Market Release

21 February 2018

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

Smartgroup Corporation Ltd - Results for announcement to the market.

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

1. Appendix 4E, and
2. Smartgroup Corporation Ltd Annual Report 2017.

Smartgroup Corporation Ltd will conduct a briefing on the results from 9.00am (Sydney time) on 22 February 2018.

Amanda Morgan
General Counsel and Joint Company Secretary

Appendix 4E
Preliminary Final Report

1. Company details

Name of entity: Smartgroup Corporation Ltd

ABN: 48 126 266 831

Reporting period: For the year ended 31 December 2017

Previous period: For the year ended 31 December 2016

2. Results for announcement to the market

		$'000		$'000
Revenues from ordinary activities	up	57,483	38.9% to	205,443
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up	8,525	26.0% to	41,313
Profit for the year attributable to the owners of Smartgroup Corporation Ltd	up	8,525	26.0% to	41,313

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2016 (paid on 31 March 2017)	15.0	15.0
Interim dividend for the year ended 31 December 2017 (paid on 29 September 2017)	16.5	16.5

On 21 February 2018 the Directors declared a fully-franked dividend of 18.5 cents per ordinary share. The final dividend will be paid on 30 March 2018 to shareholders registered on 15 March 2018. There is no dividend reinvestment plan.

Comments

The profit for the Group after providing for income tax amounted to $41,309,000 (31 December 2016: $32,788,000).

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(103.09)	(76.90)

4. Control gained over entities

On 2 May 2017, the Group acquired 100% of the ordinary shares of AccessPay Pty Ltd, Fleet Solutions Pty Ltd and 50% of the ordinary shares of AccessPay Payroll Solutions Pty Ltd (AccessPay Group).

On 23 August 2017, the Group acquired 100% of the ordinary shares of ABM Corporation Pty Ltd (Aspire).

On 20 October 2017, the Group acquired the assets of RACV Salary Solutions (Salary Solutions).

Refer to note 23 to the financial statements for further details of acquisitions.

5. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit	
	Reporting period %	Previous period %	Reporting period $'000	Previous period $'000
Health-e Workforce Solutions Pty Ltd	50%	50%	348	513
Group's aggregate share of associates and joint venture entities' profit				
Profit from ordinary activities after income tax	-	-	348	513

6. Audit qualification or review

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

7. Attachments

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

Annual Report 2017

At Smartgroup, we simplify salary packaging, fleet management and a range of other employee management services for organisations across Australia.

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Who
We Are

Smartgroup is an award-winning, ASX-listed company that provides specialist employee management services including salary packaging, novated leasing, fleet management, payroll administration, employee share plan administration and workforce optimisation.

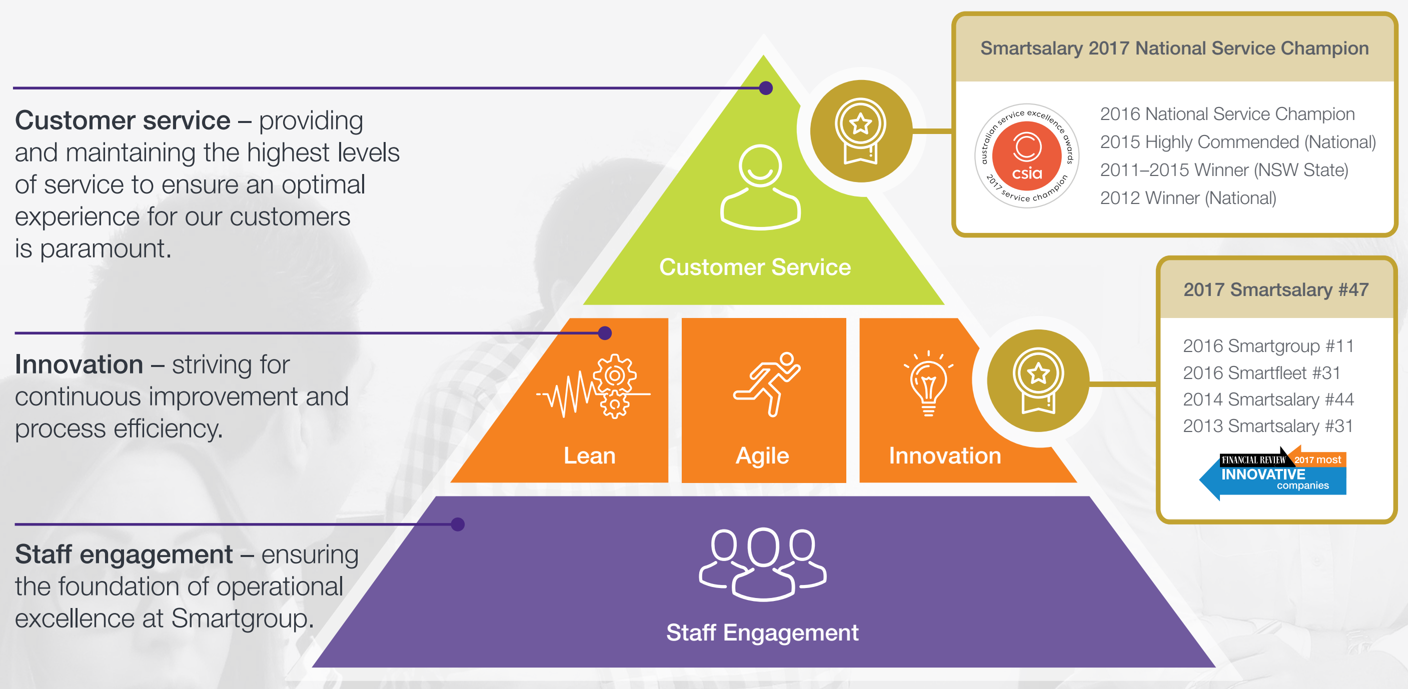
Recognised leader for customer care and innovation

Smartgroup continues to be recognised as a leader for high standards of customer care and innovation. The capability triangle reflects our company values and methods in pursuit of operational excellence and overall business success.

Customer service – providing and maintaining the highest levels of service to ensure an optimal experience for our customers is paramount.

Innovation – striving for continuous improvement and process efficiency.

Staff engagement – ensuring the foundation of operational excellence at Smartgroup.



2017
Company Snapshot

Our Customers

3,900+
employer clients

325,000+
salary packaging customers

80,000+
novated and fleet vehicles under management

Our People

700+
Smartgroup employees

Specialist capabilities in all salary packaging sectors: education, health, not-for-profit, government and corporate.

National presence in all States and Territories in Australia.

Our Service

SMARTSALARY ACHIEVEMENTS

+44 NET PROMOTER SCORE (NPS)

Placed among leading service providers globally and revealing strong customer propensity to recommend our service.

Achieved the **highest ever audit score from the Customer Service Institute of Australia** for the third consecutive year.

Recognised as **one of the 2017 *Australian Financial Review* 50 Most Innovative Companies** for processes that improve customer experience.

Our Community

300,000+ trees planted. We were the highest contributor to Greenfleet through the Smartleasing customer carbon offset program.

Autopia partnered with UN Women to raise awareness of gender equality and domestic violence, and raised $57,000 for their National Committee Australia Tax Appeal.

Local causes supported. We supported numerous staff-initiated awareness and fund-raising activities in aid of local charities.

Chairman's **Report**

It gives me great pleasure to present the Annual Report for Smartgroup Corporation for the calendar year ending 31 December 2017.

Under the leadership of Deven Billimoria and the Smartgroup senior management team, our financial results for 2017 reflect another year of strong growth, achieved through the acquisition of new businesses, continued integration of previous acquisitions, new client wins and improved sales to our existing client base.

Smartgroup has delivered:

- Revenues of $205.4 million, up 40 per cent on the prior year
- Operating EBITDA[1] of $93.6 million, up 48 per cent on the prior year
- Operating NPATA[2] of $64.1 million, up 46 per cent on the prior year
- Statutory Net Profit After Tax of $41.3 million, up 26 per cent on the prior year.

Throughout 2017, Smartgroup marched forward as an industry leader in specialist employee management services.

The Board is pleased to declare a fully franked final dividend of 18.5 cents per share, taking the full-year dividends for 2017 to 35.0 cents per share.

Throughout 2017, Smartgroup marched forward as an industry leader in specialist employee management services, expanding on our foundation salary packaging and novated leasing activities with enhanced capabilities in fleet management, payroll services, employee share plans and workforce optimisation solutions.

The company increased its footprint in the salary packaging and novated leasing markets through both marked organic growth and the acquisitions of AccessPay, Aspire and RACV Salary Solutions (now operating as Salary Solutions). These acquisitions are being successfully integrated into the Smartgroup business, with the achievement of forecast synergies tracking well.

In December, we expanded our fleet management offering, entering into an agreement to acquire Perth-based specialist provider Fleet West. This acquisition was completed in early January 2018, post year-end balance date.

The ongoing improvements of operations and customer service standards across the group are deeply embedded in the Smartgroup culture and will continue to be a key focus. On behalf of the Board, I sincerely thank our customers and shareholders for their ongoing support, and our employees who continue to exceed the high standards we set.

We look forward to continuing to deliver value for our shareholders, exceptional service to our customers and an engaging and supportive workplace for employees.

Michael Carapiet
Chairman

2017 **Financial Highlights**

The following highlights represent the financial performance of Smartgroup for the year ended 31 December 2017.

Revenue
$205.4m
↑ up 40%

EBITDA[1]
$93.6m
↑ up 48%

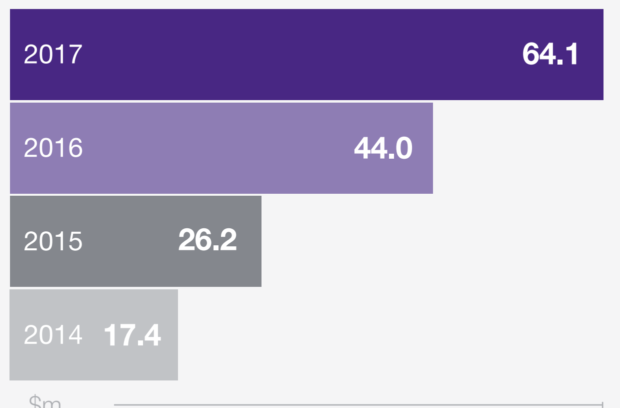
NPATA[2]
$64.1m
↑ up 46%

Operating cash flow[3]
99%
as a % of NPATA

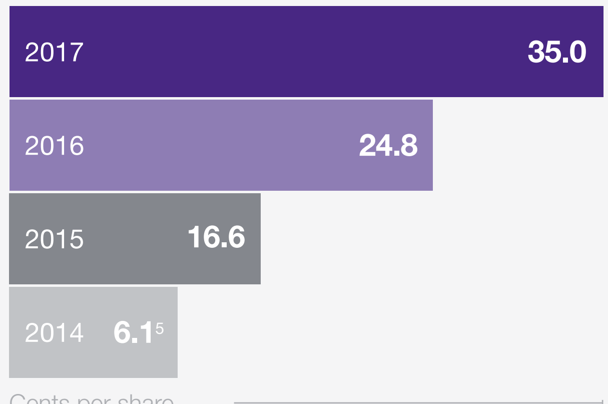
Net debt[4]
$111.1m

Dividends declared
35.0cps
↑ up 41%

After-tax profits (NPATA)



Dividends per share declared (fully franked)



The 2017 Financial Highlights are presented on an adjusted basis and have been reconciled to the statutory 2017 Financial Report.
[1] EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.
[2] NPATA is Net Profit After Tax, adjusted to exclude the non-cash tax effected amortisation of intangibles and significant non-operating items.
[3] Operating cash flow excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.
[4] Net Debt is cash and cash equivalents less borrowings, adjusted to exclude capitalised borrowing costs.
[5] Represents dividend declared only for H2 2014.

Managing Director and CEO **Report of Operations**

I'm pleased to announce Smartgroup has enjoyed another period of operational and financial success, while continuing to provide the highest levels of service to our loyal customers.

Overview

We have achieved a number of positive operational and growth outcomes in 2017 by enhancing our capabilities, growing our client base and completing complementary acquisitions.

Digital innovation to improve the quality of service and customer experience, while reducing manual processes, has remained a key imperative for our flagship brand, Smartsalary. Topping off a great year of digital development, Smartsalary was recognised as being among Australia and New Zealand's 50 Most Innovative Companies by the *Australian Financial Review*.

The high level of service at Smartsalary was again recognised by our customers. We finished the year with an average Net Promoter Score (NPS) of +44 on a scale of -100 to +100. A company's NPS is a measure of how likely a customer is to provide a word-of-mouth referral. Once again, this places us among leading service providers globally. In addition, Smartsalary was recognised as the 2017 Service Champion by the Customer Service Institute of Australia (CSIA).

These achievements are a fitting acknowledgement of the ongoing commitment of our staff to put customers first, and are indicative of the standards of service and operational efficiency we set for all Smartgroup brands.

Growth through acquisition

Smartgroup acquired three salary packaging businesses during 2017, strengthening our presence and service capability across all sectors.

In May, Smartgroup acquired AccessPay, a salary packaging provider to the Public Benevolent Institution (PBI) sector with c.40,000 salary packages across c.500 employer clients.

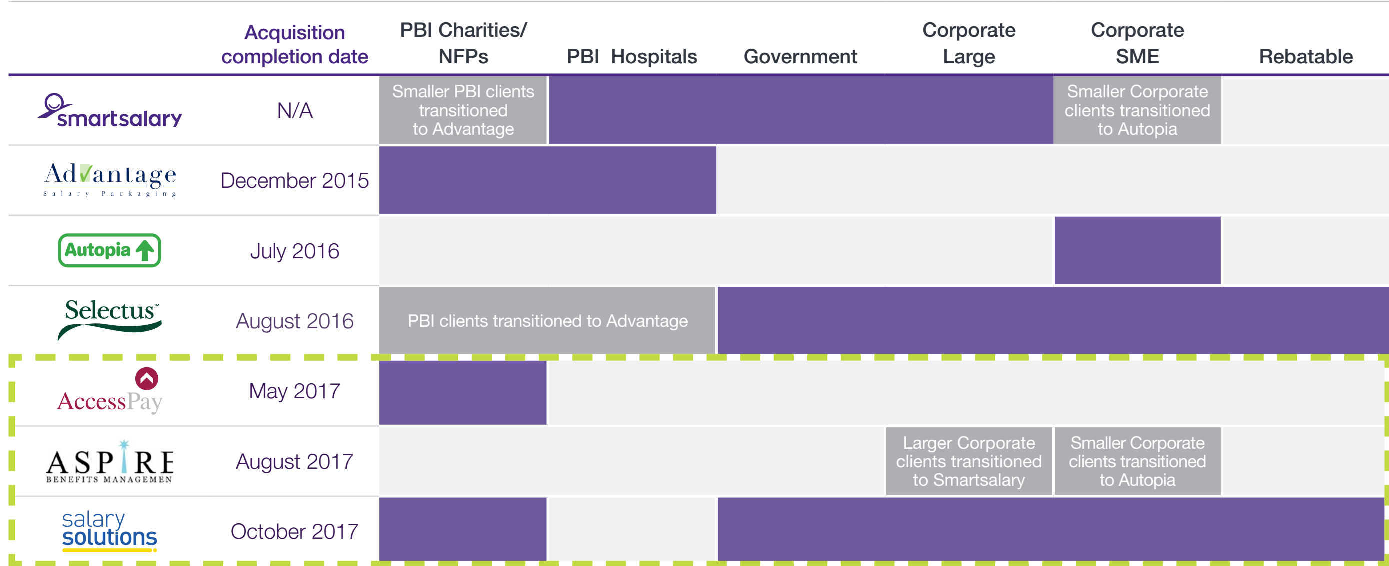
Aspire Benefits Management, a novated leasing provider to the corporate sector, joined the Group in August with c.1,500 novated leases across c.100 employer clients.

Smartgroup completed the acquisition of RACV Salary Solutions in October. RACV Salary Solutions (now operating as Salary Solutions) is a national provider of salary packaging and novated leasing, delivering benefits including c.38,000 salary packages and c.4,500 novated leases across c.700 employer clients.

In addition, in December we announced the acquisition of Fleet West, expanding our fleet management capabilities. Fleet West manages c.2,800 vehicles for c.180 employer clients in the not-for-profit sector, and has joined Smartfleet to further extend the Smartgroup fleet service offering.

These four acquisitions have added to our capacity and better enable us to leverage best practice across all Smartgroup businesses, for the benefit of both our customers and shareholders.

2017 acquisitions: building the presence of Smartgroup in the salary packaging market†



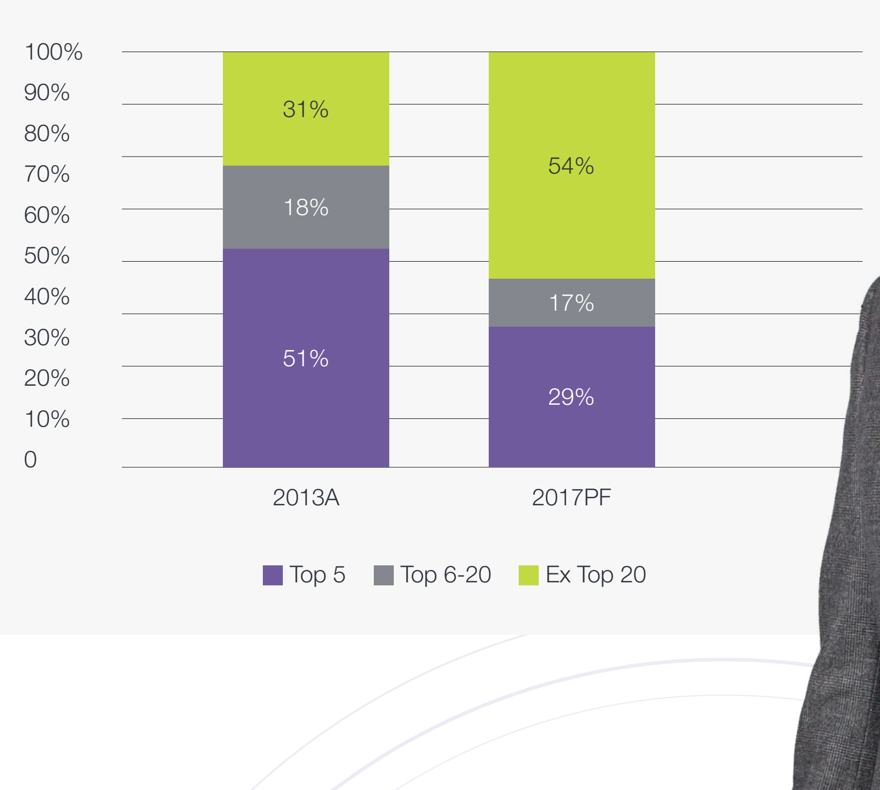
† Diagram excludes non-salary packaging and novated leasing offerings of Smartfleet, Smartequity, Smartsalary Payroll Solutions and Health-e Workforce Solutions

Expanding our client base

The number of Smartgroup clients has grown to c.3,900, up from c.2,400 clients at the end of 2016.

This has allowed us to continue to diversify our client portfolio, with 54% of our revenue coming from a larger pool of small and medium-sized clients, compared to 31% in 2013.

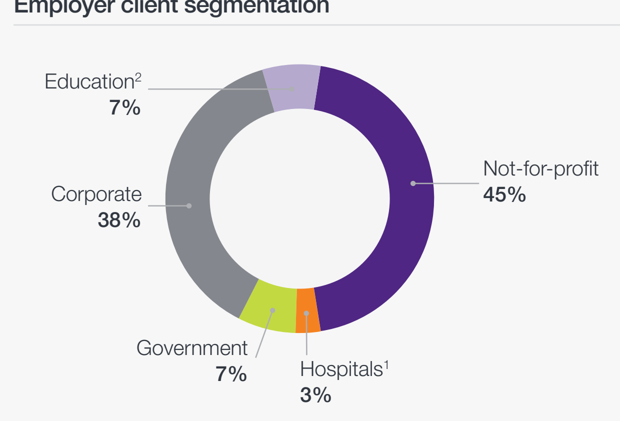
CY13 – CY17: Revenues by client mix



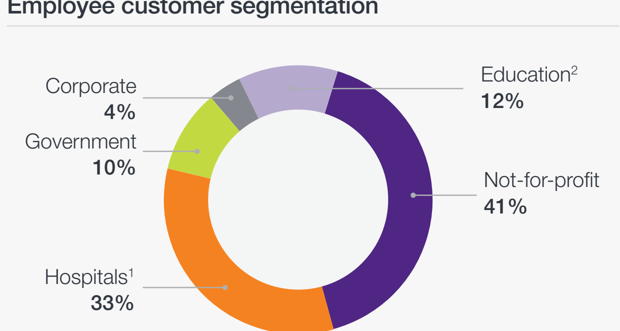
Serving all sectors of the salary packaging market

We work with employers in all market segments to provide salary packaging to their employees. 'Caring' professions, including the not-for-profit, hospitals[1] and education[2] sectors, account for more than half our overall salary packaging employer client base, and 86% of our salary packaging customers.

Employer client segmentation



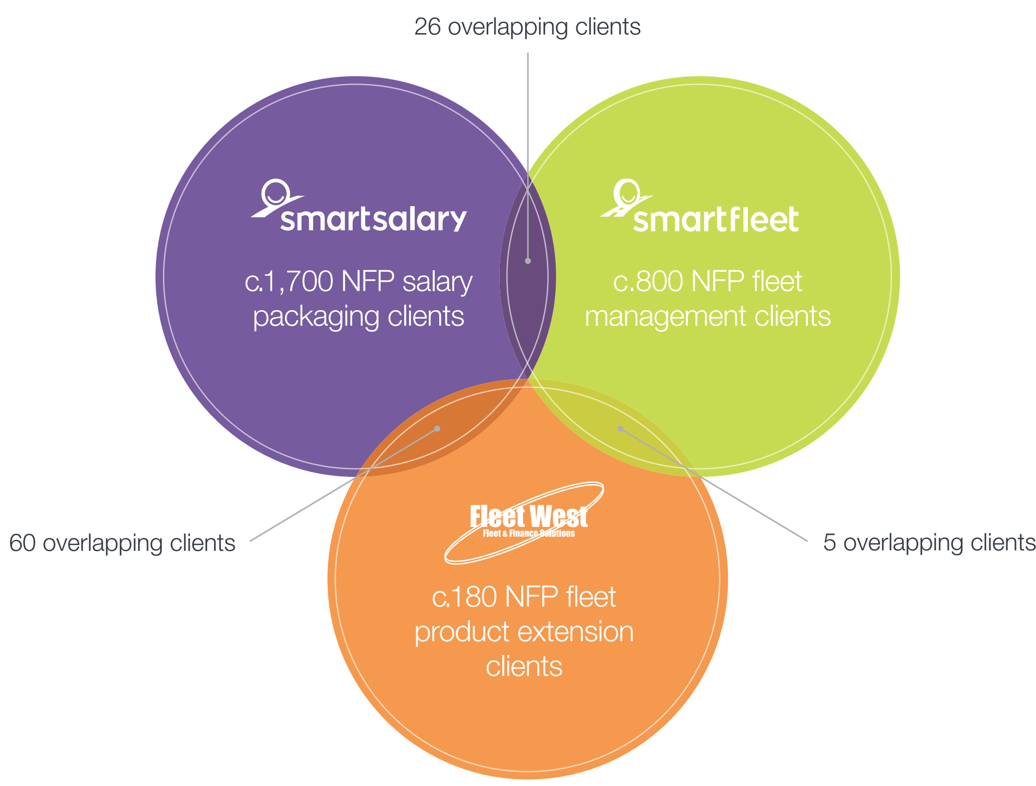
Employee customer segmentation



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

Broadening our service offering to the not-for-profit sector

Smartgroup has a large number of not-for-profit salary packaging clients, and is well positioned to build deeper relationships with this sector through an expanded service offering.



Customers first

Our dedication to our clients and customers has meant that we've retained our standing as a leading customer service provider. For the third consecutive year, Smartsalary achieved the highest ever audit score recorded by the Customer Service Industry Association (CSIA) to be recognised as the 2017 Service Champion at the CSIA Australian Service Excellence Awards.

I would like to thank our entire team, from our incredibly loyal longer-term employees to the new people who've joined us, for embracing the customer-centric Smartgroup way. Our service-led culture, and the many warm client references that flow, enable the company to continue to grow and better serve our customers, our employees and our shareholders.

Deven Billimoria
Managing Director & Chief Executive Officer

What
We Do

Smartgroup has a strong presence in all segments of the salary packaging and novated leasing market. We also deliver fleet management services to all market segments, workforce optimisation solutions to the health sector, share plan administration to the corporate sector, and payroll administration to the corporate and not-for-profit sectors.

Who
We Help

Not-for-profits

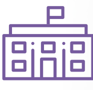
This sector includes charitable organisations with public benevolent institution (PBI) status. We have a strong presence in this sector through our existing brand Advantage Salary Packaging, which was enhanced this year by the addition of AccessPay to the group. Smartgroup-owned PBI Solutions retains market leadership in the distribution of salary packaging cards. Fleet West and Smartsalary Payroll Solutions provide services specifically designed for not-for-profit organisations.

Hospitals
public and private
not-for-profit

A significant proportion of our salary packaging customers are nurses and medical professionals located in the private and public hospital sector. Health-e Workforce Solutions also supports our many hospital clients with the provision of workforce modelling and consultancy services to drive staffing efficiencies.

Education
public and private
not-for-profit

Smartgroup has developed specific expertise working with public, private and religious education institutions, and our salary packaging customers include teachers and other professionals working in primary, secondary and tertiary education.



Government organisations

Smartgroup retained Government sector coverage at local, State and Federal level in 2017. Novated leasing continues to be a popular benefit in this sector.

Private and corporate

This sector includes private and public companies, from boutique operations to large corporations. Sector specialist Autopia delivers novated leasing solutions to small and medium-sized organisations, while Smartleasing serves the larger clients within our portfolio. Smartequity also provides flexible equity plan administration for private, public, start-up and international companies.

Environmental, Social and Governance Report

Environment

As an administrative services company, Smartgroup has a relatively low direct effect on the environment. Our biggest direct environmental impacts come from travel, energy and consumables (such as paper, waste consumption and waste management). We endeavour to reduce these impacts as explained here.

Benefits of new cars

Making cars more affordable for our customers means that the majority buy new rather than used cars. A new car tends to be more fuel efficient, so over its lifetime its fuel usage should have a lower impact on the environment. New cars have far more safety features than a decade ago, with technology improving dramatically. Better crash-test ratings, more airbags, ABS, electronic stability control and back-up cameras all contribute to reducing the number and severity of car accidents.

Greenfleet partnership

One of our two core businesses is novated leasing – enabling our clients' employees to save money on car purchases. We take our corporate responsibilities seriously and, as such, we have partnered with Greenfleet since 2008 to offset carbon emissions. Greenfleet is a carbon offset provider whose mission is to protect the climate by restoring forests.

Smartgroup was Greenfleet's largest contributor in 2017. Thanks to Smartleasing customers donating funds to offset their novated leasing emissions, 300,000 trees will be planted. Since 2008, Smartgroup and its customers have contributed to have 1.7 million trees planted, offsetting 400,000 tonnes of CO_2 emissions.

Our work with Greenfleet continues; reducing the carbon footprint of our customers' vehicles and supporting great initiatives such as the Low Glow project – a joint initiative between Greenfleet, the Prince's Trust Australia and the Walt Disney Company (Australia) to protect the local endangered sea turtle population in Bundaberg, Queensland.

Transformation and efficiency projects

We are committed to improving efficiency in all aspects of our business, not just to reduce cost and streamline our processes, but also to minimise our environmental impact. Wherever possible, we replace print and paper-based processes with online systems, both for internal administration and finance, and externally (for client-facing processes).

Waste reduction

In every office in Australia, we facilitate waste separation and recycling. Through various office initiatives, we continue to strive to reduce electricity, office and print waste across our business.

Air travel

Smartgroup has offices in most States in Australia, and also has a large remotely based sales team. As such, air travel is a necessary part of running our business. We are continuing our focus on improving technology and remote networking capabilities for our staff with the aim of enhancing workplace efficiencies, lessening our travel spend and reducing our travel-related carbon footprint.

We acknowledge and proactively manage issues that affect the long-term sustainability of our business, the environment and the community. We know that our long-term success depends upon maintaining our good reputation, enhancing employee morale, finding new revenue streams to diversify our risks, and continuing our focus on efficiency.

Social, staff and community

Smartgroup has always been a very people-focused business, both in relation to staff and clients.

Volunteering

Employees are entitled to one day of leave per year to volunteer for charitable work. As a partner of and donor to Greenfleet, Smartgroup's staff are invited to attend tree-planting days, which are popular and well-attended.

Employee engagement

Several times a year, with the assistance of an external consultant, we monitor employee engagement and closely analyse the results. We see this as very important, given the challenge of maintaining strong communication between employees and senior management, and particularly so in the context of numerous business acquisitions with offices across the country. Smartgroup has always undertaken regular business briefings at which staff are briefed about strategy and corporate developments.

UN Women National Committee (NC) Australia partnership

Autopia continued to partner with UN Women NC Australia in 2017, helping to raise over $57,000 for the UN Women NC Australia Tax Appeal.

Autopia's workplace response to domestic and family violence was published in UN Women NC Australia's report *Taking the first step: Workplace Responses to Domestic and Family Violence*.
The report is available here: unwomen.org.au/resource/taking-the-first-step-workplace-responses-to-domestic-and-family-violence/.

Environmental, Social and Governance Report

continued

Supporting staff with their causes

Throughout 2017, Smartgroup supported several staff-initiated awareness and fundraising activities for worthy causes, including Fighting Chance, RSPCA, Cancer Council Victoria and Cancer Council Tasmania.

Royal Melbourne Hospital (RMH) Foundation

For the fifth consecutive year, Smartsalary was proud to support the RMH Foundation, which delivers better health through research, innovation and education. In 2017, we supported key RMH Foundation events and activities, including sponsoring the Celebrating Excellence Awards in November, where Smartgroup CEO Deven Billimoria presented the Chief Executive's Leadership Award. We also supported the foundation's Prevention of Alcohol and Risk Related Trauma in Youth (PARTY) program.

Review of policies

Smartgroup continues to ensure that it, and all the businesses that it has acquired over the last three years, have high quality policies in place, which are designed to bolster employee morale, encourage loyalty to the business and ensure all employees have equal opportunities at work. This year Smartgroup introduced a Domestic Violence Policy, which was well received across the business. Next year Smartgroup will review other policies, including its Parental Leave Policy.

Learning and development

Smartgroup knows that an employee's perception of their professional development and career prospects is key to their engagement. In response to feedback that employees would like more support and information regarding career development, Smartgroup has put in place various new learning and development initiatives throughout 2017 to improve engagement and capitalise on employees' enthusiasm and commitment to their work.

Employee share plan

To encourage share ownership, loyalty and involvement in the business and its direction, Smartgroup continues to offer employees the ability to subscribe for shares. Employees salary sacrifice $500 and Smartgroup matches this with a further $500, issuing the subscribing employees with $1000 worth of Smartgroup shares each year.

Diversity and gender balance

Smartgroup has several gender objectives in place, supported by a number of policies. We have reported against those objectives in our Corporate Governance Statement (found at: ir.smartgroup.com.au/Investors/?page=Corporate-Governance).

Governance

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

Directors' Report 2017

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Auditor's Independence Declaration 34

Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Smartgroup Corporation Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2017.

For the year ended 31 December 2017

Directors

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

Michael Carapiet

Deven Billimoria

John Prendiville

Gavin Bell

Andrew Bolam

Ian Watt

Deborah Homewood

Principal activities

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

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2017 $'000	**2016 $'000**
Final dividend for the year ended 31 December 2016 of 15.0 cents (2015: 8.7 cents) per ordinary share	18,223	9,022
Interim dividend for the year ended 31 December 2017 of 16.5 cents (2016: 9.8 cents) per ordinary share	20,379	11,901
	38,602	20,923

On 21 February 2018, the Directors declared a fully franked dividend of 18.5 cents per ordinary share. The final dividend will be paid on 30 March 2018 to shareholders registered on 15 March 2018, resulting in a financial distribution of $22,794,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2017 financial statements and will be recognised in subsequent financial reports.

Review of operations

The profit for the Group after providing for income tax amounted to $41,309,000 (31 December 2016: profit of $32,788,000).

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

Business objectives and cash use

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

Significant changes in the state of affairs

The Group undertook three acquisitions of salary packaging businesses during 2017. Collectively these businesses were acquired for $56,668,000 and contributed approximately 79,500 salary packages and 6,600 novated leases from around 1,300 employer clients.

A further acquisition of a fleet management company was completed in January 2018.

Acquisitions

Acquisition of AccessPay Pty Ltd (AccessPay)

On 2 May 2017, the Group acquired a 100% interest in the AccessPay Group for $15,000,000. AccessPay is based in Adelaide and provides salary packaging services to clients in the PBI sector across Australia. It administers approximately 40,000 salary packages and 600 novated leases for around 500 employer clients. The consideration provided was $13,700,000 in cash (from cash reserves) plus $1,000,000 retained in escrow until 9 November 2018 and 46,225 shares issued at a price of $6.49 each to a vendor of AccessPay.

Acquisition of ABM Corporation Pty Ltd (Aspire)

On 23 August 2017, the Group acquired a 100% interest in Aspire for $6,700,000 plus $500,000 retained in escrow. Aspire provides novated leasing services to the corporate sector, administering approximately 1,500 novated leases and servicing over 100 employer clients. The consideration was paid in cash from cash reserves.

Acquisition of RACV Salary Solutions (Salary Solutions)

On 20 October 2017, the Group acquired the Salary Solutions business from RACV for $27,468,000 plus $7,000,000 retained in escrow. Salary Solutions is based in Adelaide and provides salary packaging and novated leasing services to all segments of the market. It administers approximately 38,000 salary packages and 4,500 novated leases for around 700 employer clients. The consideration was paid in cash and was funded from cash reserves and existing debt facilities.

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

Matters subsequent to the end of the financial year

On 4 January 2018, the Group completed the acquisition of 100% of the shares of Fleet West Pty Ltd (Fleet West) for $9,000,000. Fleet West is based in Perth and provides fleet management services to clients in the not-for-profit sector. It manages approximately 3,000 vehicles for around 200 employer clients. The consideration paid was $8,000,000 in cash and 99,206 shares issued at a price of $10.08 each to the principal vendor.

On 21 February 2018, the Directors declared a fully-franked dividend of 18.5 cents per ordinary share. The final dividend will be paid on 30 March 2018 to shareholders registered on 15 March 2018, resulting in a financial distribution of $22,794,000.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

The glossary on page 98 contains a list of defined terms.

Board of **Directors**

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

Michael Carapiet

Chairman and Non-Executive Director

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

Experience and expertise:
Michael has more than 30 years' experience in the financial sector. Michael is the Chairman of Link Group (ASX:LNK), a global provider of share registry, corporate market data analytics and asset management services and is the largest provider of administration services to the Australian superannuation sector. Michael is Chair of Insurance and Care NSW (icare NSW), which includes the activities of the NSW Workers Compensation Scheme, Lifetime Care & Support, Dust Diseases and the NSW Government's self insurance activities. He is also Chair of Adexum Capital Limited, a private equity fund manager and an Advisory Board Member of Pyrolyx AG, a dual listed company in Germany and Australia. Previously Michael held numerous senior roles at Macquarie Group, until his retirement in 2011.

Former publicly listed directorships (last 3 years): None

Special responsibilities: Member of HRRC and Member of ITIC

Interests in shares: 2,047,816

Interests in options: None

Deven Billimoria

Managing Director and Chief Executive Officer

Qualifications:
Deven holds a Master of Business Administration from Northwestern University's Kellogg School of Management and a Bachelor of Science in Mechanical Engineering from the University of California, Los Angeles.

Experience and expertise:
Deven has worked with Smartgroup for 18 years. He was appointed Managing Director and CEO of Smartgroup Corporation in 2014. Prior to that, Deven was Managing Director and CEO of Smartsalary Pty Ltd, a position he held from 2001. Deven began his career as an engineering consultant, before moving to management consulting with Booz Allen Hamilton.

Former publicly listed directorships (last 3 years): None

Special responsibilities: None

Interests in shares: 2,518,367

Interests in options: 1,208,504

Ian Watt AC

Non-Executive Director

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

Experience and expertise:
Ian has worked for nearly 20 years at very senior levels of the Australian public service. His most recent appointment was as Secretary of the Department of Prime Minister and Cabinet and head of the Australian Public Service, a position he held from 2011 to 2014. Prior to that, he was Secretary of the Departments of Defence, Finance, and Communications, Information Technology and the Arts between 2001 and 2011. Before that, Ian was Deputy Secretary of the Department of the Prime Minister and Cabinet. Ian is currently the Chair of the International Centre for Democratic Partnerships, BAE Systems Australia Pty Ltd, the Smart Infrastructure Facility of the University of Wollongong and the Prader-Willi Research Foundation of Australia. Ian is on the boards of Citigroup Australia, the Grattan Institute (University of Melbourne), the Australian Governance Masters Index Fund and O'Connell Street Associates Pty Ltd. Ian is also a member of Male Champions of Change.

Former publicly listed directorships (last 3 years): None

Special responsibilities: Chairman of ITIC and Member of ARC

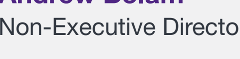
Interests in shares: 62,142

Interests in options: None

Andrew Bolam
Non-Executive Director

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

Experience and expertise:
Andrew has more than 20 years of experience in financial and general management. He is currently the Chief Financial Officer of Fetch TV Pty Ltd. He was previously the Chief Financial Officer of Usaha Tegas, a private investment holding company based in Malaysia. He was also Commercial Director of Bumi Armada Berhad, an associate of Usaha Tegas group. Andrew was the Chief Financial Officer of Astro All Asia Networks plc (the then holding company of MEASAT Broadcast Network Systems Sdn Bhd that launched the Astro Pay-TV services) shortly following its launch in late 1996.



Former publicly listed directorships (last 3 years): None

Special responsibilities: Member of ARC and Member of ITIC

Interests in shares: 200,000

Interests in options: None

Deborah Homewood
Non-Executive Director

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

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

Former publicly listed directorships (last 3 years): None

Special responsibilities: Member of ITIC and Member of HRRC

Interests in shares: 4,444

Interests in options: None

John Prendiville
Non-Executive Director

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

Experience and expertise:
John is currently a Director of the University of Notre Dame (and Member of the University's Audit and Finance Committee) and Chairman-elect of the privately-owned Global Advanced Metals Limited (and Member of the company's Audit and Finance Committee). John is also a director of 1300 Australia Limited and GetCapital Pty Limited. Previously John held numerous senior roles at Macquarie Group, where he worked until 2011.

Former publicly listed directorships (last 3 years): None

Special responsibilities: Chairman of ARC and Member of HRRC

Interests in shares: 852,902

Interests in options: None

Gavin Bell
Non-Executive Director

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

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

Former publicly listed directorships (last 3 years): None

Special responsibilities:
Chairman of HRRC and Member of ARC

Interests in shares: 74,850

Interests in options: None

Company secretaries

General Counsel and Joint Company Secretary

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

Chief Legal Officer and Joint Company Secretary

Sophie MacIntosh was appointed Chief Legal Officer on 7 November 2016 and was appointed Joint Company Secretary on 13 December 2016. Sophie previously worked for Ashurst as a Senior Associate. Prior to that, she worked at DLA Phillips Fox. Sophie holds a Master of Laws from the University of Sydney and a Bachelor of Business and a Bachelor of Law (Honours) from the University of Technology Sydney. She has also completed the Observership Program and the Not-for-Profit Directors course with the Australian Institute of Company Directors.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 31 December 2017, and the number of meetings attended by each Director were:

	Full Board		Human Resources and Remuneration Committee (HRRC)		Audit and Risk Committee (ARC)		IT and Innovation Committee (ITIC)	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Michael Carapiet	18	18	3	3	-	-	4	4
Deven Billimoria	18	18	-	-	-	-	-	-
John Prendiville	16	18	2	3	3	4	-	-
Gavin Bell	15	18	3	3	4	4	-	-
Andrew Bolam	18	18	-	-	4	4	4	4
Ian Watt	17	18	-	-	4	4	4	4
Deborah Homewood	17	18	3	3	-	-	4	4

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

Remuneration Report

(Audited)

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

Introduction

The Remuneration Report is designed to provide shareholders with an understanding of Smartgroup's remuneration policies and how these are linked to the Group's remuneration philosophy and strategy. The Remuneration Report specifically focuses on the Smartgroup remuneration arrangements for 2017.

At the AGM held in May 2017, the remuneration framework received strong support from shareholders, with a very strong majority vote in favour of the resolution to adopt the 2016 Remuneration Report.

Principles used to determine the nature and amount of remuneration

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

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

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

The HRRC has structured an executive remuneration framework that is competitive with the market and complementary to the reward strategy of the Group. In late 2017, the Board commissioned Minter Ellison to provide benchmarking advice in relation to executive remuneration for 2018.

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

The remuneration strategy:

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

As the Company has grown, there has been a need to review and redesign the organisational structure to support and facilitate delivery of the current and future strategic goals. Early 2017 saw the first phase of a group-wide reorganisation where all business support functions were integrated to form a single Smartgroup structure. This included the finance, IT, human resources and risk and audit functions. The prime goal was to ensure a common and consistent approach in functional support and service delivery, as well as driving efficiencies and adopting best practice standards across the group. The reorganisation was very successful and is well on its way to realising the goals of the structural changes.

October saw the second phase of organisational restructuring where business unit reporting lines moved from separate entities reporting directly into the CEO, to all salary packaging business units reporting into the Chief Executive, Salary Packaging and all novated leasing and fleet business units reporting into the Chief Executive, Novated Leasing and Fleet. This change is in line with the strategic goal of driving efficiencies through the integration of common processes and removing duplication.

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

A. Non-executive Directors' remuneration

Fees and payments to non-executive Directors reflect the demands that are made on, and the responsibilities of, these Directors. The Board decides the total amount paid to each non-executive Director as remuneration for their services as a Director. The total amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company at a general meeting. The aggregate remuneration for non-executive Directors was set by shareholders at the AGM in May 2017 at $1,150,000. The fees paid are $210,000 per annum for the Chairman of the Board and $100,000 per annum for each non-executive Director. In addition to the above, the Chairmen of the ITIC and HRRC respectively are paid $20,000 annually for services provided to each of those committees. Each member of those two standing committees (other than the committee Chairman) is paid $10,000 annually for the services provided to that committee. The Chairman of the ARC is paid $25,000, and each other member of that committee is paid $12,500 per annum.

In addition to the fees, superannuation and GST, if applicable, are paid in each case. There are no retirement benefit schemes for non-executive Directors, other than statutory superannuation contributions. Any change to the aggregate annual sum referred to above must be approved by shareholders. The aggregate sum includes any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board. Directors may be paid additional or substituted remuneration if they, at the request of the Board and for the purpose of the Company, perform any additional or special duties.

B. Executive remuneration

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

The executive remuneration and reward framework consists of four components:

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

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

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

The two charts below show the relative proportion of the executives' total remuneration package for the 2017 financial year:

In calculating the 'at risk' compensation as a proportion of total remuneration for the 2017 financial year for each executive, the maximum entitlement that could potentially be awarded under the STIP or LTIP was taken into account.

a) Total fixed remuneration (TFR)

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

b) Short term incentive plan (STIP)

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

Participants in the STIP have a target cash payment that is set every year as a percentage of their TFR. In 2017 it was subject to a maximum target of 60% for the CEO and 30% for each other executive KMP.

Payments under the STIP in any given year depend on the achievement of a range of financial and non-financial key performance indicators and objectives (KPIs) as approved by the Board on an annual basis. These KPIs are tested annually after the end of the relevant year. The 2017 STIP provided for financial and non-financial KPIs, with the achievement of the financial KPI as the gateway to a STIP payment. The 2017 STIP provided for financial and non-financial KPIs to be weighted at 50% each.

Year on year, the STIP and associated KPIs have been designed to compensate and reward the executive team for achieving the Company's short-term business strategy. The 2017 strategic goals were primarily designed to ensure ongoing business growth as measured by the financial KPI. An emphasis on driving efficiencies across business units also featured strongly with other non-financial KPIs. These KPIs ensured a focus on delivering efficiencies in IT systems, human resources, and operational and functional processes, with best practice standards adopted consistently across the Group. A focus on excellence in customer service and maintaining optimal standards around risk and audit were also important strategic drivers.

Financial KPI:

The financial KPI is required to be met by all members of the executive KMP. In 2017, the percentage of the payment was set to vary depending on the Net Profit After Tax, adjusted to exclude the non-cash tax effected amortisation of intangibles and significant non-operating items (NPATA) achieved by the Group. Table 1 below describes the arrangement.

Table 1: Financial KPI

NPATA for 2017	% of STIP
1. $60m or more	50%
2. $58.5m or more but less than $60m	25%
3. $57m or more but less than $58.5m	12.5%
4. Less than $57m	0%

This target range represented a significant increase over 2016 NPATA which was $44m.

The financial performance of the Group in 2017 saw a growth of 46% from 2016. NPATA for the year ended 31 December 2017 was $64.1m compared to $44.0m in 2016. As a result, 50% of the STIP will be paid out in total to the executive KMP in relation to this KPI.

Unless NPATA was at least $57m (see number 4 in the table above), no STIP was payable for the non-financial KPIs below. As indicated above, this requirement was satisfied.

Non-financial KPIs:

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

The Board's assessment of performance against KPIs in 2017 is presented in the following table.

Table 2: List of non-financial KPIs: who is subject to them, how they are measured and to what extent they were achieved

Non-financial KPI	Relevant executive	How it is measured	Actual achievement
1. New business:			
a) Win large clients	CESP, CENL	Targets set on number of new packages with stretch targets in place	100%
b) Increase B2B cross-sell	CESP	Target set for achieving cross sell opportunities	100%
2. Existing clients:			
a) Retain 100% of key clients	CESP	Retention of identified key clients	100%
b) Increase package and leasing uptake	CEO, CESP, CENL	Targets set for achieving organic growth with stretch targets in place	100%
3. Operational excellence:			
a) Increase operational efficiency	CHRO, CENL	HR plan delivered and approved by HRRC Chairman Specific operational efficiency projects delivered on time and on budget	100%
b) Maintain IT capabilities	CIO	Delivery of the group IT security plan and achievement of specific milestones	100%
4. M&A:			
a) Acquire new businesses to grow and diversify	CEO, CFO, CLO	As approved by Chairman	100%
b) Integrate and manage acquired businesses	All except for CENL	Delivery of integration plan including the successful organisational restructure across the Group and delivery of the technology roadmap	67%
5. Risk – Manage and embed risk management and audit	All	Risk & Audit plan remediation plans closed in agreed time period	80%

Payment of STIP

Any amount that may be paid to the participants under the STIP is subject to the absolute discretion of the Board, after taking into account performance against KPIs and any other matters determined by the Board to be relevant to its discretion including, without limitation, the participant's conduct.

A total of $851,764 of the 2017 STIP will be paid to the CEO and other executive KMP upon finalisation of the Financial Report for the year ended 31 December 2017. Of this amount, $304,983 will be paid to the CEO.

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

Table 3: 2017 STIP outcomes

Name of Executive	2017
Deven Billimoria – *Chief Executive Officer*	94%
Clarence Yap – *Chief Information Officer*	95%
Michael Ellies – *Chief Executive Salary Packaging*	100%
Dave Adler – *Chief Executive Novated Leasing & Fleet*	100%
Houda Lebbos – *Chief Human Resources Officer*	95%
Sophie MacIntosh – *Chief Legal Officer*	94%
Timothy Looi – *Chief Financial Officer*	94%

c) Long-Term Incentive Plan (LTIP)

In early 2015 the Board established an LTIP for the CEO and executive KMP, which was approved for adoption by shareholders at the 2015 AGM. At the Company's AGM in May 2017, the shareholders approved the issue of shares to the CEO pursuant to that plan.

The LTIP aligns rewards with shareholder value by tying this component of executive remuneration to the achievement of performance measures that underpin sustainable long-term growth. It is proposed that LTIP grants will be made once a year. Each year the CEO's grant of LTIP shares will be put to a shareholder vote at the Company's AGM. In 2018, in accordance with the ASX Listing Rules, the LTIP will be put to shareholders for approval again.

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

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

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

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

2017 grant under the LTIP

The number of shares granted is based on a proportion of the relevant executive's fixed remuneration. For 2017, the LTIP grant to the CEO was 94% of TFR, and to the executive KMP was between 48% and 58% of TFR, as measured by the fair value of the shares on the grant allocation date (i.e. when the number of shares to be issued was determined).

Under the 2017 LTIP grant, the executive KMP and the CEO purchased shares at $6.39 and $6.50 respectively, being the market value on the date of issue. 'Market value' for the CEO's shares was the 20-day VWAP of the shares, up to and including the trading day immediately prior to the date of the AGM. 'Market value' for the executive KMP (other than the CEO) shares was the 20-day VWAP of the shares, up to and including the trading day immediately prior to the date of issue, where in calculating the VWAP, the VWAP for the period prior to the declared cum dividend date was reduced by the amount of the declared dividend relating to that cum dividend date. Under the 2017 LTIP grant, the vesting period is three years ending on 31 December 2019. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle (based on NPATA per share) and a TSR hurdle, explained below.

The two performance hurdles are described below in relation to the 2017 grant, and were explained to shareholders in the 2017 Notice of AGM, and subsequently approved by shareholders.

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

Earnings per share (EPS) performance hurdle

The EPS performance hurdle applies to 75% of the total number of LTIP shares that may vest at the end of the vesting period. The Board's view is that the 2017 EPS performance hurdle set out below is a challenging target. In addition, the main benefit of the LTIP shares arises from share price growth which, in effect, acts as a further performance requirement.

The following method was used to determine the EPS hurdle. It is based on achievement of the CAGR of EPS (measured on the Company's NPATA per share) from the 2016 audited financial results, adjusted to include the 2016 full year earnings of the acquisitions of Autopia Group Pty Ltd and Selectus Pty Ltd (acquisitions that occurred in 2016). That is, the actual base year NPATA is increased so the NPATA growth that must be achieved is higher than if the actual base year NPATA were used.

Table 4: EPS Performance Hurdle

EPS Performance Hurdle Applies to a maximum of 75% of the total number of shares issued under the 2017 LTIP grant				
Measure	**Vesting period**	**EPS CAGR**	**EPS target**	**Loan-Funded Shares subject to vesting**
EPS CAGR	The period of 3 calendar years ending 31 December 2019*	Below 10.0%		Nil
		10.0%	$0.56	50%
		Between 10.0% – 15%		Straight line between 50% and 100%
		15% or greater	$0.64	100% (capped)

*Or such other date on which the Board decides whether the vesting condition has been met.

Total shareholder return (TSR) performance hurdle

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

TSR measures the growth in the price of the shares plus cash distributions notionally reinvested in shares. Each of the companies in the S&P/ASX Small Ordinaries Index are ranked from highest to lowest based on their TSR over the performance measurement period (which is the same as the vesting period). For the purpose of calculating the TSR measurement, the relevant share prices are determined by reference to the VWAP over the 20 trading days up to and including 1 January 2017 (the performance measurement period start-date for the 2017 grant) and the 20 trading days up to and including the performance measurement period end-date (as specified in Table 5).

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

The Board believes it is appropriate to have a proportion of the shares awarded under the LTIP to be subject to a TSR performance hurdle to provide a market-based hurdle. In 2017 (as in previous years) it was restricted to 25% of the LTIP shares.

Note: The Small Ordinaries Index contains several companies outside the Company's industry. The Board's view was that Small Ordinaries Index was an appropriate comparator group for the Company in 2017. However, given the growth in the Company's market capitalisation, the Board has re-assessed what is the most appropriate comparator group for the Company for the purposes of setting the TSR hurdle in 2018. The comparator group will be the ASX 200. The Board's view is that there are not enough usefully comparable companies to create a company-specific comparator group, which would require at least 10, and ideally 20, companies.

Table 5: Relative TSR Performance Hurdle

TSR Performance Hurdle **Applies to a maximum of 25% of the total number of shares issued under the 2017 LTIP grant**			
Measure	**Vesting period**	**Smartgroup TSR performance compared to Index**	**Loan-Funded Shares subject to vesting**
Relative TSR (ranking)	The period of 3 calendar years ending 31 December 2019*	0 to 49th percentile	Nil
		50th percentile	50%
		51st to 74th percentile	Straight line between 50% and 100%
		75th to 100th percentile	100%

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

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

2015 grant under the LTIP – shares vesting as at 31 December 2017

The 2015 LTIP grant was split into two tranches, the first tranche (Tranche A) having a vesting period ending on 31 December 2016, and the second tranche (Tranche B) having a vesting period ending on 31 December 2017. The vesting of both tranches of shares is subject to the achievement of an EPS hurdle and a TSR hurdle.

EPS hurdle: The EPS hurdle applies to a maximum of 75% of this tranche of shares, and is based on achievement of a CAGR of EPS (measured on the Company's NPATA per share) from the 2014 audited financial results (adjusted to exclude the once-off expenses arising from the initial public offer of shares in the Company). As at 31 December 2017, the EPS was 52.0 cents per share and therefore, the EPS target of 21.1 cents per share was exceeded. Under the terms of the 2015 LTIP grant, that result entitles the relevant executives to receive 100% of that parcel of LTIP shares.

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

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

Accordingly, all five executives participating in the 2015 grant had Tranche B of their 2015 LTIP shares vest in full in accordance with the column headed 'Vested in Year' in Table 13.

Remuneration outcomes in 2017 and link to 2017 financial year performance

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

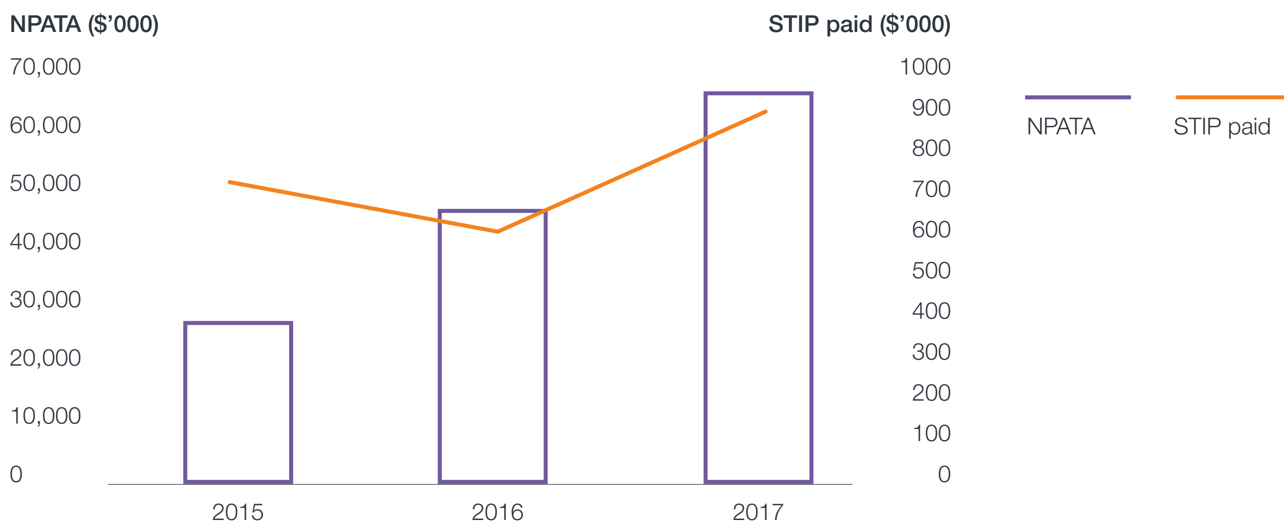
Table 6 – Indices relevant to the Board's assessment of the Group's performance and the benefit to shareholders

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

As shown above, the Company's 3 year TSR to 31 December 2017 was the highest of all companies in the Small Ordinaries Index.

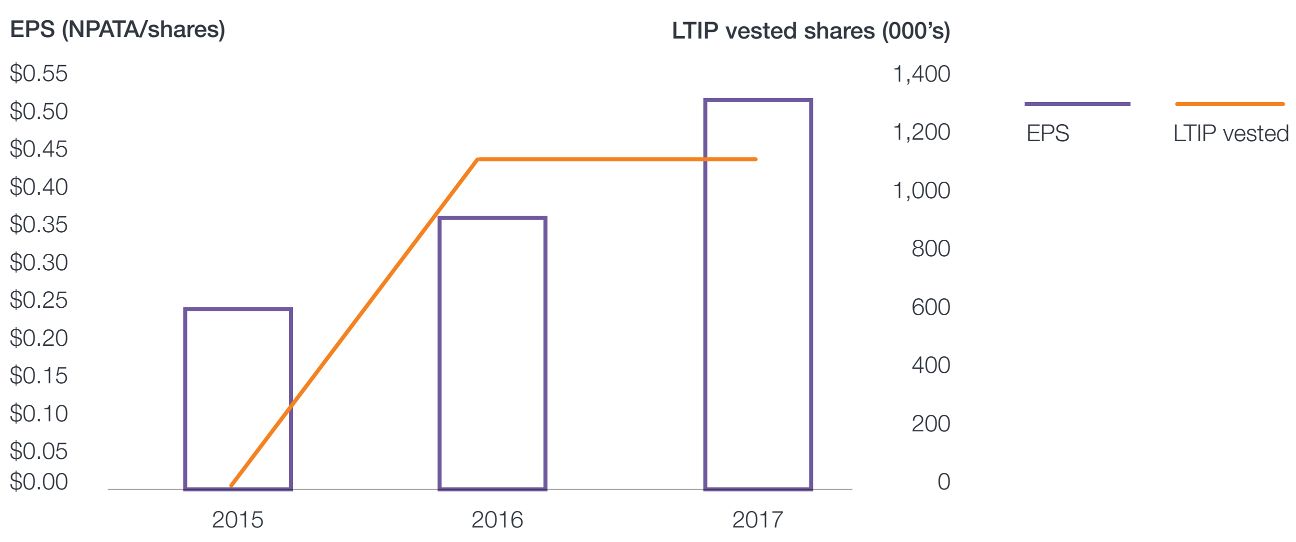
The graph below illustrates the relationship between the Group's performance and STIP awards in respect of the current financial year and the preceding two financial years. In 2016 NPATA grew by 68% to $44.0m, and in 2017 NPATA grew by 46% to $64.1m, so in both these years, the executive KMP earned awards in full in respect of this measure.

Relationship between Group performance and STIP outcomes



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

Relationship between Group performance and LTIP outcomes



2017 remuneration structure

Use of remuneration consultants

As noted above, in late 2017 the Group engaged the remuneration consulting arm of Minter Ellison to undertake a benchmarking exercise, to assist in setting executive remuneration for 2018. That remuneration will be reported in the 2018 Annual Report.

That engagement was arranged and supervised directly by the Chairman of the HRRC. Advice was discussed directly with the Chairman and/or the Board.

Details of remuneration

Amounts of remuneration

Details of the remuneration of the KMP of the Group are set out in the following tables in accordance with the requirements of the *Corporation Act 2001 (Cth)* and the Accounting Standards.

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

- Timothy Looi – Chief Financial Officer
- Dave Adler – Chief Executive Novated Leasing & Fleet
- Michael Ellies – Chief Executive Salary Packaging
- Houda Lebbos – Chief Human Resources Officer
- Clarence Yap – Chief Information Officer
- Sophie MacIntosh – Chief Legal Officer.

Table 7: 2017 Remuneration

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

Table 8: 2016 Remuneration

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

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

The proportion of remuneration linked to performance is as follows:

Table 9: Proportion of Remuneration

	Fixed remuneration		At risk – STIP		At risk – LTIP	
Name	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-Executive Directors:						
Michael Carapiet	100%	100%	-	-	-	-
John Prendiville	100%	100%	-	-	-	-
Gavin Bell	100%	100%	-	-	-	-
Ian Watt	100%	100%	-	-	-	-
Andrew Bolam	100%	100%	-	-	-	-
Deborah Homewood	100%	100%	-	-	-	-
Executive KMP:						
Deven Billimoria	42%	46%	24%	24%	34%	30%
Timothy Looi	58%	66%	16%	15%	26%	19%
Dave Adler	60%	67%	17%	15%	23%	18%
Michael Ellies	60%	67%	17%	15%	23%	18%
Houda Lebbos	59%	67%	17%	15%	24%	18%
Clarence Yap	71%	-	18%	-	11%	-
Sophie MacIntosh	69%	-	20%	-	11%	-

Service agreements

Non-executive Directors

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

Remuneration and other terms of employment for the Executive Director are formalised in service agreements. Details of these agreements are as follows:

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

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

The employment contract may be terminated by either party giving 12 months' written notice or in the case of the Group by payment in lieu of notice. The Group may terminate the employment contract immediately and without payment in lieu of notice in the event of serious misconduct or other specified circumstances. There is no entitlement to termination payments in the event of termination. Non-compete provisions upon termination of employment exist for a period of 12 months from the date of termination of employment, as determined by the Board (in its sole discretion), depending on the circumstances of termination. The enforceability of the restraint clause is subject to all usual legal requirements.

Other executive key management personnel

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

- Total compensation inclusive of a base salary and superannuation contribution;
- Eligibility to participate in the STIP, with target participation in the STIP capped at a maximum of 30% of total fixed annual remuneration;
- Termination by either party giving three months' written notice, or in the case of the Group, payment in lieu of notice;
- Immediate termination by the Group without payment in lieu of notice in the event of serious misconduct or other specific circumstances;
- No entitlement to termination payments in the event of termination; and
- Non-compete provisions upon termination of employment for a maximum of six months from the date of termination of employment, as determined by the Board (in its sole discretion), depending on the circumstances of termination. The enforceability of the restraint clause is subject to all usual legal requirements.

Share-based compensation

Bonus shares and cash offers

Details of shares issued to Directors and other KMP as part of compensation during the year ended 31 December 2017 are set out below:

Table 10: Bonus Shares and Cash Offers

2017	2016
Nil	Nil

LTIP or Loan Funded Share (LFS) Plan

As described above, the Board established an LTIP for the executive KMP and other senior management. The securities issued under the LTIP are not options. However, the terms of the LTIP are such that the benefits to participants are similar to the benefits that would be received had the participant been granted options – that is, the participant benefits from the increase in the market price over the purchase price of the share. Accordingly, the Company provides a summary below of the terms of the LTIP for the purposes of compliance with the Corporations Act in relation to the disclosure of details of options granted during 2017.

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

Table 11: Terms and Conditions of the shares granted under the LTIP in 2017

Issue date of LFS	Vesting period	Exercise date	Expiry date	Number of shares granted	Price of shares granted	Value of option at grant date*	Performance achieved	% Vested at 31 December 2017
17 Mar 2017	3 calendar years to 31 December 2019	1 Jan 2020	16 Mar 2022	1,208,501	$6.39	$1.65	To be determined	n/a
5 May 2017	3 calendar years to 31 December 2019	1 Jan 2020	4 May 2022	338,628	$6.50	$1.67	To be determined	n/a

* Reflects the fair value at the issue date as part of remuneration granted as valued by Minter Ellison.

As noted above, the LFS issued under the LTIP are not options. However, for the purposes of compliance with the *Corporations Act 2001*, the Company provides a summary below of the LFS issued under the LTIP in 2015 that have a vesting period ending on 31 December 2017.

Table 12: LTIP shares with a vesting period ending on 31 December 2017

Issue date of LFS	Vesting period (first tranche)	Exercise date	Expiry date	Number of shares vesting (first tranche)	Price of shares granted	Value of option at grant date	Performance achieved	% Vested at 31 December 2017 †
18 Mar 2015	3 calendar years to 31 December 2017	1 Jan 2018	17 Mar 2020	602,262	$1.60	$0.31	yes	100%
27 Apr 2015	3 calendar years to 31 December 2017	1 Jan 2018	26 Apr 2020	516,224	$1.65	$0.40	yes	100%

† As determined by the Board on 21 February 2018.

Table 13: Shares granted under the LTIP in 2017 and the vesting profile of long term incentives granted as remuneration

					Balance at end of the year		
Name and grant dates	**Balance at the start of the year (unvested)**	**Granted as compensation**	**Vested in year**	**Forfeited in year**	**Balance at the end of the year (unvested)**	**LTIP vested and not exercised at end of year**	**Total LTIP (vested and unvested)**
Deven Billimoria	869,876	338,628	(516,224)	-	692,280	516,224	1,208,504
Timothy Looi	283,325	124,792	(154,867)	-	253,250	154,867	408,117
Dave Adler	257,471	105,374	(149,951)	-	212,894	149,951	362,845
Michael Ellies	257,471	105,374	(149,951)	-	212,894	149,951	362,845
Houda Lebbos	253,861	103,646	(147,493)	-	210,014	147,493	357,507
Clarence Yap	-	105,996	-	-	105,996	-	105,996
Sophie MacIntosh	-	106,480	-	-	106,480	-	106,480
Total executive KMP	1,922,004	990,290	(1,118,486)	-	1,793,808	1,118,486	2,912,294
Senior management	-	556,839	-	(313,507)	243,332	-	243,332
Total	**1,922,004**	**1,547,129**	**(1,118,486)**	**(313,507)**	**2,037,140**	**1,118,486**	**3,155,626**

There were no options over ordinary shares issued to Directors and other KMP as part of compensation as at 31 December 2017.

Additional disclosures relating to Key Management Personnel

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

Equity instrument details relating to KMP

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

Table 14: Director and executive KMP shareholding

	Balance at start of the year	**LTIP exercised**	**Purchases / (disposals)**	**Balance at end of the year**	**LTIP vested and not exercised at end of year**	**Balance at end of year including vested LTIP**
Ordinary shares						
Michael Carapiet	2,022,816	-	25,000	2,047,816	-	2,047,816
John Prendiville	852,902	-	-	852,902	-	852,902
Gavin Bell	74,850	-	-	74,850	-	74,850
Andrew Bolam	159,284	-	40,716	200,000	-	200,000
Ian Watt	52,142	-	10,000	62,142	-	62,142
Deborah Homewood	-	-	4,444	4,444	-	4,444
Deven Billimoria	2,002,142	516,225	-	2,518,367	516,224	3,034,591
Timothy Looi	384,306	154,868	(188,421)	350,753	154,867	505,620
Dave Adler	29,998	149,951	(79,949)	100,000	149,951	249,951
Michael Ellies	259,895	149,951	(102,142)	307,704	149,951	457,655
Houda Lebbos	164,361	147,493	(164,361)	147,493	147,493	294,986
Clarence Yap	-	-	-	-	-	-
Sophie MacIntosh	-	-	140	140	-	140
Total	**6,002,696**	**1,118,488**	**(454,573)**	**6,666,611**	**1,118,486**	**7,785,097**

This excludes shares from the LTIP that are not yet vested as at 31 December 2017.

This concludes the remuneration report, which has been audited.

Shares under option

As at 31 December 2017, there were 2,037,140 unvested shares issues to employees under the LTIP program. The LTIP shares are legally held by the employees, however they cannot deal in the shares until the vesting conditions are satisfied and the loan is fully repaid. These have been treated as options in accordance with AASB 2 ‘Share-based Payment’ issued by Australian Accounting Standards Board.

Shares issued on the exercise of options

There were no ordinary shares of Smartgroup Corporation Ltd issued on the exercise of options during the year ended 31 December 2017 and up to the date of this report.

Indemnity and insurance of officers

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

Indemnity and insurance of auditor

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

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 40 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in note 40 to the financial statements do not compromise the external auditor’s independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former partners of PricewaterhouseCoopers

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

Rounding of amounts

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

Auditor’s independence declaration

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

Auditor

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

On behalf of the Directors

Michael Carapiet, Chairman
21 February 2018, Sydney

Auditor's Independence Declaration

As lead auditor for the audit of Smartgroup Corporation Ltd for the year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Sam Hinchliffe
Partner
PricewaterhouseCoopers

Sydney
21 February 2018

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Reconciliation of Statutory Results to Adjusted Results

$ mil	Statutory Financials CY 2017	Reclassify: equity share of investments	Add back: Acquisition costs	Add back: net fair value loss [1]	Add back: GST adjustment	Reclass corporate interest revenue	Adjusted: CY 2017
Revenue	**205.4**	-	-	-	**0.8**	**(0.8)**	**205.4**
Operating EBITDA	**86.7**	-	**1.6**	**4.9**	**1.2**	**(0.8)**	**93.6**
Joint venture contribution	0.3	0.4	-	-	-	-	0.7
EBITDA	**87.0**	**0.4**	**1.6**	**4.9**	**1.2**	**(0.8)**	**94.3**
Depreciation	(1.6)	-	-	-	-	-	(1.6)
Amortisation	(17.7)	(0.3)	-	-	-	-	(18.0)
Net finance costs	(5.6)	-	-	-	-	0.8	(4.8)
PBT	**62.1**	**0.1**	**1.6**	**4.9**	**1.2**	-	**69.9**
Income tax expense	(20.8)	(0.1)	(0.3)	-	(0.3)	-	(21.5)
NPAT	**41.3**	-	**1.3**	**4.9**	**0.9**	-	**48.4**
Add back: Amortisation (tax effected)	12.4	0.2	-	-	-	-	12.6
Cash tax benefit	3.1	-	-	-	-	-	3.1
NPATA	**56.8**	**0.2**	**1.3**	**4.9**	**0.9**	-	**64.1**
Shares (#millions)							123.2
NPATA per share ($)							**0.52**

[1] Includes $6.1m fair value loss from Selectus deferred consideration and a $1.2m fair value gain on the Smartequity deferred consideration.

Financial Report 2017

Smartgroup Corporation Ltd

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31 December 2017
ABN 48 126 266 831

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

Consolidated	Note	2017 $'000	Restated * 2016 $'000
Revenue	7	205,443	147,960
Share of after tax profits of joint ventures accounted for using the equity method		348	513
Expenses			
Product costs		(4,826)	(3,599)
Employee benefits expense		(75,024)	(56,323)
Administration and corporate expenses		(24,187)	(17,721)
Occupancy expenses		(4,107)	(3,152)
Advertising and marketing expenses		(3,027)	(2,667)
Depreciation expense	8	(1,589)	(1,412)
Amortisation of acquired intangible assets	8	(17,741)	(12,512)
Other expenses		(1,114)	(302)
Operating profit		74,176	50,785
Fair value (loss)/gain on revaluation of financial liabilities	19	(4,906)	1,569
Mergers and acquisitions transaction costs		(1,624)	(2,074)
Finance costs	8	(5,571)	(4,106)
Profit before income tax expense		62,075	46,174
Income tax expense	9	(20,766)	(13,386)
Profit after income tax expense for the year		**41,309**	**32,788**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(65)	264
Other comprehensive income for the year, net of tax		(65)	264
Total comprehensive income for the year		**41,244**	**33,052**
Profit/(loss) for the year is attributable to:			
Non-controlling interest		(4)	-
Owners of Smartgroup Corporation Ltd		41,313	32,788
		41,309	**32,788**
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(4)	-
Owners of Smartgroup Corporation Ltd		41,248	33,052
		41,244	**33,052**
Basic earnings per share	16	34.5	29.8
Diluted earnings per share	16	34.2	29.4

* Refer to note 6 for detailed information on Restatement of comparatives.

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Assets			
Current assets			
Cash and cash equivalents	10	30,876	79,990
Restricted cash and cash equivalents	39	67,644	39,493
Trade and other receivables	18	21,959	15,885
Other current assets	20	4,770	7,025
Total current assets		125,249	142,393
Non-current assets			
Investments accounted for using the equity method	24	6,348	6,751
Derivative financial instruments	21	226	307
Deferred tax assets	9	1,879	-
Property and equipment	35	3,155	3,150
Intangible assets	5	326,736	285,523
Other non-current assets		516	508
Total non-current assets		338,860	296,239
Total assets		**464,109**	**438,632**
Liabilities			
Current liabilities			
Trade and other payables	36	30,883	26,427
Customer salary packaging liability	39	67,644	39,493
Income tax payable	9	6,827	8,848
Provisions	37	8,296	5,550
Deferred consideration	19	-	9,541
Other current liabilities	22	2,758	1,336
Total current liabilities		116,408	91,195
Non-current liabilities			
Deferred tax liabilities	9	-	175
Provisions	38	1,995	1,636
Borrowings	11	140,853	150,118
Contingent consideration	19	-	1,244
Total non-current liabilities		142,848	153,173
Total liabilities		**259,256**	**244,368**
Net assets		**204,853**	**194,264**
Equity			
Issued capital	12	176,883	170,940
Reserves	13	4,570	2,631
Retained profits		23,370	20,693
Equity attributable to the owners of Smartgroup Corporation Ltd		204,823	194,264
Non-controlling interest		30	-
Total equity		**204,853**	**194,264**

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2016	62,013	11,664	8,828	-	82,505
Profit after income tax expense for the year	-	-	32,788	-	32,788
Other comprehensive income for the year, net of tax	-	264	-	-	264
Total comprehensive income for the year	-	264	32,788	-	33,052
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 12)	108,927	(10,360)	-	-	98,567
Share-based payments (note 13)	-	1,063	-	-	1,063
Dividends paid (note 15)	-	-	(20,923)	-	(20,923)
Balance at 31 December 2016	**170,940**	**2,631**	**20,693**	-	**194,264**

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2017	170,940	2,631	20,693	-	194,264
Profit/(loss) after income tax expense for the year	-	-	41,313	(4)	41,309
Other comprehensive income for the year, net of tax	-	(65)	-	-	(65)
Total comprehensive income for the year	-	(65)	41,313	(4)	41,244
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 12)	5,943	-	-	-	5,943
Share-based payments (note 13)	-	2,004	-	-	2,004
Non-controlling interests arising on acquisition	-	-	(34)	34	-
Dividends paid (note 15)	-	-	(38,602)	-	(38,602)
Balance at 31 December 2017	**176,883**	**4,570**	**23,370**	**30**	**204,853**

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

Consolidated Statement of Cash flows

For the year ended 31 December 2017

	Note	Consolidated 2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		212,244	154,446
Payments to suppliers and employees		(117,811)	(94,208)
Transaction costs relating to business acquisitions		(3,276)	(2,888)
Interest received from operations		1,855	1,639
Interest paid		(4,734)	(3,251)
Income taxes paid		(27,845)	(13,202)
Net cash from operating activities excluding salary packaging receipts and payments		60,433	42,536
Receipts in restricted cash		1,230,627	950,862
Payments of customer salary packaging liability		(1,222,072)	(948,644)
Net cash from operating activities	33	68,988	44,754
Cash flows from investing activities			
Payment for business acquisitions (net of cash acquired)	23	(35,691)	(87,631)
Contingent consideration on acquisition paid		(9,541)	-
Payments for joint venture capital invested		-	(175)
Payments for purchase of property and equipment		(423)	(674)
Proceeds from sale of property and equipment		-	11
Interest received from investments		909	784
Dividends received from joint venture	24	751	-
Net cash from/(used in) investing activities		(43,995)	(87,685)
Cash flows from financing activities			
Proceeds from issuance of shares		-	66,915
Share issue transaction costs		-	(1,088)
Proceeds from long term incentive plan		2,646	359
Proceeds from borrowings (net of borrowing costs)		22,000	100,495
Repayments of borrowings		(32,000)	(3,500)
Dividends paid	15	(38,602)	(20,923)
Net cash from/(used in) financing activities		(45,956)	142,258
Net increase/(decrease) in cash and cash equivalents		(20,963)	99,327
Restricted cash and cash equivalents at the beginning of the financial year		39,493	749
Cash and cash equivalents at the beginning of the financial year		79,990	19,407
Restricted cash and cash equivalents at the end of the financial year	39	67,644	39,493
Cash and cash equivalents at the end of the financial year	10	30,876	79,990
Total		**98,520**	**119,483**

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

Notes to the Consolidated Financial Statements

31 December 2017

Note 1. General information

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

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

Level 8, 133 Castlereagh Street
Sydney, Australia, 2000

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 21 February 2018. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out in note 41 and in the respective notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

Except for early adoption of AASB 15 'Revenue from Contracts with Customers', any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are early adopted by the Group:

AASB 15 Revenue from contracts with customers
The AASB has issued a new standard for the recognition of revenue. AASB 15 outlines a single comprehensive model of accounting for revenue arising from Contracts with Customers that supersedes the revenue recognition requirements that are included in AASB 118. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard is effective from annual reporting periods beginning on or after 1 January 2018 and permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has early adopted AASB 15 using the full retrospective approach with a date of initial application of 1 January 2016.

Basis of preparation

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

Historical cost convention

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

Note 2. Significant accounting policies (continued)

Critical accounting estimates

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 26.

Rounding of amounts

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Goodwill and other indefinite life intangible assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired, in accordance with the accounting policy stated in note 5 and note 41. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Operations provision

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

Note 4. Operating segments

Identification of reportable operating segments

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

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

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

Types of products and services

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

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

Note 4. Operating segments (continued)

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

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

Operating segment information

Consolidated – 2017	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations/ unallocated	Total $'000
Revenue					
Management and administrative fees	51,061	3,907	333	-	55,301
Products, services and commissions	119,456	-	17,639	-	137,095
Trailing commissions and rebates	10,105	726	1,419	-	12,250
Other revenue	-	-	-	797	797
Intersegment sales	-	2,435	14,357	(16,792)	-
Total revenue	180,622	7,068	33,748	(15,995)	205,443
Segment results (EBITDA)	67,176	3,684	21,934	(5,818)	86,976
Depreciation					(1,589)
Amortisation					(17,741)
Finance costs					(5,571)
Profit before income tax expense					62,075
Income tax expense					(20,766)
Profit after income tax expense					**41,309**
Assets					
Segment assets	185,779	12,761	19,856	245,713	464,109
Total assets					**464,109**
Liabilities					
Segment liabilities	101,640	5,154	7,700	144,762	259,256
Total liabilities					**259,256**

Note 4. Operating segments (continued)

Consolidated – 2016	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue (Restated)					
Management and administrative fees	41,848	3,773	384	-	46,005
Products, services and commissions	79,209	-	13,156	-	92,365
Trailing commissions and rebates	6,793	545	1,355	-	8,693
Other revenue	-	-	-	897	897
Intersegment sales	-	2,489	11,954	(14,443)	-
Total revenue	127,850	6,807	26,849	(13,546)	147,960
Segment results (EBITDA)	49,473	3,291	18,157	(6,717)	64,204
Depreciation					(1,412)
Amortisation					(12,512)
Finance costs					(4,106)
Profit before income tax expense					46,174
Income tax expense					(13,386)
Profit after income tax expense					**32,788**
Assets					
Segment assets	145,492	10,245	15,711	267,184	438,632
Total assets					**438,632**
Liabilities					
Segment liabilities	67,947	4,558	6,353	165,510	244,368
Total liabilities					**244,368**

Accounting policy for operating segments

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

Note 5. Non-current assets – intangible assets

	Consolidated	
	2017 $'000	2016 $'000
Goodwill – at cost	260,646	217,453
Customer contracts and relationships – at cost	60,829	51,729
Less: Accumulated amortisation	(32,380)	(25,045)
	28,449	26,684
Software and website – at cost	73,761	67,100
Less: Accumulated amortisation	(37,424)	(27,018)
	36,337	40,082
Brand names and logos – at cost	1,304	1,304
	326,736	**285,523**

Note 5. Non-current assets – intangible assets (continued)

Reconciliations

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

Consolidated	Goodwill $'000	Customer contracts and relationship $'000	Software and website $'000	Brand names and logos $'000	Total $'000
Balance at 1 January 2016	90,867	17,299	13,935	1,300	123,401
Additions through business combinations (note 23)	126,586	14,700	33,344	4	174,634
Amortisation expense	-	(5,315)	(7,197)	-	(12,512)
Balance at 31 December 2016	217,453	26,684	40,082	1,304	285,523
Additions through business combinations (note 23)	43,193	9,100	6,661	-	58,954
Amortisation expense	-	(7,335)	(10,406)	-	(17,741)
Balance at 31 December 2017	**260,646**	**28,449**	**36,337**	**1,304**	**326,736**

Impairment testing

The Group monitors its business through cash-generating units (CGU) being Outsourced administration, Vehicle services, Software distribution and group services (SDGS), Advantage Salary Packaging (Advantage), Autopia Group Pty Ltd (Autopia), Selectus Pty Ltd (Selectus), AccessPay Pty Ltd (AccessPay), ABM Corporation Pty Limited (Aspire) and Salary Solutions Australia Pty Ltd (Salary Solutions).

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

	Consolidated	
	2017 $'000	2016 $'000
Goodwill		
CGU1: Outsourced administration	42,377	42,377
CGU2: Vehicle services	3,911	3,911
CGU3: SDGS	7,650	7,650
CGU4: Advantage	38,659	38,659
CGU5: Autopia	22,523	22,523
CGU6: Selectus	102,333	102,333
CGU7: AccessPay	9,063	-
CGU8: Aspire	4,989	-
CGU9: Salary Solutions	29,141	-
Total goodwill	**260,646**	**217,453**

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

	Consolidated	
	2017 $'000	2016 $'000
Brand names and logos		
CGU1: Outsourced administration	1,285	1,285
CGU2: Vehicle services	15	15
CGU6: Selectus	4	4
	1,304	**1,304**

Note 5. Non-current assets – intangible assets (continued)

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

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

Projected growth rate of 2.8% (2016: 2.8%) for all CGUs.

	2017 $'000	2016 $'000
Discount rate:		
CGU1: Outsourced administration	17.9%	14.4%
CGU2: Vehicle services	19.1%	15.8%
CGU3: SDGS	18.4%	14.9%
CGU4: Advantage	14.4%	11.9%
CGU5: Autopia	18.9%	12.9%
CGU6: Selectus	17.1%	14.0%
CGU7: AccessPay	16.7%	-
CGU8: Aspire	20.6%	-
CGU9: Salary Solutions	17.1%	-

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

Sensitivity analysis

For CGU's 1, 3, 4, 5, 6, 7, 8 and 9: any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount. This assessment is on the assumption that there will be no significant changes to legislation for the salary packaging concession. Should the relevant legislation change, depending on the impact of the changes, there may be a different impairment testing conclusion.

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

Accounting policy for intangible assets

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

Goodwill

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

Customer contracts and relationships

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

Software and website

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

Note 5. Non-current assets – intangible assets (continued)

Brand names and logos

Brand names and logos acquired in a business combination are recognised separately to goodwill and included in other intangible assets. They have been assessed as having an indefinite useful life on the basis that the asset is allocated to businesses that are expected to continue into perpetuity.

Note 6. Restatement of comparatives

Change in basis of revenue recognition

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

In accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates, and Errors', the change in interpretation of accounting policy has been applied retrospectively and the quantitative impact for each financial statement line item is detailed below. The change in the basis of revenue recognition has no impact on the consolidated statement of financial position.

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

Statement of profit or loss and other comprehensive income

		Consolidated	
Extract	**2016 $'000 Reported**	**$'000 Adjustment**	**2016 $'000 Restated**
Revenue	144,361	3,599	147,960
Expenses			
Product costs	-	(3,599)	(3,599)
Profit before income tax expense	46,174	-	46,174
Income tax expense	(13,386)	-	(13,386)
Profit after income tax expense for the year	**32,788**	**-**	**32,788**
Other comprehensive income for the year, net of tax	264	-	264
Total comprehensive income for the year	**33,052**	-	**33,052**

	Cents Reported	**Cents Adjustment**	**Cents Restated**
Basic earnings per share	29.8	-	29.8
Diluted earnings per share	29.4	-	29.4

Note 7. Revenue

	Consolidated	
	2017 $'000	Restated 2016 $'000
Sales revenue		
Management and administrative fees	55,301	46,005
Products, services and commissions	137,095	92,365
Trailing commissions and rebates	12,250	8,693
	204,646	147,063
Other revenue		
Other income	797	897
Revenue	**205,443**	**147,960**

Impact of change in accounting policy

As a result of the change in interpretation of the current accounting policy referred to in note 6, the revenue for the year ended 31 December 2017 increased by $4,826,000 (2016: $3,599,000) with a corresponding increase in product cost disclosed in the consolidated statement of profit or loss and other comprehensive income.

Accounting policy for revenue recognition

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

Nature of goods and services

The following is a description of the principal activities, separated by reportable segments, from which the Group generates its revenue. For more detailed information about reportable segments, see note 4.

Management and administration fees

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

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

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

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

Products, services and commissions

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

Trailing commissions and rebates

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

Other income

Interest income on corporate accounts is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Note 7. Revenue (continued)

Contract balances

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

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

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

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

Transaction price allocated to the remaining performance obligations

The Group applies the practical expedients available in AASB 15 and does not disclose information about its remaining performance obligations, amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Group expects to recognise that amount as revenue for the year ended 31 December 2017.

Note 8. Expenses

	Consolidated	
	2017 $'000	**2016 $'000**
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	740	789
Furniture, fixtures and fittings	141	176
Computer equipment	490	304
Office equipment	211	135
Other assets	7	8
Total depreciation	1,589	1,412
Amortisation		
Customer contracts and relationships	7,335	5,315
Software and website	10,406	7,197
Total amortisation	17,741	12,512
Total depreciation and amortisation	19,330	13,924
Finance costs		
Interest and finance charges paid/payable	5,571	4,106
Rental expense relating to operating leases		
Minimum lease payments	3,783	2,908
Superannuation expense		
Defined contribution superannuation expense	5,611	4,151
Share-based payments expense		
Share-based payments expense	1,173	704

Note 9. Income tax

	Consolidated	
	2017 $'000	**2016 $'000**
Income tax expense		
Current tax	24,939	15,777
Deferred tax – origination and reversal of temporary differences	(4,173)	(2,391)
Aggregate income tax expense	**20,766**	**13,386**
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	4,173	2,391
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	62,075	46,174
Tax at the statutory tax rate of 30%	18,623	13,852
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	352	211
Share of profits – joint venture	(104)	(154)
Non-deductible expenses	422	550
Fair value loss/(gain) on revaluation of financial liability	1,472	(471)
Sundry items	(65)	23
	20,700	14,011
Prior year temporary differences not recognised now recognised	240	(244)
Prior year tax claims not recognised now recouped	(174)	(381)
Income tax expense	**20,766**	**13,386**

	Consolidated	
	2017 $'000	**2016 $'000**
Amounts charged/(credited) directly to equity		
Deferred tax assets	(54)	175

Note 9. Income tax (continued)

	Consolidated	
	2017 $'000	**2016 $'000**
Deferred tax asset/(liability)		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Impairment of receivables	107	82
Property and equipment	87	71
Employee benefits	2,135	1,645
Accruals and other provisions	4,329	2,911
Revenue received in advance	828	391
Acquisition and transaction costs	2,062	2,472
Intangible assets	(7,392)	(7,460)
Prepayments	(10)	(14)
Accrued revenue	(151)	(160)
Derivative financial instruments	68	(205)
Sundry items	(130)	(83)
Total temporary differences	1,933	(350)
Amounts recognised in equity:		
Share issue transaction costs	-	62
Derivative financial instruments	(54)	113
Total recognised in equity	(54)	175
Deferred tax asset/(liability)	**1,879**	**(175)**
Movements:		
Opening balance	(175)	1,135
Credited to profit or loss	4,173	2,391
Credited/(charged) to equity	54	(175)
Additions through business combinations (note 23)	(2,173)	(3,526)
Closing balance	**1,879**	**(175)**

	Consolidated	
	2017 $'000	**2016 $'000**
Income tax payable		
Income tax payable	6,827	8,848

Accounting policy for income tax

The income tax expense for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities to temporary differences, unused tax losses and the adjustment recognised for prior periods, when applicable. Current tax liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and tax laws enacted or substantively enacted at the reporting date.

Note 9. Income tax (continued)

Deferred tax

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

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

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

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

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

Current and deferred tax for the year

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation group

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

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

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

Note 10. Current assets – cash and cash equivalents

	Consolidated	
	2017 $'000	**2016 $'000**
Cash at bank	30,283	22,528
Term deposits	593	57,462
	30,876	**79,990**

Accounting policy for cash and cash equivalents

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

Note 11. Non-current liabilities – borrowings

	Consolidated	
	2017 $'000	2016 $'000
Bank loan	142,000	152,000
Borrowing costs prepaid	(1,147)	(1,882)
	140,853	**150,118**

Refer to note 17 for further information on financial instruments.

Total secured liabilities

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

	Consolidated	
	2017 $'000	2016 $'000
Bank loan	142,000	152,000

The following bank facilities are available to the Group:

- A three year facility of $142,000,000;
- A three year working capital facility of $3,000,000;
- A three year letter of credit facility of $3,000,000; and
- Ancillary facilities: credit card and electronic pay away facility of $12,500,000.

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

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

Financing arrangements

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

	Consolidated	
	2017 $'000	2016 $'000
Total facilities		
Bank loan	145,000	155,000
Letter of credit facility	3,000	3,000
	148,000	**158,000**
Used at the reporting date		
Bank loan	142,000	152,000
Letter of credit facility	2,741	1,901
	144,741	**153,901**
Unused at the reporting date		
Bank loan	3,000	3,000
Letter of credit facility	259	1,099
	3,259	**4,099**

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

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the years of the facility to which it relates.

Accounting for finance costs

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

Note 12. Equity – issued capital

	Consolidated			
	2017 Shares	**2016 Shares**	**2017 $'000**	**2016 $'000**
Ordinary shares – fully paid	123,213,010	121,487,051	189,224	178,242
Less: Shares associated with the loan funded share plan (LFSP)	(3,155,626)	(3,040,492)	(12,341)	(7,302)
	120,057,384	**118,446,559**	**176,883**	**170,940**

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 January 2016	103,698,124	65,644
Issuance of shares – LFSP	18 March 2016	449,866	1,988
	9 May 2016	353,652	1,683
Issuance of shares	18 March 2016	2,808,989	10,360
	29 July 2016	7,650,000	53,550
	2 August 2016	4,573,169	32,424
	8 September 2016	1,909,236	13,365
	19 September 2016	44,015	250
Share issue transaction costs, net of tax		-	(1,022)
Balance	31 December 2016	121,487,051	178,242
Issuance of shares – LFSP	17 March 2017	1,208,501	7,722
	5 May 2017	338,628	2,201
Buyback of shares – LFSP	6 December 2017	(313,507)	(3,069)
Issuance of shares	2 May 2017	46,225	300
	23 August 2017	446,112	3,828
Balance	31 December 2017	**123,213,010**	**189,224**

Note 12. Equity – issued capital (continued)

Movements in loan funded share plan

Details	Date	Shares	$'000
Balance	1 January 2016	(2,236,974)	(3,631)
Shares issued for LFSP	18 March 2016	(449,866)	(1,988)
	9 May 2016	(353,652)	(1,683)
Balance	31 December 2016	(3,040,492)	(7,302)
Exercising of LFSP	15 February 2017	1,118,488	1,815
Shares issued for LFSP	17 March 2017	(1,208,501)	(7,722)
Shares of LFSP	5 May 2017	(338,628)	(2,201)
Buyback of shares - LFSP	6 December 2017	313,507	3,069
Balance	31 December 2017	**(3,155,626)**	**(12,341)**

Ordinary shares

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

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

Loan funded share plan (LFSP)

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

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

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

LFSP shares forfeited

For the year ended 31 December 2017, the Group paid $3,069,000 to buy back shares issued under the LFSP, because the vesting conditions on those shares had not been met and the shares were forfeited. 313,507 shares were bought back and cancelled, resulting in a reduction of ordinary shares on issue.

Share buy-back

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

Capital risk management

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

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

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

The capital risk management policy remains unchanged from the 31 December 2016 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 13. Equity – reserves

	Consolidated	
	2017 $'000	**2016 $'000**
Hedging reserve – cash flow hedges	199	264
Share-based payments reserve	4,371	2,367
	4,570	**2,631**

Hedging reserve – cash flow hedges

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

Share-based payments reserve

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

Deferred share capital reserve

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

Movements in reserves

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

Consolidated	**Cash flow hedge $'000**	**Share-based payments $'000**	**Deferred share capital $'000**	**Total $'000**
Balance at 1 January 2016	-	1,304	10,360	11,664
Movement in hedges	397	-	-	397
Deferred tax	(133)	-	-	(133)
Share-based payments	-	1,063	-	1,063
Shares issued to vendors	-	-	(10,360)	(10,360)
Balance at 31 December 2016	264	2,367	-	2,631
Movement in hedges	(93)	-	-	(93)
Deferred tax	28	-	-	28
Share-based payments	-	3,904	-	3,904
LFSP exercised	-	(1,815)	-	(1,815)
LFSP forfeited	-	(85)	-	(85)
Balance at 31 December 2017	**199**	**4,371**	**-**	**4,570**

Note 14. Share-based payments

Loan Funded Share Plan (LFSP)

The LFSP is a long term incentive plan for the senior management team. Refer to note 12 for terms of LFSP. The LFSP shares are legally held by the employees, however they cannot trade in the shares until the vesting conditions are satisfied and the loan is fully repaid. These have been treated as options in accordance with AASB 2 'Share-based Payment'.

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

2017

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25 Feb 2015	31 Dec 2016	$1.60	602,263	-	(602,263)	-	-
25 Feb 2015	31 Dec 2017	$1.60	602,262	-	-	-	602,262
27 Apr 2015	31 Dec 2016	$1.65	516,225	-	(516,225)	-	-
27 Apr 2015	31 Dec 2017	$1.65	516,224	-	-	-	516,224
18 Mar 2016	31 Dec 2018	$4.42	449,866	-	-	-	449,866
09 May 2016	31 Dec 2018	$4.76	353,652	-	-	-	353,652
17 Mar 2017	31 Dec 2019	$6.39	-	1,208,501	-	(313,507)	894,994
05 May 2017	31 Dec 2019	$6.50	-	338,628	-	-	338,628
			3,040,492	1,547,129	(1,118,488)	(313,507)	3,155,626
Weighted average exercise price			$2.40	$6.41	$1.62	$6.39	$4.25

2016

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25 Feb 2015	31 Dec 2016	$1.60	602,263	-	-	-	602,263
25 Feb 2015	31 Dec 2017	$1.60	602,262	-	-	-	602,262
27 Apr 2015	31 Dec 2016	$1.65	516,225	-	-	-	516,225
27 Apr 2015	31 Dec 2017	$1.65	516,224	-	-	-	516,224
18 Mar 2016	31 Dec 2018	$4.42	-	449,866	-	-	449,866
09 May 2016	31 Dec 2018	$4.76	-	353,652	-	-	353,652
			2,236,974	803,518	-	-	3,040,492
Weighted average exercise price			$1.62	$4.56	$0.00	$0.00	$2.40

The weighted average share price during the financial year was $7.87 (2016: $5.66).

The loan funded shares have an expiry date of 5 years from the date of issue and their weighted average remaining contractual life outstanding at the end of the financial year was 3.3 years (2016: 3.5 years).

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

Grant date	Vesting date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
17 Mar 2017	31 Dec 2019	$6.62	$6.39	36.83%	3.79%	2.33%	$1.65
5 May 2017	31 Dec 2019	$6.69	$6.50	37.09%	3.67%	2.18%	$1.67

Note 15. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2017 $'000	**2016 $'000**
Final dividend for the year ended 31 December 2016 of 15.0 cents (2016: 8.7 cents) per ordinary share	18,223	9,022
Interim dividend for the year ended 31 December 2017 of 16.5 cents (2016: 9.8 cents) per ordinary share	20,379	11,901
	38,602	**20,923**

On 21 February 2018, the Directors declared a fully franked dividend of 18.5 cents per ordinary share. The final dividend will be paid on 30 March 2018 to shareholders registered on 15 March 2018 with an expected total distribution of $22,794,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2017 financial statements and will be recognised in subsequent financial reports.

Franking credits

	Consolidated	
	2017 $'000	**2016 $'000**
Franking credits available at the reporting date based on a tax rate of 30%	41,920	31,311
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	6,827	8,848
Franking credits available for subsequent financial years based on a tax rate of 30%	**48,747**	**40,159**

Of the existing franking account balance $24,130,000 (2016: $24,130,000) is an exempt credit account and is not available to frank dividends to new Australian shareholders.

Accounting policy for dividends

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

Note 16. Earnings per share

	Consolidated	
	2017 $'000	2016 $'000
Profit after income tax	41,309	32,788
Non-controlling interest	4	-
Profit after income tax attributable to the owners of Smartgroup Corporation Ltd	**41,313**	**32,788**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	119,613,751	110,026,709
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,194,317	1,604,137
Weighted average number of ordinary shares used in calculating diluted earnings per share	**120,808,068**	**111,630,846**

	Cents	Cents
Basic earnings per share	34.5	29.8
Diluted earnings per share	34.2	29.4

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Note 17. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

Price risk

The Group is not exposed to any significant price risk.

Note 17. Financial instruments (continued)

Interest rate risk

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

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

	2017		2016	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank loans	3.31%	142,000	3.84%	152,000
Cash and cash equivalents	1.54%	(30,876)	2.19%	(79,990)
Restricted cash and cash equivalents	1.65%	(67,644)	2.05%	(39,493)
Interest rate swaps (notional principal amount)	1.84%	(66,750)	2.12%	(77,750)
Net exposure to cash flow interest rate risk		**(23,270)**		**(45,233)**

Sensitivity

An increase/decrease in interest rates of 100 (2016: 100) basis points would have a favourable/adverse effect on profit before tax and equity of $233,000 (2016: $452,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Derivatives interest rate swap

The Group has entered into interest rate swap contracts with notional/principal value as at 31 December 2017 of $66,750,000 (2016: $77,750,000). The interest rate contracts hedge the Group's risk against an increase in variable interest rate. Weighted average fixed rate is 1.84% (2016: 2.12%).

Sensitivity – derivative valuation

An increase/decrease in interest rates of 100 (2016:100) basis points would have a favourable/adverse effect on derivative financial instruments value and total equity by $1,005,000 (2016: $1,739,000).

Credit risk

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

At 31 December 2017, the Group had 5 customers (2016: 6 customers) with trade receivables balances greater than $300,000 each and accounted for approximately 43% (2016: 44%) of total trade receivables. This balance was within its terms of trade and no impairment was made as at 31 December 2017. There are no guarantees against these receivables but management closely monitors the receivables balance on a monthly basis and is in regular contact with these customers to mitigate risk.

Liquidity risk

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

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

Note 17. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2017 $'000	**2016 $'000**
Bank loan	3,000	3,000
Letter of credit facility	259	1,099
	3,259	**4,099**

Remaining contractual maturities

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

Consolidated – 2017	**1 year or less $'000**	**>1 to 2 years $'000**	**>2 to 5 years $'000**	**Over 5 years $'000**	**Remaining contractual maturities $'000**
Non-derivatives					
Non-interest bearing					
Trade payables	5,617	-	-	-	5,617
Customer salary packaging liability	67,644	-	-	-	67,644
Interest-bearing – variable					
Bank loans	14,700	133,996	-	-	148,696
Total non-derivatives	**87,961**	**133,996**	**-**	**-**	**221,957**

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

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

Note 18. Current assets – trade and other receivables

	Consolidated	
	2017 $'000	2016 $'000
Trade receivables	10,845	6,533
Less: Provision for impairment of receivables	(358)	(272)
	10,487	6,261
Accrued revenue	7,353	7,023
Other receivables	4,119	2,601
	21,959	**15,885**

Impairment of receivables

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

	Consolidated	
	2017 $'000	2016 $'000
0 to 3 months overdue	200	197
Between 3 and 6 months overdue	45	45
Over 6 months overdue	113	30
	358	**272**

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

	Consolidated	
	2017 $'000	2016 $'000
Opening balance	272	63
Additional provisions recognised	341	458
Additions through business combinations	8	2
Unused amounts reversed	(263)	(251)
Closing balance	**358**	**272**

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $2,110,000 as at 31 December 2017 ($1,595,000 as at 31 December 2016).

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

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

	Consolidated	
	2017 $'000	2016 $'000
0 to 3 months overdue	2,061	1,169
Between 3 and 6 months overdue	49	423
Over 6 months overdue	-	3
	2,110	**1,595**

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

Accounting policy for trade and other receivables

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

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

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

Note 19. Fair value measurement

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability.

Consolidated – 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Interest rate swap contracts – cash flow hedges	-	226	-	226
Total assets	**-**	**226**	**-**	**226**

Consolidated – 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Interest rate swap contracts – cash flow hedges	-	307	-	307
Total assets	**-**	**307**	**-**	**307**
Liabilities				
Deferred consideration	-	-	9,541	9,541
Contingent consideration	-	-	1,244	1,244
Total liabilities	**-**	**-**	**10,785**	**10,785**

There were no transfers between levels during the financial year.

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

Valuation techniques for fair value measurements categorised within level 2 and level 3

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

Fair value (loss)/gain on revaluation of financial liabilities

For the year ended 31 December 2017, a net fair value loss of $4,906,000 is recognised in the profit and loss which is attributable to the following:

(a) Deferred consideration – Selectus

For the 12 month period to 30 June 2017, Selectus achieved an Adjusted EBITDA of $14,737,000 and satisfied other operational performance metrics which, together with the increase in the Company share price from $6.28 at 31 December 2016 to $8.58 at settlement on 23 August 2017, increased the final consideration payable to $15,691,000. As a result, a fair value loss of $6,150,000 is recognised in the profit and loss for the year ended 31 December 2017.

Note 19. Fair value measurement (continued)

The total deferred share entitlement of the Selectus vendors is 2,131,442 shares. On 23 August 2017, 79.07% of the total share entitlement (1,685,331 shares) was settled in cash at $6.56 ($11,100,000) and the remaining 20.93% (446,111) was settled via the issuance of Company shares at $8.58 per share ($3,800,000). In addition, cash in lieu of dividends foregone of $800,000 was paid to the vendors of Selectus.

(b) Contingent consideration – Smartequity

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

Based on actual performance to date and forecast for the year ending 31 December 2018, Smartequity is not expected to exceed PBT of $864,000 and on that basis the fair value of the liability is nil at 31 December 2017. As a result, fair value gain of $1,244,000 is recognised in the profit and loss for the year ended 31 December 2017.

Level 3 assets and liabilities

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

Consolidated	Contingent consideration $'000
Balance at 1 January 2016	-
Contingent consideration recognised on business combinations	(12,354)
Fair value loss on revaluation of financial liabilities	1,569
Balance at 31 December 2016	(10,785)
Fair value loss on revaluation of financial liabilities	(6,150)
Fair value loss on revaluation of financial liabilities – Smartequity contingent consideration	1,244
Deferred consideration settled – Selectus	15,691
Balance at 31 December 2017	**-**

Accounting policy for fair value measurement

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

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

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

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

Note 20. Current assets – other current assets

	Consolidated	
	2017 $'000	**2016 $'000**
Prepayments	3,553	5,672
Other current assets	1,217	1,353
	4,770	**7,025**

Note 21. Derivative financial instruments

	Consolidated	
	2017 $'000	**2016 $'000**
Non-current assets		
Interest rate swap contracts – cash flow hedges	226	307

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

Accounting policy for derivative financial instruments

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

Cash flow hedges

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

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

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

Note 22. Current liabilities – other current liabilities

	Consolidated	
	2017 $'000	**2016 $'000**
Income received in advance	2,758	1,336

Note 23. Business combinations

Current period acquisition

AccessPay Group (AccessPay)

On 2 May 2017, the Group acquired 100% of the ordinary shares of AccessPay Pty Ltd, Fleet Solutions Pty Ltd and 50% of the ordinary shares of AccessPay Payroll Solutions Pty Ltd for the total consideration of $15,000,000. AccessPay, based in Adelaide, provides salary packaging services principally to public benevolent institutions across Australia. The goodwill of $9,063,000 represents the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of $7,242,000 and profit after tax of $1,527,000 to the Group for the period from 2 May 2017 to 31 December 2017. If the acquisition occurred on 1 January 2017, the full year contributions would have been revenues of $9,993,000 and profit after tax of $1,951,000, subject to adjustments arising as a result of purchase price allocation.

Note 23. Business combinations (continued)

ABM Corporation Pty Limited (Aspire)

On 23 August 2017, the Group acquired 100% of the ordinary shares of ABM Corporation Pty Limited for the total consideration of $7,200,000. Aspire, based in Sydney, provides specialist novated leasing services. The goodwill of $4,989,000 represents the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of $923,000 and profit after tax of $55,000 to the Group for the period from 23 August 2017 to 31 December 2017. If the acquisition occurred on 1 January 2017, the full year contributions would have been revenues of $2,888,000 and profit after tax of $533,000, subject to adjustments arising as a result of purchase price allocation.

RACV Salary Solutions (Salary Solutions)

On 20 October 2017, the Group acquired certain assets of RACV Salary Solutions for the total consideration of $34,468,000. Salary Solutions, based in Adelaide, is a national provider of salary packaging and novated leasing services. The goodwill of $29,141,000 represents the synergies expected to be obtained by the Group from this acquisition. The acquired business contributed revenues of $2,872,000 and profit after tax of $557,000 to the Group for the period from 20 October 2017 to 31 December 2017. If the acquisition occurred on 1 January 2017, the full year contributions would have been revenues of $16,100,000 and profit after tax of $1,611,000 subject to adjustments arising as a result of purchase price allocation.

The values identified for the above acquisitions are provisional as at 31 December 2017.

Details of the acquisition are as follows:

	AccessPay	Aspire	Salary Solutions	Total
	Fair value $'000	Fair value $'000	Fair value $'000	Fair value $'000
Cash and cash equivalents	12	1,069	-	1,081
Restricted cash and cash equivalents	-	-	19,596	19,596
Trade receivables	121	30	-	151
Other current assets	156	44	867	1,067
Plant and equipment	757	13	407	1,177
Other intangible assets	7,261	1,500	7,000	15,761
Deferred tax liability	(757)	(150)	(1,266)	(2,173)
Trade and other payables	(694)	(67)	(900)	(1,661)
Customer salary packaging liability	-	-	(19,596)	(19,596)
Provision for income tax	(221)	(35)	-	(256)
Employee benefits	(639)	(154)	(758)	(1,551)
Other provisions	(59)	(39)	(23)	(121)
Net assets acquired	5,937	2,211	5,327	13,475
Goodwill	9,063	4,989	29,141	43,193
Acquisition-date fair value of the total consideration transferred	**15,000**	**7,200**	**34,468**	**56,668**
Representing:				
Cash paid or payable to vendor	14,700	7,200	34,468	56,368
Smartgroup Corporation Ltd shares issued to vendor	300	-	-	300
	15,000	**7,200**	**34,468**	**56,668**
Acquisition costs expensed to profit or loss	**172**	**304**	**798**	**1,274**
Cash used to acquire business, net of cash acquired:				
Cash paid to vendor	14,700	7,200	34,468	56,368
Less: cash and cash equivalents	(12)	(1,069)	-	(1,081)
Less: restricted cash and cash equivalents	-	-	(19,596)	(19,596)
Net cash used	**14,688**	**6,131**	**14,872**	**35,691**

Note 23. Business combinations (continued)

Comparative year acquisition

In the previous year, the Group acquired 100% interest in Autopia Group Pty Ltd (Autopia), Selectus Pty Ltd (Selectus) and selected assets of Trinity Management Group (TMG) for the total consideration of $176,182,000.

The comparative year business combinations were finalised in the current financial year. Finalisation of provisional accounting did not impact the comparative year statement of financial position, statement of profit or loss and other comprehensive income or opening retained profits.

Details of the comparative year acquisitions are as follows:

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

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

	Consolidated	
	2017 $'000	2016 $'000
Investment in joint venture – Health-e Workforce Solutions Pty Ltd	6,348	6,751

Interests in joint ventures

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

		Ownership interest	
Name	**Principal place of business/ Country of incorporation**	**2017 %**	**2016 %**
Health-e Workforce Solutions Pty Ltd	Australia	50%	50%

Summarised financial information

	Health-e Workforce Solutions Pty Ltd	
	2017 $'000	**2016 $'000**
Summarised statement of financial position		
Current assets	2,031	2,438
Non-current assets	1,783	2,363
Total assets	3,814	4,801
Current liabilities	423	548
Total liabilities	423	548
Net assets	**3,391**	**4,253**
Summarised statement of profit or loss and other comprehensive income		
Revenue	3,626	3,756
Amortisation expense	(572)	(557)
Other expenses	(2,059)	(1,732)
Profit before income tax	995	1,467
Income tax expense	(299)	(440)
Profit after income tax	696	1,027
Other comprehensive income	-	-
Total comprehensive income	**696**	**1,027**
Reconciliation of the Group's carrying amount		
Opening carrying amount	6,751	6,029
Share of dividends paid	(751)	-
Investments during the year	-	209
Share of profit after income tax	348	513
Closing carrying amount	**6,348**	**6,751**

Note 24. Non-current assets – investments accounted for using the equity method (continued)

Contingent liabilities

Share of contingent liabilities relating to joint venture as at 31 December 2017: $nil (2016: $nil).

Commitments

Share of commitments relating to joint venture as at 31 December 2017: $nil (2016: $nil).

Accounting policy for joint venture

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

Note 25. Related party transactions

Parent entity

Smartgroup Corporation Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 27.

Joint ventures

Interests in joint ventures are set out in note 24.

Key management personnel

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

Transactions with related parties

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

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2017 $'000	**2016 $'000**
Profit after income tax	35,763	18,713
Total comprehensive income	**35,763**	**18,713**

Note 26. Parent entity information (continued)

Statement of financial position

	Parent	
	2017 $'000	**2016 $'000**
Total current assets	335,947	363,273
Total assets	426,483	452,462
Total current liabilities	85,911	107,849
Total liabilities	226,771	257,662
Equity		
Issued capital	176,883	170,940
Hedging reserve – cash flow hedges	199	264
Share-based payments reserve	4,243	2,367
Retained profits	18,390	21,229
Total equity	**199,715**	**194,800**

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

The parent entity and certain of its subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of these subsidiaries. Refer to note 32 for further details.

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

Contingent liabilities

The parent entity has given bank guarantees as at 31 December 2017 of $1,255,000 (2016: $316,000).

Capital commitments – Property and equipment

The parent entity had no capital commitments for property and equipment as at 31 December 2017 and 31 December 2016.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2 and note 41, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

Note 27. Interests in subsidiaries

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

		Ownership interest	
Name	**Principal place of business/ Country of incorporation**	**2017 %**	**2016 %**
Advantage Leasing Holdings Pty Ltd*	Australia	-	100%
Australian Vehicle Consultants Pty Ltd	Australia	100%	100%
Autopia Group Pty Limited	Australia	100%	100%
Autopia Management Pty Limited	Australia	100%	100%
National Tax Manager Pty Ltd*	Australia	-	100%
PBI Benefit Solutions Pty Limited	Australia	100%	100%
Salary Packaging Solutions Pty Ltd	Australia	100%	100%
Selectus Employee Benefits Pty Ltd	Australia	100%	100%
Selectus Financial Services Pty Ltd	Australia	100%	100%
Selectus Pty Ltd	Australia	100%	100%
Smartsalary Software Solutions Pty Ltd	Australia	100%	100%
Smartequity EIS Pty Ltd	Australia	100%	100%
Smartequity Pty Ltd	Australia	100%	100%
Smartfleet Management Pty Ltd	Australia	100%	100%
Smartgroup Benefits Pty Ltd	Australia	100%	100%
Smartsalary Pty Limited	Australia	100%	100%
Radiant Capital Pty Ltd	Australia	100%	100%
ABM Corporation Pty Limited	Australia	100%	-
AccessPay Pty Ltd	Australia	100%	-
Fleet Solutions Pty Ltd**	Australia	-	-
Salary Solutions Australia Pty Ltd	Australia	100%	-
Smartsalary Payroll Solutions Pty Ltd***	Australia	50%	-

* Denotes entity deregistered during the year.

** Denotes entity acquired and deregistered during the year.

*** The consolidated financial statements incorporate the assets, liabilities and results of Smartsalary Payroll Solutions Pty Ltd. SmartSalary Payroll Solutions Pty Ltd is considered to be a subsidiary as the Group has control over the entity and therefore, the results of this entity are included in the consolidated results of the Group. Summarised financial information of the subsidiary with non-controlling interests are not provided as they are not material to the Group.

Note 28. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2017 $	**2016 $**
Short-term employee benefits	4,012,493	3,051,495
Post-employment benefits	236,973	204,263
Long-term benefits	44,989	56,874
Share-based payments	1,058,733	704,473
	5,353,188	**4,017,105**

Note 29. Contingent liabilities

The Group has given bank guarantees as at 31 December 2017 of $3,633,000 (2016: $2,595,000). The Group has given guarantees for performance of contracts to its customers as at 31 December 2017 of $500,000 (2016: $500,000).

Note 30. Commitments

	Consolidated	
	2017 $'000	**2016 $'000**
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within 1 year	5,098	3,288
Between 1 and 5 years	8,668	6,616
Over 5 years	119	428
	13,885	**10,332**

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

Note 31. Events after the reporting period

On 4 January 2018, the Group completed the acquisition of 100% of the shares of Fleet West Pty Ltd (Fleet West) for $9,000,000. Fleet West is based in Perth and provides fleet management services to clients in the not-for-profit sector. The consideration paid was $8,000,000 in cash and 99,206 shares issued at a price of $10.08 each to the principal vendor.

Apart from the dividend declared as disclosed in note 15, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 32. Deed of cross guarantee

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

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

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

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

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

Note 32. Deed of cross guarantee (continued)

Statement of profit or loss and other comprehensive income	2017 $'000	2016 $'000
Revenue	198,337	142,719
Product costs	(4,819)	(3,599)
Employee benefits expense	(73,591)	(55,576)
Administration and corporate expenses	(23,631)	(17,251)
Depreciation expense	(1,588)	(1,412)
Amortisation of acquired intangible assets	(17,560)	(11,748)
Advertising and marketing expenses	(3,016)	(2,649)
Occupancy expenses	(4,015)	(3,142)
Other expenses	(6,535)	(2,320)
Operating profit	63,582	45,022
Finance costs	(5,571)	(4,105)
Profit before income tax expense	58,011	40,917
Income tax expense	(19,887)	(12,146)
Profit after income tax expense	**38,124**	**28,771**
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(65)	264
Other comprehensive income for the year, net of tax	(65)	264
Total comprehensive income for the year	**38,059**	**29,035**

Equity – retained profits	2017 $'000	2016 $'000
Retained profits at the beginning of the financial year	11,696	3,848
Profit after income tax expense	38,124	28,771
Dividends paid	(38,602)	(20,923)
Retained profits at the end of the financial year	**11,218**	**11,696**

Note 32. Deed of cross guarantee (continued)

Statement of financial position	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	29,537	78,767
Restricted cash and cash equivalents	67,644	39,493
Trade and other receivables	31,710	16,425
Other current assets	4,723	7,024
Total current assets	133,614	141,709
Non-current assets		
Investments	27,746	45,361
Derivative financial instruments	226	307
Deferred tax assets	2,116	69
Property and equipment	3,143	3,151
Intangible assets	302,136	240,871
Total non-current assets	335,367	289,759
Total assets	**468,981**	**431,468**
Current liabilities		
Trade and other payables	48,407	30,176
Customer salary packaging liability	67,644	39,493
Income tax payable	7,199	8,848
Provisions	8,181	5,518
Other current liabilities	2,750	9,631
Total current liabilities	134,181	93,666
Non-current liabilities		
Provisions	1,947	1,623
Borrowings	140,853	150,118
Contingent consideration	-	1,244
Total non-current liabilities	142,800	152,985
Total liabilities	**276,981**	**246,651**
Net assets	**192,000**	**184,817**
Equity		
Issued capital	176,212	170,490
Reserves	4,570	2,631
Retained profits	11,218	11,696
Total equity	**192,000**	**184,817**

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

	Consolidated	
	2017 $'000	**2016 $'000**
Profit after income tax expense for the year	41,309	32,788
Adjustments for:		
Share of profit – joint ventures	(348)	(513)
Share-based payments	1,173	704
Fair value change to derivative financial instruments	(61)	(70)
Finance revenue – disclosed under investing activities	(909)	(897)
Amortisation of borrowing costs	735	368
Loss on disposal of property and equipment	-	28
Depreciation	1,589	1,412
Amortisation	17,741	12,512
Fair value change to contingent consideration	4,906	(1,569)
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	(5,782)	(569)
(Increase) in net deferred tax assets	(4,227)	(2,187)
Decrease/(increase) in other current assets	2,455	(3,460)
Increase in trade and other payables	3,595	323
Increase/(decrease) in provision for income tax	(2,277)	2,371
Increase in provisions and other liabilities	534	1,295
	60,433	**42,536**
Increase/(decrease) in customer salary packaging liability	8,555	2,218
Net cash from operating activities	**68,988**	**44,754**

Note 34. Changes in liabilities arising from financing activities

Consolidated	**Borrowings $'000**
Balance at 1 January 2016	52,756
Proceeds from borrowings (net of transaction costs)	100,495
Repayments of borrowings	(3,500)
Amortisation of borrowing costs (non-cash)	367
Balance at 31 December 2016	150,118
Proceeds from borrowings (net of transaction costs)	22,000
Repayments of borrowings	(32,000)
Amortisation of borrowing costs (non-cash)	735
Balance at 31 December 2017	**140,853**

Note 35. Non-current assets – property and equipment

	2017 $'000	2016 $'000
Leasehold improvements – at cost	4,966	4,476
Less: Accumulated depreciation	(3,399)	(2,659)
	1,567	1,817
Furniture, fixtures and fittings – at cost	1,095	991
Less: Accumulated depreciation	(735)	(594)
	360	397
Computer equipment – at cost	6,061	5,427
Less: Accumulated depreciation	(5,271)	(4,821)
	790	606
Office equipment – at cost	1,378	1,057
Less: Accumulated depreciation	(971)	(757)
	407	300
Other assets – at cost	46	38
Less: Accumulated depreciation	(15)	(8)
	31	30
	3,155	**3,150**

Reconciliations

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

Consolidated	Leasehold improvements $'000	Furniture, fixtures and fittings $'000	Computer equipment $'000	Office equipment $'000	Other assets $'000	Total $'000
Balance at 1 January 2016	2,092	564	262	244	21	3,183
Additions	493	26	269	29	22	839
Additions through business combinations (note 23)	28	11	379	166	-	584
Disposals	-	(5)	-	(2)	-	(7)
Write off of assets	(7)	(23)	-	(2)	(5)	(37)
Depreciation expense	(789)	(176)	(304)	(135)	(8)	(1,412)
Balance at 31 December 2016	1,817	397	606	300	30	3,150
Additions	65	101	197	52	8	423
Additions through business combinations (note 23)	425	3	480	269	-	1,177
Write off of assets	-	-	(3)	(3)	-	(6)
Depreciation expense	(740)	(141)	(490)	(211)	(7)	(1,589)
Balance at 31 December 2017	1,567	360	790	407	31	3,155

Note 35. Non-current assets – property and equipment (continued)

Accounting policy for property and equipment

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

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

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

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

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

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

Note 36. Current liabilities – trade and other payables

	Consolidated	
	2017 $'000	**2016 $'000**
Trade payables	5,617	4,711
Accrued expenses	17,906	14,994
Other payables	7,360	6,722
	30,883	**26,427**

Refer to note 17 for further information on financial instruments.

Accounting policy for trade and other payables

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

Note 37. Current liabilities – provisions

	Consolidated	
	2017 $'000	**2016 $'000**
Employee benefits	6,000	3,982
Operations provision	2,296	1,568
	8,296	**5,550**

Employee benefits

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

Operations provision

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

Note 37. Current liabilities – provisions (continued)

Amounts not expected to be settled within the next 12 months

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

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

	Consolidated	
	2017 $'000	**2016 $'000**
Employee benefits obligation expected to be settled after 12 months	727	339

Accounting policy for provisions

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

Note 38. Non-current liabilities – provisions

	Consolidated	
	2017 $'000	**2016 $'000**
Employee benefits	1,298	939
Make good provision	697	697
	1,995	**1,636**

Make good provision

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

Movements in provisions

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

Consolidated – 2017	**Make good provision $'000**	**Operations provision $'000**
Carrying amount at the start of the year	697	1,568
Additional provisions recognised	-	607
Additions through business combinations (note 23)	-	121
Carrying amount at the end of the year	**697**	**2,296**

Note 39. Cash held on behalf of customers and associated liabilities

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

	Consolidated	
	2017 $'000	2016 $'000
Current assets – Restricted cash and cash equivalents		
Restricted cash and cash equivalents	67,644	39,493

	Consolidated	
	2017 $'000	2016 $'000
Current liabilities – Customer salary packaging liability		
Customer salary packaging liability	(67,644)	(39,493)

The restricted cash accounts are held with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. The Group has recognised finance revenue of $593,000 (2016: $355,000) from restricted cash.

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

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

	Consolidated			
	Weighted average interest rate	2017 $'000	Weighted average interest rate	2016 $'000
Accounts established by the Group as for cash held on behalf of customers	1.70%	87,207	1.66%	84,678
Accounts established by customers directly	0.03%	74,794	0.03%	71,368
Total		**162,001**		**156,046**

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

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. The Group recognised interest revenue of $1,831,300 (2016: $1,280,000) from those accounts established by the Group as cash held on behalf of customers, and $25,000 (2016: $21,000) from those accounts established by customers directly. These amounts are recognised within management and administration revenue.

Accounting policy for restricted cash and cash equivalents

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

Note 40. Remuneration of auditors

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

	Consolidated	
	2017 $	**2016 $**
Audit services – PricewaterhouseCoopers		
Audit or review of the financial statements	457,500	381,000
Other services – PricewaterhouseCoopers		
Taxation services	26,000	37,000
Risk and governance	142,000	121,000
	168,000	158,000
	625,500	**539,000**
Audit services – unrelated firms		
Audit or review of the financial statements	-	55,000
Other services – unrelated firms		
Tax compliance services	-	12,500
	-	**67,500**

Note 41. Other accounting policies

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Smartgroup Corporation Ltd as at 31 December 2017 and the results of all subsidiaries for the year then ended.

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

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

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

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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

Current and non-current classification

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

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

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

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

Note 41. Other accounting policies (continued)

Leases

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

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

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

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for long term employee benefits is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

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

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

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

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

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

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

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

Note 41. Other accounting policies (continued)

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

Business combinations

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

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

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

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

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

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

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

Goods and Services Tax (GST) and other similar taxes

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group, with the exception of AASB 15 'Revenue from Contracts with Customers', for the annual reporting period ended 31 December 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt AASB 9 until it becomes mandatory on 1 January 2018. The Group does not expect the new accounting standard to have a significant impact on the classification and measurement of its financial assets and financial liabilities. The derecognition rules have been transferred from AASB 139 'Financial Instruments: Recognition and Measurement' and have not been changed. The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. The Group is currently assessing the potential impact of the new impairment model.

Note 41. Other accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group expects to adopt this standard from 1 January 2019 and the impact of its adoption will be that operating leases, such as those detailed in note 30, will be brought onto the statement of financial position with a corresponding liability.

Directors' **Declaration**

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 32 to the financial statements.

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

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

On behalf of the Directors

Michael Carapiet
Chairman
21 February 2018
Sydney

Independent auditor's report

To the members of Smartgroup Corporation Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2017
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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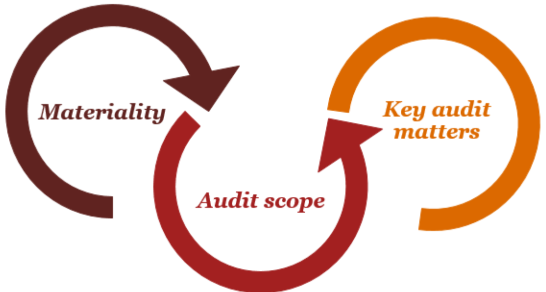
Our audit approach

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

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

Smartgroup's financial report consolidates the businesses of Smartsalary, Smartfleet, Advantage Salary Packaging (Advantage), Autopia, Selectus, AccessPay, Royal Automobile Club of Victoria Salary Solutions (RACVSS), Aspire and other smaller Smartgroup businesses located in Sydney, Adelaide and Melbourne. The Group provides outsourced administration (primarily salary packaging administration and novated leasing), vehicle services (fleet management) and software, distribution and services to a wide range of government, health and corporate customers across Australia. The group has a substantially centralised finance function with recent acquisitions still being integrated.



Materiality

- For the purpose of our audit we used overall Group materiality of $3.1 million, which represents approximately 5% of the Group's profit before tax.

- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

- We chose Group profit before tax as the benchmark because, in our view, profit before tax (which is a generally accepted benchmark for profit oriented entities) is a key metric against which the performance of the Group is measured. We adjusted profit before tax for business combination related costs as these were infrequently occurring items impacting the profit before tax.

- We selected 5% based on our professional judgement, noting that it is within the range of commonly acceptable profit related materiality thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We ensured that the audit team possessed the appropriate skills and competencies which are needed for the audit of the Group. This included adequate industry expertise, as well as the involvement of valuation and taxation specialists.
- Due to their financial significance, we performed an audit of the financial information of the main operating entities of the following businesses: Smartsalary, Smartfleet and Selectus.
- Due to their smaller size and contribution to the Group's results, we performed selected audit procedures and analytical procedures over certain balances of non-trading holding entities and remaining trading entities of the Group (Advantage, Autopia, AccessPay, RACVSS, Aspire and Smartgroup Corporation).
- At the Group level, we performed further audit procedures over the consolidation process and the preparation of the financial report.
- The combination of all these procedures provided us with sufficient and appropriate audit evidence to express an opinion on the Group's financial report as a whole.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Business combinations *(Refer to note 23)*	
During the year, the Group acquired three new businesses: Royal Automobile Club of Victoria Limited Salary Solutions (RACVSS), AccessPay and Aspire Benefits Management. The Group also finalised the accounting for the acquisition of Selectus Limited, which was acquired in 2016. The acquisition of a business is complex and the accounting standards require the Group to identify all assets and liabilities of the newly acquired businesses and estimate the fair value of each item. We focused on the accounting for these acquisitions due to:	We read the relevant sale and purchase agreements and due diligence reports in relation to the acquisitions. The accounting for the acquisitions was consistent with the sale and purchase agreements. For the provisional initial accounting, we reviewed the take on balances and confirmed these against the completion statements and due diligence reports and reviewed the financial statements for the appropriate disclosures. We also assessed the competency and objectivity of the external valuers. In relation to our assessment of the Group's accounting treatment for funds held on behalf of customers, our procedures included:

Key audit matter	How our audit addressed the key audit matter
the judgement required to value the software and customer contract assets acquired of RACVSS, AccessPay and Aspire benefits management. The Group accounted for the acquisitions provisionally as the measurement for intangible assets was still in progress. • the judgement required to determine whether funds held on behalf of certain customers represent an asset of the business and thus should be recognised in the statement of financial position. Accounting appropriately for funds held on behalf of customers is complex because it requires detailed consideration of the substance and legal form of relevant factors relating to control and economic benefits of the asset. • the judgement required to estimate the fair value of the contingent consideration for Smartequity and the settlement for Selectus. Key judgements included forecasts of Smartequity's Net Profit Before Tax and assessment of Selectus final settlement based on 2016 results.	• inspecting a sample of customer contracts and assessing the key characteristics of these contracts in relation to the classification of the funds as either restricted cash or cash held on behalf of customers • developing an understanding of the relevant transaction process flows and the key differences between restricted cash and cash held on behalf of customers • assessing the qualitative and quantitative disclosures made in the financial report in relation to each of the different types of funds held on behalf of customers. In relation to the valuation/settlement of the contingent consideration in respect of the Smartequity and Selectus businesses, and in order to assess whether the conditions required for the contingent consideration to be paid or settlement paid were likely to be met in the future, our procedures included: • assessing if the calculation of the contingent consideration/settlement was in accordance with the contractual arrangements and the requirements of accounting standards • assessing the governance supporting the Group's forecasting process • assessing the Group's forecasting accuracy by comparing past forecasts with actual performance and developing an understanding of the causes of differences • developing an understanding of the Group's perspective on the future growth of the Smartequity business. • considering the sensitivity of the deferred consideration liability to reasonably possible changes in key profit assumptions. We considered the adequacy of the business combination disclosures in light of the reporting requirements.
Group's goodwill and other indefinite life intangible asset impairment assessment *(Refer to note 5)* The Group's goodwill and other indefinite life intangible assets are required by Australian Accounting Standards to be tested at year end	Our audit procedures included: • assessing whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines

Key audit matter	*How our audit addressed the key audit matter*
for impairment at the cash generating unit (CGU) level. We focused on the impairment assessment due to the size of the goodwill and other indefinite life intangible assets balances and the judgement involved in assessing whether an impairment was required. The Group performed an impairment assessment over goodwill and other indefinite life intangible assets by calculating the value in use for each CGU, using discounted cash flow models (the models). Key judgements in the models included discount rates, annual revenue and terminal growth rates and the assumption that there will be no significant changes to the legislation governing the provision of products and services within the salary packaging administration and novated leasing industries in the forecast periods.	and the level of integration of the newly acquired businesses • evaluating the process by which the cash flow forecasts were developed • comparing the cash flow forecasts to Board approved budgets and confirming that key assumptions in the forecasts were subject to oversight from the directors • assessing the accuracy of the forecasts by comparing previous forecasts with actual business results • comparing these forecasts with forecasts used in the contingent consideration calculations for consistency • considering the sensitivity of the key assumptions in the models by analysing the impact on the recoverable amount from changes in key assumptions. These recalculations did not suggest an impairment was required for the tested CGUs • considering whether there had been any published plans from mainstream Australian political parties relating to any potential changes to legislation governing the provision of products and services within the salary packaging administration and novated leasing industries. We did not identify plans for significant changes in this area. We also compared the Group's net assets of $204.9 million as at 31 December 2017 to its market capitalisation of $1.2 billion on the same date. We also considered the adequacy of the Group's disclosures on goodwill and other infinite life intangible assets impairment in light of the requirements of Australian Accounting Standards.
Restricted cash and cash equivalents held on behalf of customers *(Refer to note 39)* As described in note 39, the provision of salary packaging services involves the Group holding funds on behalf of certain customers, either as restricted cash or cash equivalents held on behalf of customers. Considered to be a Key Audit Matter as the Group may be responsible	Our audit procedures included: • performing tests over a sample of key controls in the EUM cash transaction process and assessing whether these controls had been designed appropriately and operated effectively during the year. We

Key audit matter	*How our audit addressed the key audit matter*
for any shortfall in these accounts, significant volume of transactions impacting restricted cash and cash held on behalf of customers' accounts throughout the year and due to the large volume of accounts and employees under management (EUM).	determined that we could place reliance on the tested controls for the purposes of our audit • testing a sample of restricted cash and cash held on behalf of customers bank account reconciliations and obtaining confirmations directly from banks of the outstanding balances at year end • reading board minutes, enquiring with management and obtaining a written description from the Group's lawyers of current legal matters to understand whether there were any material claims from EUMs or employers. We further considered the adequacy and accuracy of the Group's disclosures in relation to restricted cash and cash held on behalf of customer's balances in the light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises: Who we are, 2017 Company Snapshot, Chairman's Report, 2017 Financial Highlights, Managing Director and CEO Report of Operations, What We Do, Who We Help, Environmental, Social and Governance Report, Directors' Report, Shareholder Information, Four Year Summary, Corporate Directory and Glossary included in the Group's annual report for the year ended 31 December 2017 but does not include the Financial Report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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/ar2.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 21 to 33 of the directors' report for the year ended 31 December 2017.

In our opinion, the remuneration report of Smartgroup Corporation Ltd for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

Sam Hinchliffe
Partner

Sydney
21 February 2018

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Shareholder **Information**

This section contains additional information required by the ASX Listing Rules not disclosed anywhere else in this report, as at 24 January 2018.

Shareholdings

Substantial Shareholders

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

Name	Number of ordinary shares	Percentage of total shares issued
SMART PACKAGES PTE LTD	32,608,245	26.44
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,951,889	16.18
J P MORGAN NOMINEES AUSTRALIA LIMITED	12,568,928	10.19
CITICORP NOMINEES PTY LIMITED	8,532,962	6.92
NATIONAL NOMINEES LIMITED	7,742,107	6.28
BNP PARIBAS NOMS PTY LTD	7,282,013	5.91

Class of shares and voting rights

At 24 January 2018 there were 2,169 holders of ordinary shares in the Company.

The voting rights attached to the ordinary shares set out in the Company's Constitution are that on a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Distribution of shareholders of shares as at 24 January 2018

Size of holding	Ordinary shareholders
1–1,000	849
1,001–5,000	796
5,001–10,000	230
10,001–100,000	239
100,001 and over	55
Total shareholders	2,169
Holding less than a marketable parcel	**125**

Twenty largest shareholders of ordinary shares as at 24 January 2018

	Ordinary shares	
	Number	%
SMART PACKAGES PTE LTD	32,608,245	26.44
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,951,889	16.18
J P MORGAN NOMINEES AUSTRALIA LIMITED	12,568,928	10.19
CITICORP NOMINEES PTY LIMITED	8,532,962	6.92
NATIONAL NOMINEES LIMITED	7,742,107	6.28
BNP PARIBAS NOMS PTY LTD	7,282,013	5.91
HEATHERWOOD COURT PTY LTD	2,492,003	2.02
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,011,990	1.63
APINTO PTY LTD	2,002,142	1.62
DEVENDRA BILLIMORIA	1,724,729	1.40
JENNY ELIZABETH GAUDRY	1,687,535	1.37
GENTILLY HOLDINGS 2 PTY LIMITED	1,610,401	1.31
ANTON JEROME GAUDRY	1,125,738	0.91
KPB ENTERPRISES PTY LTD	1,017,711	0.83
BNP PARIBAS NOMINEES PTY LTD	912,180	0.74
UBS NOMINEES PTY LTD	844,939	0.69
POINT CAPITAL PTY LTD	689,469	0.56
AOTEAROA INVESTMENT COMPANY PTY LIMITED	678,715	0.55
TIMOTHY LOOI	625,117	0.51
AMP LIFE LIMITED	398,918	0.32
Total	**106,507,731**	**86.38**

Restricted securities or securities subject to voluntary escrow

The following are all fully paid ordinary shares.

Escrow release date	Number of shares
Date after the audited financial statements of the Company for the year ended 2017 are released	1,449,614
Date after the audited financial statements of the Company for the first half of 2018 are released	2,532,748
1 January 2019	697,150
Date after the audited financial statements of the Company for the year ended 2018 are released	49,618
Date after the audited financial statements of the Company for the first half of 2019 are released	223,055
1 January 2020	1,129,976
Date after the audited financial statements of the Company for the year ended 2019 are released	49,618
Total	**6,131,779**

Four Year Summary

	2017	2016	2015	2014
Income statement ($m)				
Revenue	205.4	147.1	94.5	75.4
EBITDA	93.6	63.3	37.4	24.1
NPAT (statutory)	41.3	32.8	20.2	(1.0)
NPATA	64.1	44.0	26.2	17.4
Statement of financial position ($m)				
Assets	464.1	438.6	167.4	110.5
Liabilities	259.2	244.3	84.9	44.6
Net assets	204.9	194.3	82.5	65.9
Net (debt)/cash	(111.1)	(72.0)	(33.5)	5.8
Share information				
Ordinary shares (million shares)	123.2	121.5	103.7	101.5
Dividends per share (cents per share)				
Interim	16.5	9.8	7.9	-
Final	18.5	15.0	8.7	6.1
Total dividends	*35.0*	*24.8*	*16.6*	*6.1*
Share price at 31 December ($)	10.85	6.28	5.11	1.47
NPATA/ordinary shares (cents per share)	52.0	36.2	25.3	17.1
Ratios				
Dividend payout ratio	67%	68%	66%	35%
Operating cashflow/NPATA	99%	103%	106%	138%
Net debt/EBITDA	1.2	1.1	0.9	(0.2)
Operational metrics				
FTEs	706	544	398	343
Packages	325,000	221,000	182,500	118,700
Novated leases under management	62,500	53,000	34,000	30,900

Corporate **Directory**

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

Company secretaries
Amanda Morgan
Sophie MacIntosh

Registered office
Smartgroup Corporation Ltd
Level 8, 133 Castlereagh Street
Sydney, Australia, 2000
Tel: 1300 665 855

Principal place of business
Smartgroup Corporation Ltd
Level 8, 133 Castlereagh Street
Sydney, Australia, 2000
Tel: 1300 665 855

Share register
Link Market Services Limited
Level 12, 680 George Street,
Sydney, Australia, 2000
Tel: 1300 368 664

Annual general meeting
2 May 2018 at 11am.
Please refer to the website
for further details.

Auditor
PricewaterhouseCoopers
One International Towers
Watermans Quay, Barangaroo
Sydney, Australia, 2000

Solicitors
Minter Ellison Lawyers
Level 23, 525 Collins Street
Melbourne, Australia, 3000
Tel: +61 3 8608 2000

Bankers
Australia and New Zealand Banking
Group Limited
242 Pitt Street
Sydney, NSW, 2000

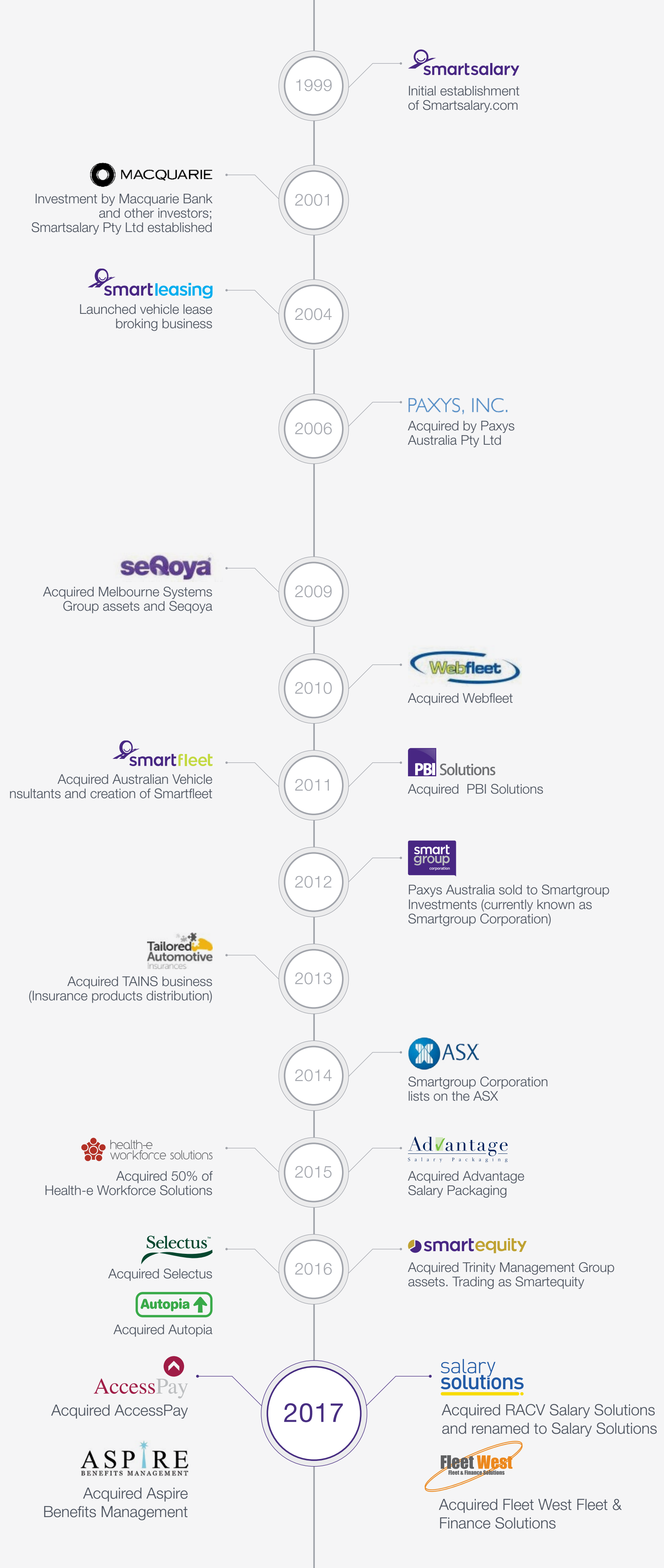
Stock exchange listing
Smartgroup Corporation Ltd shares are
listed on the Australian Securities Exchange
(ASX code: SIQ)

Website
smartgroup.com.au

Corporate Governance Statement
The Corporate Governance Statement,
which was approved at the same time
as the Annual Report, can be found at
http://ir.smartgroup.com.au/
Investors/?page=Corporate-Governance

Glossary of Terms

AGM	Annual General Meeting of the Company
ARC	Audit and Risk Committee
Board	Board of Directors
Company	Smartgroup Corporation Ltd ABN 48 126 266 831
CAGR	Compound Annual Growth Rate
CENL	Chief Executive, Novated Leasing and Fleet
CEO	Managing Director & Chief Executive Officer
CESP	Chief Executive, Salary Packaging
CFO	Chief Financial Officer
CHRO	Chief Human Resources Officer
CIO	Chief Information Officer
CGU	Cash Generating Unit
CLO	Chief Legal Officer
Director	Director means a director of the Company
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.
EPS	Earnings Per Share
ESG	Environmental, Social and Governance
Group	The consolidated Smartgroup Corporation entity consisting of the Company and the entities it controlled at the end of or during the year ended 31 December 2017
GST	Goods and Services Tax
HRRC	Human Resources and Remuneration Committee
ITIC	IT and Innovation Committee
KMP	Key Management Personnel, being those employees who had authority and responsibility for planning, directing and controlling the activities of the Group during the 2017 financial year, and includes the Directors.
KPI	Key Performance Indicator
LFS	Loan Funded Shares
LTIP	Long Term Incentive Plan
Net debt	Cash and cash equivalents less borrowings, adjusted to exclude capitalised borrowing costs
NFP	Not-for-profit organisation
NPAT	Net Profit After Tax
NPATA	Net Profit After Tax, adjusted to exclude the non-cash tax effected Amortisation of intangibles and significant non-operating items
NPS	Net Promoter Score, which is a measure of how likely a customer is to provide a word of mouth referral, measured on a scale of -100 to +100.
Operating activities	Cash flow excluding receipts and payments from customers' salary packaging accounts and significant non-operating items.
PBI	Public Benevolent Institution
PBT	Profit Before Tax
Smartgroup	Smartgroup Corporation Ltd ABN 48 126 266 831
STIP	Short Term Incentive Plan
TSR	Total Shareholder Return
VWAP	Volume-Weighted Average Price


1999
smartsalary
Initial establishment of Smartsalary.com
2001
MACQUARIE
Investment by Macquarie Bank and other investors; Smartsalary Pty Ltd established
2004
smartleasing
Launched vehicle lease broking business
2006
PAXYS, INC.
Acquired by Paxys Australia Pty Ltd
2009
seqoya
Acquired Melbourne Systems Group assets and Seqoya
2010
Webfleet
Acquired Webfleet
2011
smartfleet
Acquired Australian Vehicle nsultants and creation of Smartfleet
PBI Solutions
Acquired PBI Solutions
2012
smart group
Paxys Australia sold to Smartgroup Investments (currently known as Smartgroup Corporation)
2013
Tailored Automotive Insurances
Acquired TAINS business (Insurance products distribution)
2014
ASX
Smartgroup Corporation lists on the ASX
2015
health-e workforce solutions
Acquired 50% of Health-e Workforce Solutions
Advantage Salary Packaging
Acquired Advantage Salary Packaging
2016
Selectus
Acquired Selectus
Autopia
Acquired Autopia
smartequity
Acquired Trinity Management Group assets. Trading as Smartequity
2017
AccessPay
Acquired AccessPay
ASPIRE BENEFITS MANAGEMENT
Acquired Aspire Benefits Management
salary solutions
Acquired RACV Salary Solutions and renamed to Salary Solutions
Fleet West Fleet & Finance Solutions
Acquired Fleet West Fleet & Finance Solutions

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

smartgroup.com.au