of a substantial part of its business and reduction of its capital.

(ii) Maintenance of certain financial thresholds for shareholders' equity, gearing ratio and fleet asset portfolio performance.

(iii) The business exposures of the Interleasing Group and CLM Fleet Management plc satisfy various business parameters.

At all times throughout the year, the Group operated with significant headroom against all of its borrowing covenants.

(c) Fair value disclosures

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

(d) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 4.

22 Contingent consideration

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current	1,756	-	-	-
Non-current	4,402	10,815	-	-
Contingent consideration	6,158	10,815	-	-

(a) Recognition and measurement

Contingent consideration arises from business combinations and represents the fair value of future consideration payable upon the achievement of certain performance targets in relation to acquisitions in the UK.

Movement in contingent consideration	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Balance at the beginning of the year	10,815	6,740	-	-
Recognised on business combination	-	4,656	-	-
Fair value adjustment in Statement of Profit or Loss	(5,348)	(349)	-	-
Finance expense	311	188	-	-
Change in foreign currency	380	(420)	-	-
Balance at 30 June	6,158	10,815	-	-

Contingent consideration is initially recorded at fair value on business combination and subsequently, re-assessed at their fair value at each reporting date. Changes to the carrying value is recognised in the Statement of Profit or Loss.

The fair values assessed at reporting date resulted in an adjustment of $1,117,000 for European Vehicle Contracts Limited (EVC) and Capex Asset Finance Limited (CAPEX) and $6,465,000 for Anglo Scottish Finance plc (ASF). The contingent consideration originally recognised on the acquisition of ASF. The contingent consideration originally recognised on the acquisition of ASF was based on the earn-out targets that were structured for a fixed amount to be payable on the achievement of a minimum agreed EBITDA target plus two higher amounts when the corresponding EBITDA targets were achieved. Although ASF has achieved strong earnings growth post-acquisition, it has been considered that the earn-out targets and the periods within which they were being measured did not allow sufficient ramp-up of operations and the deployment of growth initiatives to meet the growth rates to meet the earn-out targets. Consequently, it has been determined as unlikely that the carrying amount of contingent consideration of $6,465,000 (2017: valuation increase of $349,000) will be payable and has been adjusted to the Statement of Profit or Loss. The contract is being re-negotiated and is expected to be finalised in the near term and the fair value of contingent consideration based on the revised earn-out targets will be brought to account and the impact recognised in the Statement of Profit or Loss.

23 Issued Capital

(a) Share capital	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
83,204,720 (2017: 83,204,720) fully paid ordinary shares	135,868	141,088	135,868	141,088

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(b) Movements in issued capital

	Number of shares	Issue price	Ordinary shares $'000
Balance at 1 July 2017	83,204,720		141,088
Proceeds from exercise of options	-	$10.92	4,477
Premium received from grant of options	-	-	50
Treasury shares acquired on-market	(692,369)	$14.08	(9,747)
	82,512,351		135,868
Treasury shares brought forward	(255,752)		-
Shares distributed to employees on exercise of employee options	409,992		-
Shares held by external shareholders at 30 June 2018	**82,666,591**		135,868

	Number of shares	Issue price	Ordinary shares $'000
Balance at 1 July 2016	83,204,720		144,380
Treasury shares brought forward	(10,276)		-
Treasury shares acquired by the EST	(245,476)	$13.41	(3,292)
Shares held by external shareholders at 30 June 2017	**82,948,968**		141,088

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of members' shares held. At members' meetings, each fully paid ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(c) Treasury shares

The Group maintains the McMillan Shakespeare Limited Employee Share Plan Trust (EST) to facilitate the distribution of McMillan Shakespeare Limited shares under the Group's Long Term Incentive Plan (LTIP). The EST is controlled by McMillan Shakespeare Limited and forms part of the Consolidated Group.

Treasury shares are shares in McMillan Shakespeare Limited that are held by the EST for the purpose of issuing shares under the McMillan Shakespeare Limited LTIP. Treasury shares are deducted from issued shares to show the number of issued shares held by external shareholders. Details of treasury shares during the year are as follows.

	2018 Balance $'000	2017 Balance $'000
Balance of shares at the beginning of the year	255,752	10,276
Shares acquired by the EST (refer note 24(d))	692,369	245,476
Shares distributed from the EST to employees on exercise of options	(409,992)	-
Balance of treasury shares carried forward	**538,129**	**255,752**

(d) Options

At 30 June 2018, there were 1,392,861 (2017: 1,680,259) unissued ordinary shares for which options were outstanding and exercisable at an average price of $11.59 (2017: $10.51). Details relating to options issued, exercised and lapsed during the year and options outstanding at the end of the reporting period is set out in Note 30.

These options are subject to two vesting conditions namely, the achievement of financial hurdles and each employee's continuity of employment at vesting date.

(e) Equity expenses

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the business combination.

(f) Capital management strategy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. 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 monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as long and short term borrowings (excluding derivatives and financial guarantees) less cash and cash equivalents.
Total capital is calculated as equity as shown in the statement of financial position plus net debt.

The Groups' gearing ratio was 39% (2017: 43%) calculated as net debt of $238,209,000 (2017: $280,188,000) divided by total debt and equity of $609,582,000 (2017: $651,183,000). The capital structure of the Group is reviewed on an ongoing basis and considers the allocation and type of capital and the associated risks and returns.

24 Reserves

(a) Option reserve

Movements in the reserve are detailed in the Statements of Changes in Equity. The reserve records amounts for the fair value of options granted and recognised as an employee benefits expense but not exercised.

	Consolidated Group		Parent Entity	
(b) Cash flow hedge reserve	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revaluation - gross	36	(134)	(68)	-
Deferred tax	1	39	20	-
Balance at the end of the financial year	37	(95)	(48)	-

The hedging reserve is used to record gains and losses on interest rate swaps that are designed and qualify as cash flow hedges and that are recognised in other comprehensive income.

	Consolidated Group		Parent Entity	
(c) Foreign currency translation reserve	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Balance at the end of the financial year	(5,596)	(9,053)	-	-

The foreign translation reserve account accumulates exchange differences arising on translation of foreign controlled entities which are recognised in other comprehensive income. The carrying amount is reclassified to profit or loss when the net investment is disposed of.

The improvement in the foreign currency reserve was a direct result of GBP strengthening against the Australian dollar. The Group does not have plans to realise its investments in the UK in the foreseeable future.

(d) Treasury reserve

During the year, the Company contributed $2,855,000 (FY17: $10,184,000) to the EST to acquire MMS shares for distribution to employees under the Group LTIP. Together with the balance in reserve at the start of the year of $6,892,000, these funds were used to aquire a total of 692,369 treasury shares on-market.

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For the year ended 30 June 2018

25 Fair value measurement

The fair value of financial assets and financial liabilities is estimated for recognition and measurement for disclosure purposes.

The following table is an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into three levels based on the degree to which the fair value is observable.

- Level 1: derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset/ (financial liability)	Fair value at			
	2018 $'000	2017 $'000	Fair value hierarchy	Valuation technique and key input
Interest rate swaps – cash flow hedge	37	(134)	2	Discounted cash flow using estimated future cash flows based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted to reflect the credit risk of various counterparties.
Contingent consideration	(6,158)	(10,815)	3	Discounted cash flow using a discount rate of 2.8%, average annual revenues with a range of $3.7m to $4.1m and EBITDA with a range of $1.1m to $1.4m.

Contingent consideration arises from business combination and is valued at reporting date based on the probable settlements amounts calculated using revenue and EBITDA projections.

Contingent consideration arising from the acquisition of EVC and CAPEX is based on variable earnouts depending on the achievement of EBITDA targets. A 5% increase in EBITDA would increase fair value by $477,000 whilst a 5% decrease in EBITDA would decrease fair value by $311,000.

	Consolidated Group			
	Carrying amount 2018 $'000	Carrying amount 2017 $'000	Fair value 2018 $'000	Fair value 2017 $'000
Finance lease receivables – non-current	100,495	107,255	92,267	106,611

Current finance lease receivables are short term and their carrying amount is considered to equal their fair value. The fair value of non-current finance lease receivables were calculated based on cash flows discounted using an average of current lending rates appropriate for the geographical markets the leases operate of 3.58% (2017: 3.62%). They are classified as level 3 fair values in the fair values hierarchy due to the inclusion of unobservable inputs.

Except as detailed in the above, the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. The fair value of borrowings is not materially different to their carrying amounts since the interest payable is close to market rates. The carrying amount of cash, trade and other receivables, trade and other payables are assumed to be the same as their fair values, due to their short term nature.

26 Cash Flow Information

(a) Reconciliation of cash flow from operations with profit from operating activities after tax

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Profit for the year	49,834	67,902	9,992	32,031
Non cash flows in profit from operating activities				
Amortisation	11,635	10,477	-	-
Impairment	39,388	20,000	44,587	20,000
Depreciation	74,401	78,569	-	-
Option expense	1,499	-	-	-
Loss on disposal of businesss	8,559	-	-	-
Fair valuation of contingent consideration	(5,348)	349	-	-
Share of equity accounted joint venture loss	1,365	1,260	-	-
Purchase of assets under lease	(336,694)	(281,415)	-	-
Written down value of assets sold	57,214	42,882	-	-
Finance lease receivables principle repayments	160,865	77,638	-	-
Changes in assets and liabilities, net of the effects of purchase of subsidiaries				
(Increase) in trade receivables and other assets	(6,354)	(7,023)	1,772	60
Increase / (decrease) in trade payables and accruals	64,990	42,926	(73)	(747)
Decrease in income taxes payable	(5,022)	(2,855)	(2,416)	(35)
(Decrease) / increase in deferred taxes	(2,192)	(4,156)	(10)	28
Increase / (decrease) in unearned revenue	1,684	(344)	-	-
Increase in provisions	1,836	854	-	-
Net cash from operating activities	117,660	47,064	53,852	51,337

(b) Proceeds from sale of lease portfolio

Proceeds from a portion of the UK fleet that was moved off balance sheet as part of principal and agency arrangements with a number of funding providers in the previous year.

(c) Proceeds and repayments of borrowings

Proceeds from and repayments of borrowings were predominantly due to change the mix of funding between syndicate banks together with the repayment of amortising loans.

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For the year ended 30 June 2018

d) Net debt reconciliation

A summary of the movement in borrowings (excluding capitalised borrowing costs) affecting financing cash flows during the year is provided below.

Financing cash flow from liabilities	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
Borrowings (excluding capitalised borrowing costs)	338,312	339,966	30,125	41,625
Payable due to wholly owned entities	-	-	149,853	132,952
Financing liabilities	338,312	339,966	179,978	174,577

	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000	Parent Entity 2018 $'000	Parent Entity 2017 $'000
Liabilities at the start of the period	339,966	346,355	174,577	158,561
Cash flows relating to borrowings	(8,176)	(10)	(11,500)	(11,500)
Cash flows relating to payables due to wholly owned entities	-	-	16,901	27,516
Foreign exchange adjustments	6,522	(6,379)	-	-
Liabilities at the end of the period	338,312	339,966	179,978	174,577

27 Commitments

(a) Operating lease commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements:

The property leases are non cancellable leases with varying terms, with rent payable monthly in advance. Individual rental agreements specify each rental adjustment. The equipment leases are non cancellable leases with varying terms, with rent payable quarterly in arrears.

	Consolidated Group 2018 $	Consolidated Group 2017 $	Parent Entity 2018 $	Parent Entity 2017 $
Payable minimum lease payments				
– Not later than 12 months	9,659	9,463	-	-
– Between 1 and 5 years	25,325	34,136	-	-
– Greater than 5 year	7,498	10,913	-	-
Current payables	42,482	54,512	-	-

28 Contingent Liabilities

(a) Estimates of the potential financial effect of contingent liabilities that may become payable.

	Consolidated Group		Parent Entity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Guarantee provided for the performance of a contractual obligation not supported by term deposit.	13,050	12,050	50	50
Guarantees provided in respect of property leases.	6,440	6,168	-	-
	19,490	18,218	50	50

(b) As disclosed in note 34, a class action proceedings was served on Davantage Group Pty Ltd, a subsidiary of Presidian Holdings Pty Ltd. Davantage Group Pty Ltd intends to vigorously defend the proceedings. At the date of this report, it is not practical to estimate the effect of this claim, if any.

29 Related Party Transactions

(a) Wholly owned group

Transactions between the Company and other entities within the wholly owned group during the years ended 30 June 2018 and 2017 consisted of:

(a) loans advanced to the Company; and

(b) the payment of dividends to the Company.

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly owned group:

	Consolidated Group		Parent Entity	
	2018 $	2017 $	2018 $	2017 $
Dividend revenue	-	-	56,406,000	54,076,000
Aggregate amounts payable to entities within the wholly owned group at balance date:				
Current receivables	-	-	7,258,226	7,394,985
Current payables	-	-	149,852,525	132,952,236

(b) Key management personnel compensation

	Consolidated Group		Parent Entity	
	2018 $	2017 $	2018 $	2017 $
Compensation				
Short-term employment benefits	3,594,872	3,384,371	2,194,232	2,157,236
Post-employment benefits	160,657	182,403	112,009	128,718
Long-term employment benefits	71,348	60,007	35,370	27,154
Share-based payments	677,599	-	483,500	-
	4,504,476	3,626,781	2,825,111	2,313,108

30 Share-Based Payments

From 1 July 2017, the Company introduced a new Long Term Incentive Plan (LTIP) for certain executives and employees under the McMillan Shakespeare Limited Employee Share Plan. Under the LTIP, the Company issued Performance and Voluntary Options and Performance Rights during the year. Historically, the Company has only issued Performance Options and Voluntary Options and on a tri-ennial basis. Under the new LITP, the Company intends to issue rights and options annually, each with a three year vesting period. The value of the annual issuance under the new LTIP is about one-third the value previously issued under the triennial grant.

During the year, the Company issued Performance Options, Voluntary Options and Performance Rights under the new annual LTIP with a three year vesting period. However, on the changeover from the tri-ennial frequency to annually, two year vesting period options and rights were issued as a one-off to provide the equivalent annual entitlement in the second year otherwise not provided for in transition. Performance Options and Performance Rights were issue in the July 2017 and September 2017 grant. The issuance to the Managing Director was granted on 24 October 2017 following shareholders approval on that day. Voluntary Options were issued only in the July 2017 grant.

No executive can enter into a transaction that is designed or intended to hedge the executive's exposure to any unvested option. Executives will be required to provide declarations to the Board on their compliance with this policy regularly.

Performance Options

Performance Options are granted for nil consideration, and may be exercised into ordinary shares subject to the satisfaction of specified performance hurdles and continuity of employment. Performance Options carry no dividend or voting rights. On exercise of the option, each participant will pay the exercise price and receive one fully paid ordinary share in the Company.

The Remuneration and Nomination Committee recommends to the Board the number of performance options to be granted on the basis of the performance, position, duties and responsibilities of the relevant executive.

Voluntary Options

A Voluntary Option allows the participant to acquire a fully paid ordinary share in the Company by the payment of the exercise price at the exercise date. The entitlement to exercise the voluntary options is not contingent upon continued employment with the Company nor are there performance hurdles. Voluntary Options are offered to certain executives for an additional opportunity to invest in the Company, who can acquire for a consideration up to a maximum of $20,000. The consideration was set at a 25% discount to the face value of the option at the date of grant. However, if the participant leaves employment before vesting date, the participant will forfeit 25% of their entitlement for $1 (the amount forfeited being equal to the 25% discount to the face value that applied to the consideration price of the option at the date of the conditional offer and acceptance).

Performance Rights

A Performance Right is an entitlement to acquire a fully paid ordinary share in the Company for nil consideration at grant or conversion to a share, subject to the achievement of performance hurdles and service conditions being satisfied. Performance Rights carry no dividend or voting rights.

Recognition and measurement

The Performance Options and Rights are equity-settled share-based payments and their fair value at grant are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). Fair value is measured at grant date and recognised over the period from issue date to vesting date. Fair value is determined using a binomial option pricing model and incorporate market conditions and does not include any option conditions that are not market based. The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of options that will ultimately vest based on the vesting conditions attached to the options and rights, such as the employees having to remain with the Consolidated Group until vesting date, or such that employees are required to meet financial targets. No expense is recognised for options that do not ultimately vest for failing to meet vesting conditions.

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For the year ended 30 June 2018

(a) Options

Set out below are summaries of options granted under the plans:

Performance Options

		Consolidated Group and parent entity - 2018						
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2019	$10.18	978,417	-	-	(440,288)	538,129	-
19 August 2014	30 September 2018	$10.18	398,789	-	(219,334)	(179,455)	-	-
23 September 2014	30 September 2018	$10.83	107,877	-	(59,332)	(48,545)	-	-
24 March 2015	30 September 2018	$11.87	76,048	-	(41,826)	(34,222)	-	-
26 May 2015	30 September 2018	$12.88	85,692	-	(47,131)	(38,561)	-	-
25 August 2015	30 September 2018	$13.82	33,436	-	(18,390)	(15,046)	-	-
3 July 2017	30 September 2020	$13.45	-	390,354	-	(46,585)	343,769	-
26 September 2017	30 September 2020	$14.97	-	17,340	-	-	17,340	-
24 October 2017	30 September 2020	$13.45	-	71,140	-	-	71,140	-
3 July 2017	30 September 2021	$13.45	-	362,294	-	(43,237)	319,057	-
26 September 2017	30 September 2021	$14.97	-	15,920	-	-	15,920	-
24 October 2017	30 September 2021	$13.45	-	66,027	-	-	66,027	-
			1,680,259	923,075	(386,013)	(845,939)	1,371,382	-
Weighted average exercise price			$10.51	$13.50	$10.97	$10.82	$11.56	-

		Consolidated Group and parent entity - 2017						
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2019	$10.18	978,417	-	-	-	978,417	-
19 August 2014	30 September 2018	$10.18	469,081	-	-	(70,292)	398,789	-
23 September 2014	30 September 2018	$10.83	107,877	-	-	-	107,877	-
24 March 2015	30 September 2018	$11.87	150,831	-	-	(74,783)	76,048	-
26 May 2015	30 September 2018	$12.88	85,692	-	-	-	85,692	-
25 August 2015	30 September 2018	$13.82	33,436	-	-	-	33,436	-
			1,825,334	-	-	(145,075)	1,680,259	-
Weighted average exercise price			$10.55	-	-	$11.05	$10.51	-
Voluntary Options								
19 August 2014	30 September 2018	$10.18	23,981	-	(23,981)	-	-	-
3 July 2017	30 September 2020	$13.45	-	8,979	-	-	8,979	-
3 July 2017	30 September 2021	$13.45	-	12,500	-	-	12,500	-
			23,981	21,479	(23,981)	-	21,479	-
Weighted average exercise price			$10.18	$13.45	$10.18	-	$13.45	-

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Fair value of Performance Options granted

The assessed fair value at grant date of options granted in the year is presented in the table below. The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the share price at the grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Model input	July 2017	July 2017	September 2017	September 2017	October 2017	October 2017
Fair value of Performance Options	$2.97	$3.20	$3.14	$3.42	$3.13	$3.20
Consideration payable upon grant	Nil	Nil	Nil	Nil	Nil	Nil
Exercise price	$13.45	$13.45	$14.97	$14.97	$13.45	$13.45
Grant date	3 July 2017	3 July 2017	26 September 2017	26 September 2017	24 October 2017	24 October 2017
Expected life	2.25 years	3.25 years	2.0 years	3.0 years	1.9 years	2.9 years
Share price at grant date	$13.30	$13.30	$14.60	$14.60	$15.23	$15.23
Expected price volatility	41%	41%	41%	41%	28%	28%
Expected dividend yield	5.2%	5.2%	5.2%	5.2%	4.7%	4.7%
Risk-free interest rate	2.1%	2.1%	2.1%	2.1%	2.2%	2.2%

Fair value of Voluntary Options granted

Voluntary Options are similarly valued as Performance options but given that Voluntary Options have an acquisition price based on 75% of the value at grant date, its fair value is made out to be 25% of the fair value of Performance Options. The fair value of Voluntary Options is $0.74 and $0.80 for the two and three year vesting period respectively.

(b) Rights

Set out below is a summary of Performance Rights granted during the year.

Grant date	Exercise date	Granted during the year	Exercised or sold during the year	Forfeited during the year[1]	Balance at end of the year	Distributable at end of the year
3 July 2017	30 September 2019	97,982	-	(11,695)	86,287	-
26 September 2017	30 September 2019	4,365	-	-	4,365	-
24 October 2017	30 September 2019	17,860	-	-	17,860	-
3 July 2017	30 September 2020	100,214	-	(9,320)	90,894	-
26 September 2017	30 September 2020	4,598	-	-	4,598	-
24 October 2017	30 September 2020	18,814	-	-	18,814	-
		243,833	**-**	**(21,015)**	**222,818**	**-**

1 The first available exercise date for the two and three year Rights is the date that the Company's financial statements for the year ended 30 June 2019 and 30 June 2020 respectively is lodged with ASX. For the purpose of this summary it is assumed to be 30 September of that year.

Fair value of Performance Rights granted

The fair value of Performance Rights at grant date was estimated by discounting the Company's share price at this date by the dividend yield of the Company as follows.

Grant date	Share price at grant date	Expected life (years)	Expected dividend yield	Fair value
3 July 2017	$13.30	2.2	5.2%	$11.83
26 September 2017	$14.60	2.0	5.2%	$12.47
24 October 2017	$15.23	1.9	5.2%	$13.92
3 July 2017	$13.30	3.2	5.2%	$11.23
26 September 2017	$14.60	3.0	5.2%	$11.84
24 October 2017	$15.23	2.9	5.2%	$13.29

(c) Expenses arising from share-based payment transactions

Set out below is a summary of Performance Rights granted during the year.

	Consolidated Group		Parent Entity	
	2018 $	2017 $	2018 $	2017 $
Performance Options issued under the LTIP	682,954	-	-	-
Voluntary Options issued under the LTIP	5,994	-	-	-
Performance Rights issued under the LTIP	811,049	-	-	-
	1,499,997	-	-	-

The amount expensed in a period is based on the cumulative amount at each reporting date less amounts expensed in previous periods.

Notes to the Financial Statements

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31 Auditor's Remuneration

	Consolidated Group		Parent Entity	
	2018 $	2017 $	2018 $	2017 $
Remuneration of the auditor (Grant Thornton Audit Pty Ltd) of the parent entity for:				
Audit or review of the financial report of the entity and any other entity in the Consolidated Group	278,000	272,000	-	-
Assurance related	202,850	201,600	-	-
Remuneration of a network firm of the parent entity auditor:				
Audit or review of the financial statements (UK)	166,961	169,068	-	-

32 Deed of Cross Guarantee

McMillan Shakespeare Limited, Maxxia Pty Ltd and Remuneration Services (Qld) Pty Ltd are parties to a deed of cross guarantee entered into during the year ended 30 June 2009 and Interleasing (Australia) Ltd, CARILA Pty Ltd and TVPR Pty Ltd (Interleasing Group) entered into deeds of cross guarantee in the year ended 30 June 2010. Under the deeds, each company guarantees the debts of the others and is relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by McMillan Shakespeare Limited, they also represent the 'Extended Closed Group'.

Set out below is a statement of comprehensive income, statement of financial position and a summary of movements in consolidated retained profits for the year ended 30 June 2018 of the Closed group consisting of McMillan Shakespeare Limited, Maxxia Pty Ltd and Remuneration Services (Qld) Pty Ltd, Interleasing (Australia) Ltd, CARILA Pty Ltd and TVPR Pty Ltd.

(a) Consolidated Statement of Comprehensive Income and summary of movements in consolidated retained profits

	2018 $'000	2017 $'000
Statement of Comprehensive Income		
Revenue and other income	386,035	371,488
Employee benefits expenses	(96,853)	(89,271)
Depreciation and amortisation expenses and impairment	(75,748)	(80,093)
Leasing and vehicle management expenses	(60,324)	(57,594)
Consulting cost expenses	(2,340)	(2,716)
Marketing expenses	(3,435)	(2,656)
Property and corporate expenses	(7,449)	(7,842)
Technology and communication expenses	(9,482)	(8,602)
Finance costs	(6,006)	(8,412)
Other expenses	(3,955)	(4,761)
Impairment	(44,587)	(20,000)
Profit before income tax	75,856	89,541
Income tax expense	(34,504)	(31,928)
Profit attributable to members of the parent entity	**41,352**	**57,613**
Other comprehensive income		
Other comprehensive income for the year after tax	(22)	172
Total comprehensive income for the year	**41,330**	**57,785**
Movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	216,922	213,385
Profits for the year	41,352	57,613
Dividends paid	(56,217)	(54,076)
Retained earnings at the end of the financial year	**202,057**	**216,922**

Notes to the Financial Statements

For the year ended 30 June 2018

(b) Consolidated Statement of Financial Position

	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	69,574	34,076
Trade and other receivables	25,626	28,427
Finance lease receivables	13,197	6,381
Assets under operating lease	67,704	72,278
Inventory	9,740	5,471
Total current assets	185,841	146,633
Non current assets		
Property, plant and equipment	214,813	214,904
Intangible assets	52,977	49,766
Deferred tax asset	3,520	2,976
Finance lease receivables	12,820	12,604
Other financial assets	168,901	208,447
Total non current assets	453,031	493,697
TOTAL ASSETS	638,872	635,330
Current liabilities		
Trade and other payables	75,369	64,579
Current tax liability	1,420	6,531
Provisions	10,144	8,071
Borrowings	11,500	61,300
Total current liabilities	98,433	140,481
Non current liabilities		
Provisions	2,125	2,602
Borrowings	188,819	131,125
Total non current liabilities	190,944	133,727
TOTAL LIABILITIES	289,377	274,208
NET ASSETS	349,495	361,122
Equity		
Issued capital	135,868	141,088
Reserves	11,570	3,112
Retained earnings	202,057	216,922
TOTAL EQUITY	349,495	361,122

33 Summary of Other Accounting Policies

(a) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries which are all entities (including structured entities) controlled by the Company as at 30 June each year. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the activities of the entity. In assessing control, the Group considers all relevant facts and circumstances to determine if the Group's voting rights in an investee are sufficient to give it power, including the following:

- the size of the Group's voting rights holding relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group and other holders;
- rights arising from other contractual arrangements; and
- facts and circumstances that indicate whether the Group has the ability to direct relevant activities at the time decision need to be made.

The Group reassess whether the Group has control over an entity when facts and circumstances indicate changes that may affect any of these elements.

Subsidiaries are consolidated from the date control is transferred to the Group and deconsolidated from the Group from the date that control ceases.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered. Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity, including the value of options issued by the Company on behalf of its subsidiaries in relation to employee remuneration.

(b) Business combinations

The acquisition method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Where equity instruments are issued, the value of the equity instruments is their published market price over the period representative of the achievement of control the transfer of the benefits from the achievement of control unless, in rare circumstances, it can be demonstrated that the published price on that day is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Consolidated Group's share of the identifiable net assets acquired is recorded as goodwill (refer Note 6(b)(i)). If the cost of acquisition is less than the Consolidated Group's share of the fair value of the net assets acquired, the gain is recognised in profit or loss. If the initial accounting for a business combination is incomplete by the time of reporting the period in which the business combination occurred, provisional estimates are used for items for which accounting is incomplete. These provisional estimates are adjusted in a measurement period that is not to exceed one year from the date of acquisition to reflect the information it was seeking about facts and circumstances that existed at the date of acquisition that had they been known would have affected the amounts recognised at that date.

Any contingent consideration to be transferred by the Group will be recognised at fair value at acquisition date. Contingent consideration that includes an asset or liability is classified as an asset or liability and is re-measured for fair value changes. Subsequent changes to the fair value of contingent consideration that qualify as measurement period adjustments are retrospectively adjusted against goodwill. Contingent consideration that is classified as an equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Notes to the Financial Statements

For the year ended 30 June 2018

(c) Current versus non-current classification

The Group presents assets and liabilities in the statements of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the Group's normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realised within twelve months after reporting date, or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after reporting date.

The Group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the Group's normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after reporting date, or
- There is an unconditional right to defer the settlement of the liability for at least twelve months after reporting date.

The Group classifies all other liabilities as non-current.

(d) Financial instruments

Recognition and de-recognition

Regular purchases and sales of financial assets and liabilities are recognised on trade date, the date on which the Group commits to the financial assets or liabilities. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. The Group classifies financial assets into the following categories depending on the purpose for which the asset was acquired.

(i) Separate Financial Statements

Investments in subsidiaries are carried at cost and adjusted for any share based payments in the separate financial statements of the Company, under AASB 127: Separate Financial Statements.

(ii) Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Impairment conditions are objective evidence of one or more events occurring after the initial recognition of the financial asset that affects estimated future cash flows of the investment.

(iii) Impairment of available for sale equity securities

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in investment revaluation reserve within equity. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(e) Other employee benefits

(i) Superannuation

The amount charged to the profit or loss in respect of superannuation represents the contributions made by the Group to superannuation funds.

(ii) Bonuses

A liability for employee benefits in the form of bonuses is recognised in employee benefits. This liability is based upon pre-determined plans tailored for each participating employee and is measured on an ongoing basis during the financial period. The amount of bonuses is dependent on the outcomes for each participating employee. As has been past practice, an additional amount is included where the Board has decided to pay discretionary bonuses for exceptional performance and a provision recognised for this constructive obligation.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

(g) Leasing

Leases are classified as finance leases whenever the terms of the contract transfers substantially all the risk and rewards of ownership to the lessee. All other contracts are classified as operating leases.

(i) Operating lease portfolio – the Group as lessor

Lease contracts with customers other than finance leases are recognised as operating leases. The Group's initial investment in the lease is added as a cost to the carrying value of the leased assets and recognised as lease income on a straight line basis over the term of the lease. Operating lease assets are amortised as an expense on a straight line over the term of the lease based on the cost less residual value of the lease.

(ii) Operating leases – the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Where incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of lease expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

(h) Deferred acquisition costs (DAC)

Acquisition costs incurred in deriving warranty income are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to warranty revenue in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence risk under the warranty contracts to which they relate. The pattern of amortisation corresponds to the earning pattern of warranty revenue.

(i) Unearned premium liability

The Group assesses the risk attached to unexpired warranty contracts based on risk and earning pattern analysis, to ascertain whether the unearned warranty liability is sufficient to cover all expected future claims against current warranty contracts. This assessment is performed quarterly, to ensure that there have been no significant changes to the risk and earning pattern and to ensure the liability recorded is adequate.

(j) Outstanding claims liability

The liability represents claims authorised, prior to reporting date, and paid in the subsequent reporting period.

(k) Inventories

The inventory of motor vehicles is stated at the lower of cost and net realisable value. Following termination of the lease or rental contract the relevant assets are transferred from Assets under Operating Lease to Inventories at their carrying amount. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to make the sale.

(l) Operating cash flow

All cash flows other than investing or financing cash flows are classified as operating cash flows. As the Asset Management segment provides operating and finance leases for motor vehicles and equipment, the cash outflows to acquire the lease assets are classified as operating cash outflows. Similarly, interest received and interest paid in respect of the asset management segment are classified as operating cash flows.

(m) Derivative financial instruments

The Group uses derivative financial instruments to manage its interest rate exposure to interest rate volatility and its impact on leasing product margins. The process to mitigate against the exposure seeks to have more control in balancing the spread between interest rates charged to lease contracts and interest rates and the level of borrowings assumed in its financing as required.

In accordance with the Group's treasury policy, derivative interest rate products that can be entered into include interest rate swaps, forward rate agreements and options as cash flow hedges to mitigate both current and future interest rate volatility that may arise from changes in the fair value of its borrowings.

Derivative financial instruments are recognised at fair value at the date of inception and subsequently re-measured at fair value at reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative or amount thereof is designated and effective as a hedging instrument, in which case the gain or loss is taken to other comprehensive income in the cash flow hedging reserve that forms part of equity. Amounts recognised in other comprehensive income are transferred to profit or loss and subsequently recognised in profit or loss to match the timing and relationship with the amount that the derivative instrument was intended to hedge.

(i) Hedge accounting

At the inception of the hedging instrument, the Group documents the relationship between the instrument and the item it is designated to hedge. The Group also documents its assessment at the inception of the hedging instrument and on an ongoing basis, whether the hedging instruments that are used have been and will continue to be highly effective in offsetting changes in the cash flows of the hedged items.

(ii) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

(iii) Non-trading derivatives

Non-trading derivative financial instruments include the Group's irrevocable option to purchase all of the shares owned by the partner in the joint venture entity. The financial instruments are measured at fair value initially and in future reporting dates. Fair value changes are recognised in profit or loss.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and when it is probable that the Group is required to settle the obligation, and the obligation can be reliably estimated.

(i) Provision for residual value

A residual value provision is established to estimate the probable diminution in value of operating lease assets and rental assets at the end of lease contract dates. The estimate is based on the deficit in estimated recoverable value of the lease asset from contracted cash flows.

The residual value provision includes the estimated loss in recoverable value of lease assets which are transferred to the Group at the end of the lease term pursuant to the put and call option in the P&A arrangement with the financier.

(o) Foreign currency translation

The consolidated financial statements of the Group are presented in Australian dollars which is the functional and presentation currency. The financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Differences resulting at settlement of such transactions and from the translation of monetary assets and liabilities at reporting date are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Translation differences are recognised as part of the fair value change of the non-monetary item.

(ii) Group companies

On consolidation of the financial results and affairs of foreign operations, assets and liabilities are translated at prevailing exchange rates at reporting date and income and expenses for the year at average exchange rates. The resulting exchange differences from consolidation are recognised in other comprehensive income and accumulated in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(p) Parent entity accounts

In accordance with ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191 the Group will continue to include parent entity financial statements in the financial report.

(q) Issued capital

Ordinary shares and premium received on issue of options are classified as issued capital within equity.

Costs attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the business combination.

34 Events subsequent to the reporting date

On 14 August 2018, the company was served with a class action proceeding for a claim relating to a warranty product business operated by Davantage Group Pty Ltd (trading as "National Warranty Company" (NWC)) which is and was at all relevant times a subsidiary of Presidian Holdings Pty Ltd which the Company acquired in February 2015. The claim is made on behalf of all persons who entered an NWC warranty between 1 July 2013 and 28 May 2015 (provided it was acquired for domestic/personal use and they received an NWC PDS). A significant portion of the relevant period to which the claim relates is in respect of a time when the "National Warranty Company" was not owned by the MMS Group. The proceedings are to seek orders that the NWC warranties are void, and seek either the restitution or a refund of the premium paid and interest on that amount. The Company intends to vigorously defend the proceedings. At the date of this report the Company is not in a position to estimate the impact, if any, of this claim.

Other than the above and matters disclosed in this Annual Report, there were no material events subsequent to reporting date.

Directors' Declaration

The Directors are of the opinion that:

1. the financial statements and notes on pages 49 to 104 are in accordance with the *Corporations Act 2001* (Cth), including:

(a) compliance with Accounting Standards, the *Corporations Regulations 2001* (Cth) and other mandatory professional reporting requirements; and

(b) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and financial performance for the financial year ended on that date; and

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

3. 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.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as disclosed as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* (Cth).

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

Tim Poole
Chairman

Michael Salisbury
Managing Director

22 August 2018

Melbourne, Australia

Independent Audit Report

As at 30 June 2018

Collins Square, Tower 1
727 Collins Street
Docklands Victoria 3008

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Report

To the Members of McMillan Shakespeare Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of McMillan Shakespeare Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of 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 30 June 2018 and of its performance for the year ended on that date; and

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

Basis for opinion

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

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

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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 of the current period. These 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible asset balance (Note 6)	
At 30 June 2018 the Group has $155,280,000 of goodwill and $50,659,000 in other intangible assets contained within separate cash generating units (CGUs). Management is required to perform an impairment test on goodwill and other infinite life intangibles at least annually, and are also required to perform an impairment test on other intangible assets with finite useful lives if indicators of impairment are identified. We consider this a key audit matter due to the nature of the balances and the judgments required in preparing the 'value in use' models and due to the judgement in determining CGU's, impairment indicators and triggers. This involves judgements about the future results of the business, growth and the discount rates applied. The group recognised an impairment against goodwill and other intangible assets totalling $39,388,000 relating to the Retail Financial Services Retail business CGU.	Our procedures included, amongst others: • reviewing the model for compliance with AASB 136 *Impairment of Assets*; • assessing managements determination of CGU's based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows; • evaluating management's process for the preparation and review of value-in-use models, taking into consideration the impacts of the sector specific issues; • utilising internal valuation specialists to review the appropriateness of the value-in-use model, appropriateness of benchmarks to external data and its compliance with the requirements of AASB 136; • verifying the mathematical accuracy of the underlying model calculations and assessing the appropriateness of the methodologies including evaluating cash flow projections compared to the historical accuracy of the budgeting process; • assessing the key growth rate assumptions by comparing them to historical results, economic or industry forecasts and the discount rate by reference to the cost of capital for the Group as well as applying specific adjustments for the particular CGU where the CGU had a higher risk of impairment; • performing sensitivity analysis in relation to the cash flow projections, discount and growth rate assumptions on CGU's with a higher risk of impairment. The impairment analysis considered the individual and collective impacts; and • assessing the adequacy of the Group's disclosures within the financial statements.
Warranty revenue, unearned premium liability and deferred acquisition costs (Note 3)	
The warranty area of the business derives revenues through the gross wholesale premiums obtained upon dealers entering into the sale of warranty products to used vehicle consumers.	Our procedures included, amongst others: • verifying the mathematical accuracy of the unearned premium liability and warranty revenue calculations to check that the revenue profile assumptions have been correctly applied;

Independent Audit Report

As at 30 June 2018

Key audit matter	How our audit addressed the key audit matter
Revenue is recognised over the term of the warranty in line with the profile of expected future claims. This gives rise to the unearned premium liability. We consider this a key audit matter due to the inherent subjectivity over the nature of the estimations used in determining the unearned premium liability.	• assessing the reasonableness of management's key assumptions in relation to the revenue profile which is based on the profile of future claim costs; • analytically reviewing the actual margins achieved during the year to determine appropriateness of the percentages in the deferred income model; and • testing the accuracy of the gross premiums used in the deferred income calculation by selecting a sample of gross premiums and agreeing amounts and key terms to supporting contracts.
Maintenance instalments received in advance (Note 19)	
The Group receive fixed payments from customers for future tyre and maintenance services for which the Group is liable. The profit or loss on these contracts is uncertain given the incidence and amount of tyre and maintenance costs is uncertain. The profit or loss on these contracts is recognised each reporting period by reference to the stage of completion when the outcome of the service contracts can be estimated reliably. We consider this a key audit matter due to the judgement required by management in preparing the tyre and maintenance provision calculation and the inherent subjectivity over the nature of the estimation.	Our procedures included, amongst others: • reviewing the contractual arrangements to understand the types of services and costs to be provided under the arrangements; • verifying the mathematical accuracy of the tyre and maintenance provision model including the consistency of the formulas applied; • reviewing the validity of the underlying data used in the calculation; • evaluating the key assumptions applied in the model for reasonableness and performing sensitivity analysis on these key assumptions; • analytically reviewing movements in the provision from the prior period in the context of understanding the changes in the businesses operations and the market; • selecting a sample of contracts included in the calculation and agreeing details to supporting documentation; and • considering for changes in key inputs into the provision through inquiries of management.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the 30 June 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 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.

Independent Audit Report

As at 30 June 2018

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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this 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.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 24 to 43 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of McMillan Shakespeare Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 22 August 2018

Auditor’s Independence Declaration

As at 30 June 2018

Collins Square, Tower 1
727 Collins Street
Docklands Victoria 3008

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor’s Independence Declaration

To the Directors of McMillan Shakespeare Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of McMillan Shakespeare Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 22 August 2018

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Shareholder Information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this Annual Report is set out below:

SUBSTANTIAL SHAREHOLDINGS

As at 6 August 2018, the number of shares held by substantial shareholders and their associates is as follows:

Shareholder	Number of Ordinary Shares	Percentage of Ordinary Shares [1]
HSBC Custody Nominees (Aust) Ltd	28,909,512	34.75
JP Morgan Nominees Australia Limited	11,056,889	13.29
Chessari Holdings Pty Limited [2]	6,050,941	7.27
Citicorp Nominees Limited	5,262,271	6.32
National Nominees Limited	4,775,838	5.74

1 As at 6 August 2018, 83,204,720 fully paid ordinary shares have been issued by the Company.

2 Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari, a Non-Executive Director.

NUMBER OF SHARE & OPTION HOLDERS

As at 6 August 2018, the number of holders of ordinary shares and options in the Company was as follows:

Class of Security	Number of Holders
Fully paid ordinary shares	4,733
Options exercisable at $10.18 and expiring on 30 September 2019	4
Options exercisable at $13.45 and expiring on 30 September 2020	28
Options exercisable at $14.97 and expiring on 30 September 2020	1
Options exercisable at $13.45 and expiring on 30 September 2021	29
Options exercisable at $14.97 and expiring on 30 September 2021	1

VOTING RIGHTS

In accordance with the Constitution of the Company and the *Corporations Act 2001* (Cth), every member present in person or by proxy at a general meeting of the members of the Company has:

– on a vote taken by a show of hands, one vote; and

– on a vote taken by a poll, one vote for every fully paid ordinary share held in the Company.

A poll may be demanded at a general meeting of the members of the Company in the manner permitted by the *Corporations Act 2001* (Cth).

DISTRIBUTION OF SHARE & OPTION HOLDERS

As at 6 August 2018, the distribution of share and option holders in the Company was as follows:

Distribution of Shares & Options	Number of Holders of Ordinary Shares
1 – 1,000	2,842
1,001 – 5,000	1,473
5,001 – 10,000	239
10,001 – 100,000	148
100,000+	31

As at 6 August 2018 there were 217 shareholders who held less than a marketable parcel of 31 fully paid ordinary shares in the Company.

ON-MARKET BUY BACK

The Company does not have a current on-market buy-back.

Shareholder Information

TOP 20 SHAREHOLDERS

As at 6 August 2018, the details of the top 20 shareholders in the Company are as follows:

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares [1]
1	HSBC Custody Nominees (Aust) Ltd	28,909,512	34.75
2	J P Morgan Nominees Australia Limited	11,056,889	13.29
3	Chessari Holdings Pty Ltd[2]	6,050,941	7.27
4	Citicorp Nominees Pty Limited	5,262,271	6.32
5	National Nominees Limited	4,775,838	5.74
6	Asia Pac Technology Pty Limited[3]	3,343,025	4.02
7	BNP Paribas Noms Pty Ltd <DRP>	3,015,218	3.62
8	UBS Nominees Pty Ltd	1,745,517	2.10
9	BNP Paribas Nominees Pty Ltd <Agency Lending DRP AC>	1,139,479	1.37
10	Ann Leslie Ryan	1,008,418	1.21
11	HSBC Custody Nominees (Australia) Limited <Ntcomnwlth Super Corp A/C>	730,764	0.88
12	Milton Corporation Limited	662,538	0.80
13	BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	662,000	0.80
14	CPU Share Plans Pty Ltd <MMS Options Unallocated A/C>	538,129	0.65
15	AFICO Pty Ltd	439,524	0.53
16	AMP Life Limited	383,690	0.46
17	BNP Paribas Noms Pty Ltd <Arbitage SNC DRP>	373,418	0.45
18	MOHL Invest Pty Ltd <MOHL Family A/C>	340,000	0.41
19	MOHL Invest Pty Ltd <MOHL Super Fund A/C>	300,000	0.36
20	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	295,416	0.36
Totals: Top 20 holders of issued Capital		71,032,587	85.37
Total Remaining Holders Balance		12,172,133	14.63

1 As at 6 August 2018, 83,204,720 fully paid ordinary shares have been issued by the Company.
2 Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari, a Non-Executive Director.
3 Asia Pac Technology Pty Limited is a company associated with Mr John Bennetts, a Non-Executive Director.

RESTRICTED SECURITIES

As at the date of this Annual Report, the following securities in the Company were subject to voluntary escrow.

Number of ordinary shares	Date of escrow expiry
79,937	3 January 2018
279,340	26 February 2019

UNQUOTED SECURITIES

As at the date of this Annual Report, the details of unquoted securities in the Company are as follows:

Class	Number of Securities	Number of Holders
Options exercisable at $10.18 and expiring on 30 September 2019	538,129	4
Options exercisable at $13.45 and expiring on 30 September 2020	423,888	28
Options exercisable at $14.97 and expiring on 30 September 2020	17,340	1
Options exercisable at $13.45 and expiring on 30 September 2021	397,584	29
Options exercisable at $14.97 and expiring on 30 September 2021	15,920	1

Options do not carry a right to vote

Corporate Directory

Registered Office
Level 21, 360 Elizabeth Street
Melbourne Victoria 3000
Tel: +61 3 9097 3000
Fax: +61 3 9097 3060

Company Auditor
Grant Thornton Audit Pty Ltd
Collins Square, Tower 1
727 Collins Street
Melbourne Victoria 3008

Share Registry
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Tel: +61 3 9415 4000

www.mmsg.com.au

McMillan Shakespeare Limited

ABN 74 107 233 983
AFSL No. 299054
Level 21, 360 Elizabeth Street
Melbourne Victoria 3000
www.mmsg.com.au

McMillanShakespeareGroup