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ASX Announcement
Appendix 4E and 2019 Annual Report

Release date: 19 February 2020

In accordance with the ASX Listing Rules, Smartgroup Corporation Limited (**ASX: SIQ**) encloses for release to the market:

- Appendix 4E, and
- 2019 Annual Report.

For further information, contact:

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Chief Financial Officer
Smartgroup Corporation Ltd
Telephone: 0408 409 513

Sophie MacIntosh
Chief Legal Officer and Company Secretary
Smartgroup Corporation Ltd
Telephone: 0407 486 823

This announcement was authorised for release by the Board of Directors of Smartgroup.

Appendix 4E

Preliminary Final Report

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1. Company details

Name of entity: Smartgroup Corporation Ltd

ABN: 48 126 266 831

Reporting period: For the year ended 31 December 2019

Previous period: For the year ended 31 December 2018

2. Results for announcement to the market

		$'000		$'000
Revenues from ordinary activities	up	8,020	3.3% to	249,835
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up	2,163	3.6% to	61,449
Profit for the year attributable to the owners of Smartgroup Corporation Ltd	up	2,163	3.6% to	61,449

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2018 (paid 15 March 2019)	21.0	21.0
Special dividend per share (paid 6 May 2019)	20.0	20.0
Interim dividend for the year ended 31 December 2019 (paid on 16 September 2019)	21.5	21.5

On 19 February 2020, the Directors declared a fully-franked dividend of 21.5 cents per ordinary share. The final dividend will be paid on 16 March 2020 to shareholders registered on 2 March 2020. There is no dividend reinvestment plan.

Comments

The profit for the Group after providing for income tax amounted to $61,449,000 (31 December 2018: $59,286,000).

Refer to the 'Message from the Chairman' and 'Managing Director and CEO Report' for detailed commentary of the results.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(41.85)	(34.83)

Net tangible assets per ordinary security is total net assets, excluding intangible assets, deferred tax assets, and right-of-use lease assets, divided by the number of ordinary shares on issue. On 6 December 2019, ASIC released *19-341MR Financial reporting focuses for 31 December 2019*, providing clarification on the treatment of right-of-use lease assets. As a result, the comparative 2018 net tangible assets per ordinary security has been restated to exclude right-of-use lease assets.

Appendix 4E (continued)

Preliminary Final Report

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4. Control gained over entities

For the year ended 31 December 2019, the following wholly owned entities within the Group have been deregistered:

- Radiant Capital Pty Ltd (deregistered 22 January 2019)
- Selectus Financial Services Pty Ltd (deregistered 18 June 2019)
- Selectus Employee Benefits Pty Ltd (deregistered 9 October 2019).

On 1 June 2019, Smartgroup Benefits Pty Ltd, a wholly owned group entity, acquired 100% of the ordinary shares of Pay-Plan Pty Ltd and SET Leasing Pty Ltd (collectively, Pay-Plan).

Refer to note 23 for details on the acquisitions.

	Reporting entity's percentage holding		Contribution to profit after tax	
Detail of joint ventures	31 Dec 2019 %	31 Dec 2018 %	31 Dec 2019 $'000	31 Dec 2018 $'000
Health-e Workforce Solutions Pty Ltd	50%	50%	8	44

5. Independent auditor's review

The financial report for the year ended 31 December 2019 has been audited by PricewaterhouseCoopers and an unqualified opinion has been issued.

6. Attachments

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

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smart group corporation

Annual Report 2019









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In this Annual Report

02 Smartgroup in 2019

- 03 2019 Company Snapshot
- 04 Our Customers (and how we serve them)

06 Message from the Chairman

08 2019 Financial Highlights

10 Managing Director and CEO Report

18 Sustainability Report

- 19 Our People
- 24 Our Environment
- 26 Our Community

29 Corporate Sustainability Scorecard

30 Governance and risk

32 Directors' Report

37 Remuneration Report

51 Auditor's Independence Declaration

55 Financial Report

114 Shareholder Information

116 Five Year Summary

117 Glossary

118 GRI Content Index

120 Corporate Directory



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Smartgroup in 2019

At Smartgroup, our focus is to provide the highest levels of service to our c.358,500 customers. We strive to provide a thriving workplace for our team members, while maintaining our dedication to being a responsible corporate citizen in the community.

Our aim is to be an organisation that people – from shareholders to team members, partners and customers – are proud to be associated with. To achieve this, we've taken a proactive approach to ensuring diversity and inclusion in the workplace through team member education and new market-leading people policies. To support our community, we've established a charitable foundation and diversified our charitable partners.

We will continue to find new ways to contribute to the community, while delivering exceptional value and service to all our stakeholders.



Company Snapshot



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Our Customers

c.4,000
employer clients

c.358,500
salary packaging customers

c.92,500
novated and fleet vehicles under management

Our Service

Smartsalary awarded 'Service Champion' at the 2019 Customer Service Institute of Australia (CSIA) Awards and maintained highest ever audit score from the CSIA for the fifth consecutive year.

Our People

Recognised as a '2019-2020 Inclusive Employer' by Diversity Council Australia.

689 full time equivalent team members across Australia.

17% of Smartgroup team members are working remotely.

Our Community

2.4 million trees planted since 2008 through Smartleasing customer carbon offset program.

Over 130 not-for-profit organisations supported through donations and community based sponsorships.

Smartgroup Foundation established and provided its first grants in 2019.

Smartgroup Foundation

Our Customers (and how we serve them)

As an award-winning, ASX-listed company, Smartgroup is trusted by many of Australia's largest public and private organisations to provide employee benefits and administration services to their employees.

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Our customers, who are at the centre of everything we do, include:

- Community and charity workers in the not-for-profit (NFP) sector
- Teachers, administrators and support personnel in education
- Nurses, clinicians and auxiliary staff in health
- Employees of the government sector
- Professionals in private and corporate organisations

Customer service

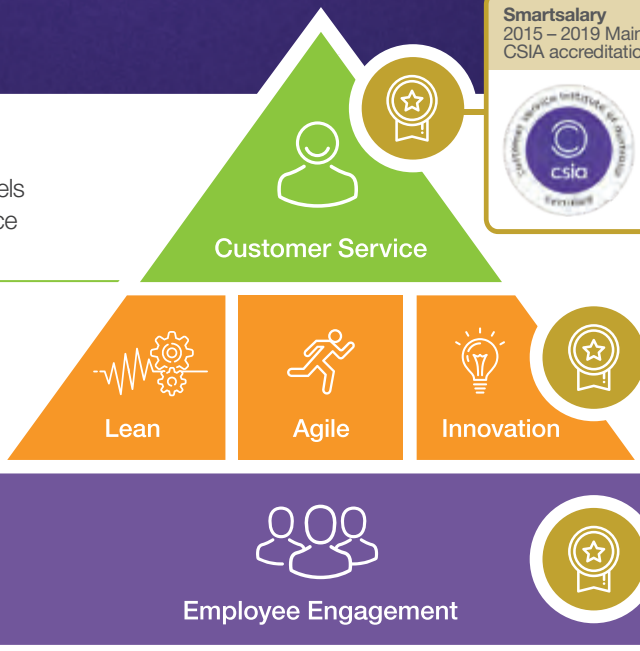
Providing and maintaining the highest levels of service, to ensure an optimal experience for our customers, is paramount.

Innovation

We strive for continuous improvement and process efficiency.

Employee engagement

The foundation of operational excellence at Smartgroup.



Smartsalary
2015 – 2019 Maintained highest ever CSIA accreditation score

2019 National Service Champion
2017 National Service Champion
2016 National Service Champion
2015 Highly Commended (National)
2011–2015 Winner (NSW State)
2012 Winner (National)

Smartgroup
Five times since 2013
FINANCIAL REVIEW MOST INNOVATIVE COMPANIES

INCLUSIVE EMPLOYER 2019–2020

Smartgroup
Forbes Asia Best Under A Billion 2019

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Specialised service delivery

Smartgroup is uniquely positioned to support employer clients and employee customers with industry-specific expertise and experience.

Our services include efficient and easy-to-access outsourced salary packaging and novated leasing, innovative fleet management, payroll, share plan administration and workforce optimisation services.



Message from the Chairman

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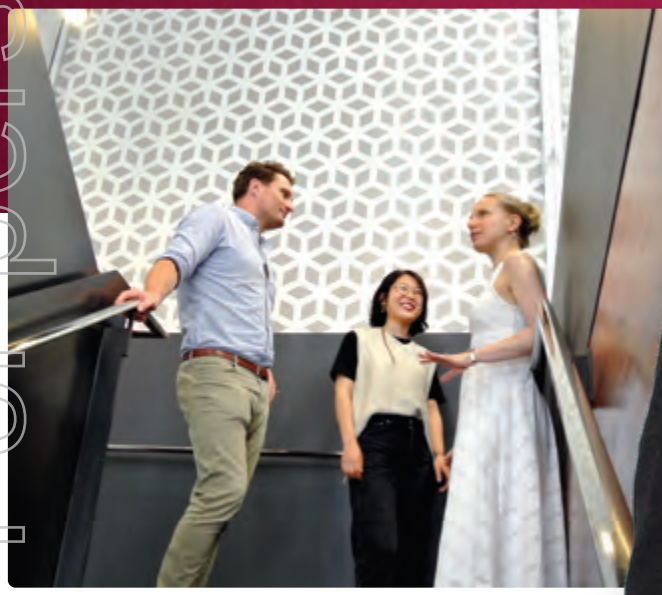
“Our strategy for success is maintaining exceptional customer service, as well as fostering a culture of innovation and inclusivity.





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2019 delivered another year of earnings growth for Smartgroup, with revenues up 3 per cent to $249.8 million and after-tax profits, represented by NPATA[1], growing 4 per cent to $81.0 million.

I am pleased to present Smartgroup Corporation's annual report for the calendar year ending 31 December 2019.

Smartgroup remains a customer-focused organisation with an ongoing programme of greater automation and service expansion through partnerships and acquisitions. The Smartgroup team have delivered consecutive years of growing customer numbers and another year of record financial results.

Smartgroup's 2019 strong financial performance has been delivered in a year that has seen Australian private new vehicle sales decline by 8%. Changing consumer sentiments following the Hayne Royal Commission has also slowed demand for our products. Despite this, Smartgroup achieved:

- Revenues of $249.8 million, up 3 per cent on the prior year
- Operating EBITDA[2] of $118.2 million, up 3 per cent on the prior year
- Operating NPATA of $81.0 million, up 4 per cent on the prior year
- Statutory Net Profit After Tax of $61.4 million, up 4 per cent on the prior year.

The Board is pleased to announce a fully franked final dividend of 21.5 cents per share, taking the full year ordinary dividends for 2019 to 43.0 cents per share. Further, a special dividend of 20.0 cents per share was paid in May 2019.

Our strategy for success includes maintaining exceptional customer service, a culture of innovation and an inclusive workplace. We believe that a productive and committed workforce is a key success factor, as well as being a responsible corporate citizen. To this, we are very proud to have been recognised as one of only 35 Inclusive Employers by Diversity Council Australia for 2019-2020.

We service c.4,000 clients and over c.358,500 salary packaging customers. In 2019, we increased our service offering and market differentiation for our customers through new partnerships and several small acquisitions.

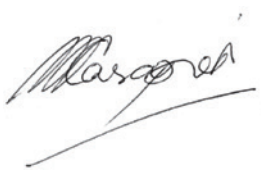
In March we welcomed Carolyn Colley to the Board of Smartgroup. Carolyn has held a number of executive roles in financial services and brings a wealth of experience in technology and digital disruption. Carolyn is an invaluable and welcome addition to our Board.

I would also like to thank Deven Billimoria for his long and significant contribution to Smartgroup as CEO and Managing Director. We gratefully acknowledge Deven's pivotal role in leading Smartgroup's outstanding growth during his tenure. We wish him well in all of his future endeavours.

Deven's successor, Tim Looi, has worked alongside Deven as Chief Financial Officer for the past ten years and has a deep understanding of the business and our customers' needs. The Board is confident in Tim's drive and ability to lead the Smartgroup team to continue to deliver positive results for all of our stakeholders.

On behalf of the Board, I'd like to thank our many clients and shareholders for their ongoing support, to the management team for creating a rewarding and energised workplace for our employees, and to all of our employees for their continued loyalty and excellent client service.

2020 will inevitably bring a new set of challenges for Smartgroup. However, we remain confident of being able to meet these challenges by providing a diverse and welcoming workplace for our employees, a strong suite of products and market-leading service for our customers, delivering solid financial returns for our shareholders while exceeding the expectations of the communities we work in.



Michael Carapiet
Chairman

1. NPATA is Net Profit After Tax adjusted to exclude the non-cash tax affected Amortisation of intangibles and other significant non-operating items.
2. EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.

2019 Financial Highlights

The following highlights represent the financial performance of Smartgroup for the year ended 31 December 2019.

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NPATA[1]

2019 $81.0m | **2018** $77.8m[2]

UP 4%

NPAT

2019 $61.4m | **2018** $59.3m

UP 4%

REVENUE

2019 $249.8m | **2018** $241.8m

UP 3%

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EBITDA[3]

$118.2m

UP 3%

OPERATING CASH FLOW[4]

110%

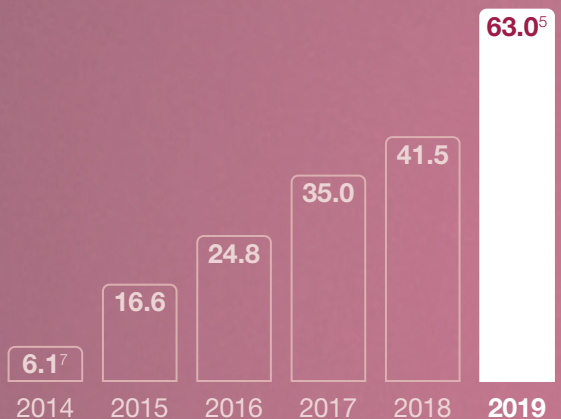
AS A PERCENTAGE OF NPATA

DIVIDENDS DECLARED[5]

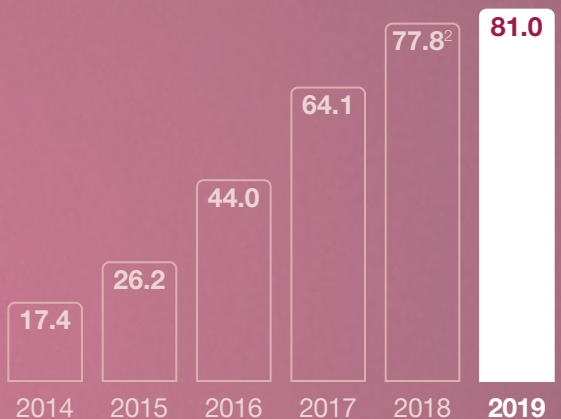
63.0 cps

NET DEBT[6]

$21.0m



DIVIDENDS PER SHARE DECLARED (FULLY FRANKED)



AFTER-TAX PROFITS (NPATA)

The 2019 Financials are presented on an adjusted basis and have been reconciled to the statutory 2019 Financial Report.

1. NPATA is Net Profit After Tax, adjusted to exclude the non-cash tax effected Amortisation of intangibles and significant non-operating items.
2. Adjusted to reflect one-off impact on adoption of AASB 16 Leases from January 2018.
3. EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.
4. Operating cash flow excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.
5. Includes special dividend of 20.0cps paid in May 2019.
6. Net Debt is cash and cash equivalents less corporate borrowings, adjusted to exclude capitalised borrowing costs and vehicle borrowings.
7. Represents dividend declared only for H2 2014.

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Managing Director and CEO Report



Smartgroup has delivered another year of positive financial and operational results. Our people have worked hard to provide exceptional customer experiences and implement operational efficiencies, increasing value through an expanded service offering.

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Overview

I'm pleased to report that Smartgroup finished 2019 with steady growth across key financial and operational metrics, and industry and customer recognition for our high standards of service. This result is particularly pleasing in the context of the headwinds facing our industry throughout 2019, including a continuing decline in Australian new car sales and the impact of the changing regulatory environment.

The salary packaging and novated leasing industry is subject to increasing competition on pricing, products and services and delivery platforms. Smartgroup continues to invest and transform its business operations to be more customer centric and digitally enabled. We are very focused on how we engage with our customers and improve our understanding of their needs and expectations so that products and services can be tailored and delivered accordingly. Customer satisfaction is regularly monitored through Net Promoter Scores (NPS) and customer feedback. Our client contracts are typically for three to five year terms and are then subject to renewal or tender processes. Our largest client contracts now represent a smaller and decreasing percentage of total revenues due to the overall growth of the business.

In 2019, the number of salary packaging customers, novated leases under management and fleet vehicles under management each grew by approximately 5% to 358,500, 68,500 and 24,000 respectively. We can attribute this growth principally to our continued focus on customer experience and our can-do culture, which are absolutely foundational to the business.

We are pleased to have submitted our application for citation as an Employer of Choice for Gender Equality with the Workplace Gender Equality Agency (WGEA), an accreditation achieved by fewer than 150 organisations in Australia. It was a significant undertaking by our People & Culture and Executive Management Teams to meet the citation's seven areas of focus, from leadership and accountability to gender pay equity and driving change beyond Smartgroup. We look forward to hearing of the outcome of our application in late February 2020.

Gender equality is important to Smartgroup and all organisations, not only in Australia but across the world. It's about making sure we have equal opportunities with equal pay for both men and women. We're committed to eliminating the gender pay gap and the obstacles that prevent full participation at work.

Additionally, Smartgroup was named an Inclusive Employer 2019-2020 by Diversity Council Australia (DCA). We participated in DCA's *Inclusion@Work Index,* which measured diversity and inclusion in our workforce. Smartgroup exceeded the national benchmark in five of the six measures, demonstrating our absolute commitment to being an inclusive and diverse workplace.

These achievements are a part of a larger commitment to creating and driving positive social change and environmental sustainability. This is not only the right thing to do; it's the smart thing to do. Increasingly, investors and customers are looking to work with organisations that demonstrate ethical business practices. We know this to be true because these are the organisations we look to partner with too.

Delivering more value to our customers

Recognising the time and resourcing challenges many of our employer clients face, we continued to expand our service offering through partnerships that help our clients manage people and payroll.

The financial wellbeing of our customers is another area into which we have expanded our offering. Partnering with consumer finance specialists, we have launched a financial wellness program that offers customers more opportunities to make their money go further.

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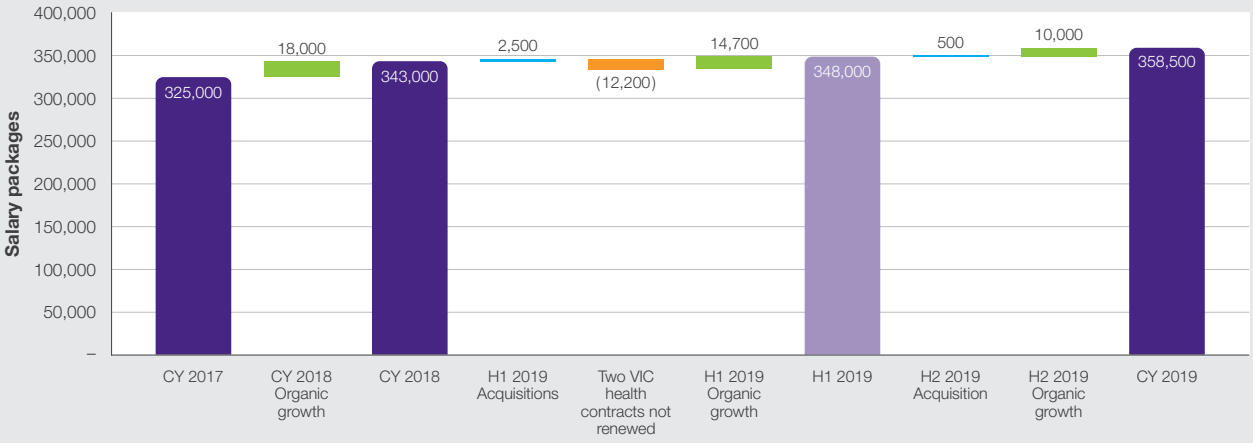
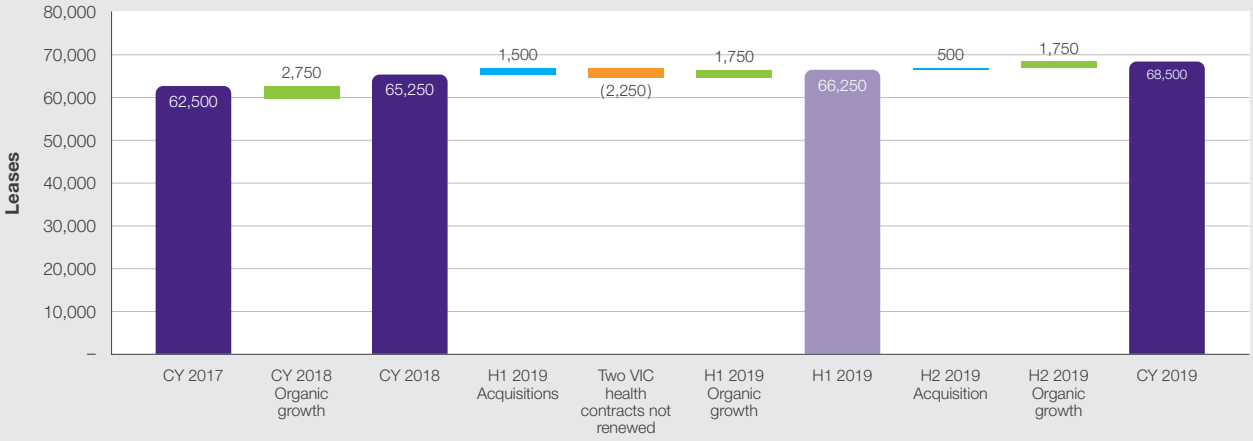
Package and lease growth across the business

Smartgroup continues to see organic growth across the salary packaging and novated leasing sectors of the business thanks largely to the focus on innovation and customer service.

Salary packaging customers



Novated lease vehicles under management



- H1 2019 acquisitions – Mylease and Pay-Plan. H2 2019 acquisition – Lease & Asset Finance.
- Two Victorian health contracts were not renewed. Contract end dates were 31 March 2019 and 30 June 2019; each client represented c.1% of EBITDA.

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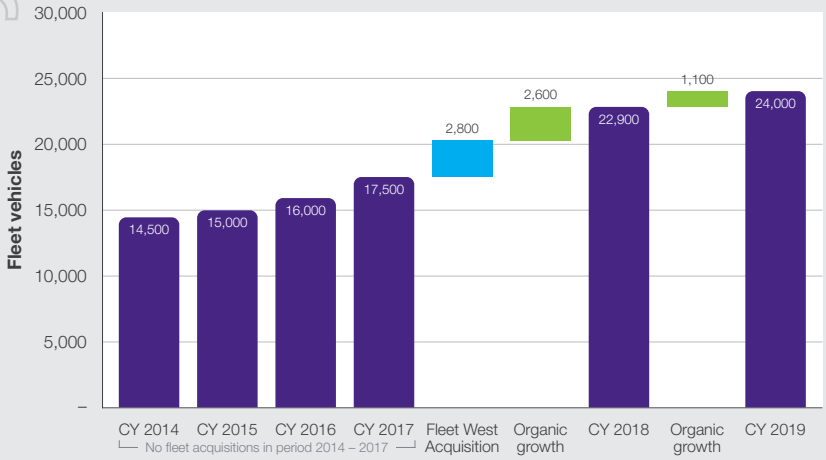
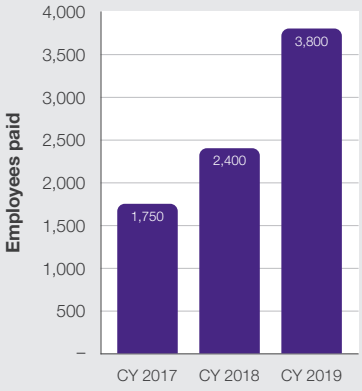
Increased fleet and payroll services uptake

We also saw an increase in the uptake of our fleet management and payroll services.

Fleet vehicles under management



Employees paid by Smartsalary Payroll Solutions[1] platform since acquisition

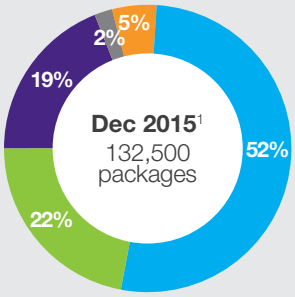


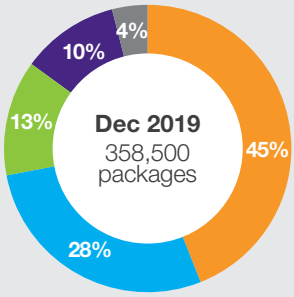
1. Smartgroup acquired 50% ownership of AccessPay Payroll Solutions through its acquisition of the AccessPay Group on 2 May 2017, with the remaining 50% acquired on 1 May 2018, following which the business was rebranded Smartsalary Payroll Solutions.

A diversified client base

Our diversified employer client base represents stable, growing sectors. Of our salary packaging customers, 83% are employed in the education, PBI hospitals and PBI non-hospitals sectors.

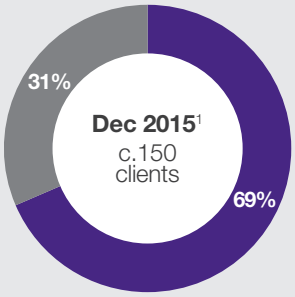
Salary packaging client and customer profile



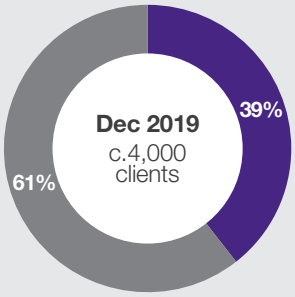


- PBI non-hospitals[2]
- PBI hospitals[3]
- Government
- Education[4]
- Corporate

Revenue profile by client contract



Only 1 client used 2 or more service offerings



c.200 clients now use 2 or more service offerings

- Top 20
- Other

1. December 2015 adjusted to exclude c.50,000 packages and c.350 clients from the acquisition of Advantage completed in December 2015 and the investment in Health-e Workforce Solutions in October 2015.
2. 'PBI non-hospitals' includes charities and other not-for-profit organisations registered as a public benevolent institution (PBI) and recognised by the ATO as eligible for FBT exemption, excluding PBI hospitals with hospital employees having a different tax status to employees of all other PBI organisations.
3. 'PBI hospitals' includes public and private not-for-profit hospitals.
4. 'Education' includes public and private not-for-profit educational institutions.

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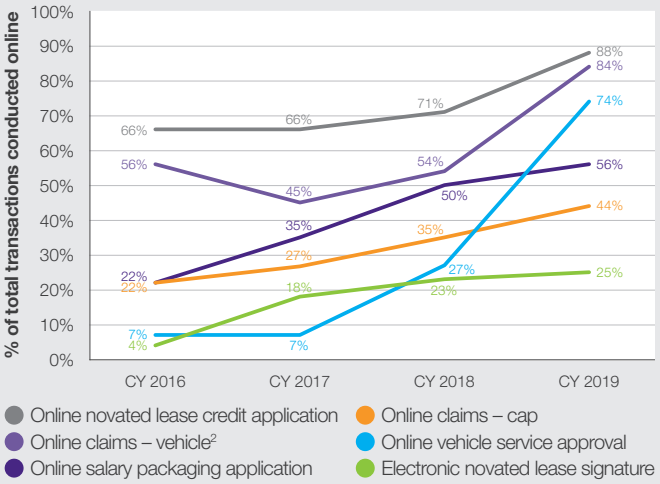
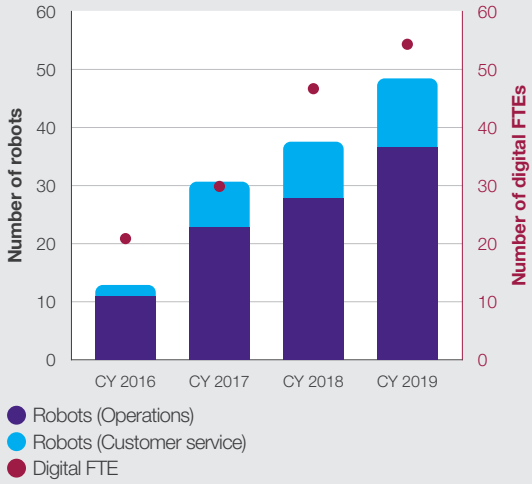
Increased adoption of digital channels and automation

Our continued focus on digital channels and automation, and the migration of packages and leases to core platforms has delivered an increase in the number of customers choosing online self-service.

Progressive uptake of online channels from increased customer adoption and migration of packages and leases onto core platforms[1]



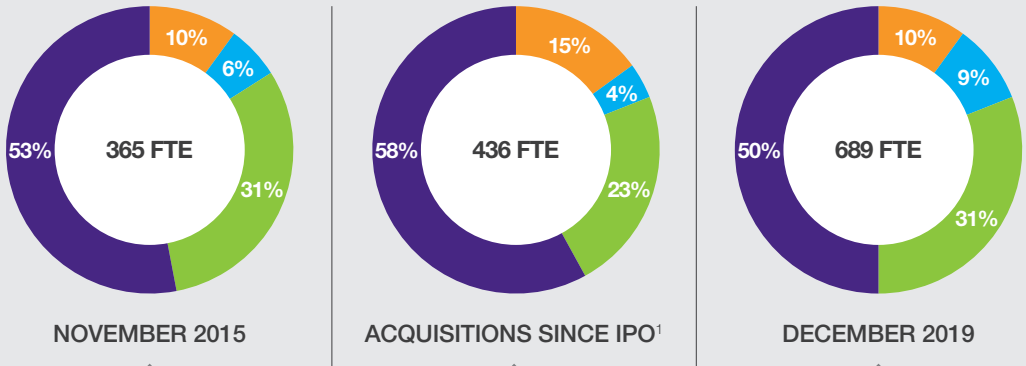
Smartgroup now has 49 robots, equivalent to 55 digital FTEs



1. Does not include transactions from discontinued Salary Solutions, Aspire, Mylease, Pay-Plan and Lease & Asset Finance systems.
2. 2017 reflects full year impact of less-automated Autopia and Selectus acquisitions.

More efficient and value-adding staff profile

Staffing levels across the business reflect the continued focus on operational efficiencies and investments in IT, while an increase in sales and marketing ensure the delivery of exceptional customer experience.



	NOVEMBER 2015	ACQUISITIONS SINCE IPO[1]	DECEMBER 2019
Packages	132,500	157,000	358,500
Novated leases under management	32,500	27,100	68,500
Packages / FTE	363	361	520
NL VUM / FTE	89	62	99

Corporate · IT · Sales and Marketing · Operations

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

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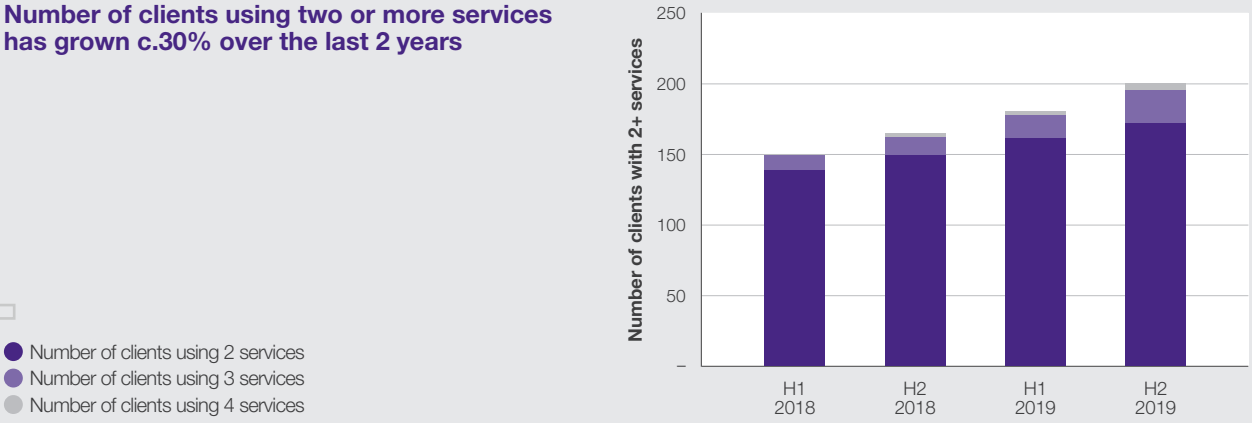
More clients using more Smartgroup services

Delivering multiple services through core and differentiated partner offerings continued to bring success in 2019, with the number of employer clients adopting two or more Smartgroup services growing 22 per cent over the past 12 months.

Smartgroup service	Number of Smartgroup services used by individual clients																			
	2 services									3 services									4 services	
Core services																				
Salary packaging [1] c.4,000 clients																				
New service offerings																				
Fleet management																				
PBI fleet solutions																				
Payroll																				
Share plan administration																				
Workforce management [2]																				
Partner service offerings																				
Mortgage health check																				
Debt management																				
Client numbers using services	51+	11-50	11-50	11-50	11-50	1-10	1-10	1-10	1-10	11-50	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10

Number of clients using two or more services has grown c.30% over the last 2 years



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

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Significant progress made on the integration of acquired businesses

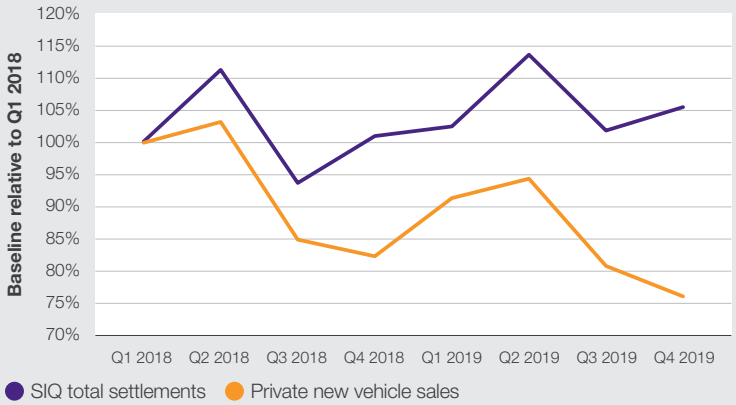
In 2019, we continued to make progress with the integration of acquired businesses and consolidation of salary packaging service delivery.

		Acquisition completion date	Integration completion date	Rebatable[1]	PBI[2]	Government	Corporate
Continuing brands	smartsalary	NA					
	AccessPay	May 2017					
	Advantage Salary Packaging	December 2015					
	Autopia	July 2016					
Retiring/retired brands	Selectus	August 2016	Expected 2020				
	salarysolutions	October 2017	Q2 CY 2019				
	ASPIRE	August 2017	Q4 CY 2017				
	mylease	April 2019	Q3 CY 2019				
	PAY-PLAN	June 2019	Q3 CY 2019				
	LEASE & ASSET	October 2019	Q4 CY 2019				

New client servicing functionality Continuing client service model Clients transitioned and brand retired

1. Rebatables are tax exempt employers that meet a number of special conditions under FBT legislation. Examples include non-government schools, trade unions and employer associations. Employees of Rebatables can salary package non cash benefits up to a cap and be entitled to a rebate of the gross FBT payable.
2. Public Benevolent Institutions fall under one of two categories for FBT purposes, with hospital employees having a different tax status to employees of all other PBI organisations.

Private new vehicle sales[1] relative to Q1 CY 2018



Increasing volumes in the context of some industry headwinds

Despite a steady decline in private new car sales over 2018 and 2019, Smartgroup has managed to increase its novated lease vehicles under management by 5% to over 68,500 vehicles.

1. Private new vehicle sales data source: VFACTS. Excludes other new vehicle sales categories; Business, Government, Rental, Heavy Commercial.

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Engaging with regulatory change

Following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, there has been an emergence of increased regulatory reforms and changes in community expectations in Australian financial services. This is both a challenge and an opportunity for the novated leasing industry. At Smartgroup, we are committed to continuing to put our customers first in all aspects of our business and to continue to evolve our business to ensure we remain at the highest levels of compliance.

Smartgroup's products and services within its salary packaging administration and novated leasing businesses are underpinned by the associated benefits permitted under taxation laws. Through our ongoing membership of the National Automotive Leasing and Salary Packaging Association (NALSPA), we continue to support initiatives to communicate the macro-economic benefits arising from the existing Fringe Benefits Tax (FBT) policy settings, including the significant role salary packaging plays in the financial wellbeing of thousands of everyday Australians.

Additionally, Smartgroup is dependent on regulated financial institutions, who themselves are subject to a changing regulatory environment, to provide funding for our novated leasing customers. Multi-year contractual agreements are in place with all our funding partners to ensure continued access to funding at competitive terms.

The growth in the business is testament to the exceptional customer service our team delivers every single day, and it has been incredibly rewarding to have led Smartgroup for close to two decades.

I've had the pleasure of working with so many passionate people, none more so than my successor, Tim Looi. I have worked with Tim for over ten years and he has proven to be a very capable operator. Smartgroup is in great shape with more customers and a broader product offering than ever before.

I want to thank all the amazing people who have ever worked for our company; our Board of Directors, our remarkably loyal customers and, of course, our shareholders for all their support over the years. I have a deep sense of gratitude for the opportunities Smartgroup has afforded me. It's been a real pleasure. Thank you so much.



Deven Billimoria
Managing Director and Chief Executive Officer

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Sustainability Report

At Smartgroup, we recognise that our long-term success relies upon the governance and sustainability of our business. We believe in adopting responsible business practices that deliver for our people, customers, shareholders and the community while minimising our impact on the environment.

Our sustainability framework focuses on three core areas:



1. Our People

By creating a diverse, gender-balanced and truly inclusive working environment, we are building a high-performing organisation that leverages diversity for the benefit of our people and customers.



2. Our Environment

We continue to review our operations and look for technology and operational efficiencies to reduce and offset our impact on the environment.



3. Our Community

We are committed to positively contributing to the communities in which we live and operate.

This report outlines our key initiatives and outcomes across the focus areas of our sustainability framework. It highlights how we identify and manage sustainability risks and work with our key stakeholders to improve our collective impact.

This report has been prepared in accordance with the Global Reporting Initiative's GRI Standards: Core option. We have selected disclosures with the greatest material impact to our business, plus some that are important to our stakeholders and us even if not material. A full GRI Content Index is on page 118 of this Report.

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Our People

Recognising that our people are the foundation of operational excellence, Smartgroup's People & Culture team undertook a comprehensive program of work during 2019 to foster a diverse, rewarding and highly engaged culture that benefits employees at every level of the organisation.

86%
of team members believe our work environment is accepting of diverse backgrounds and ways of thinking

62%
of our managers attended mental health and domestic and family violence awareness training

78%
of team members were positive about the Beyond Further program

Highlights

Key 2019 achievements include:

- Recognised as an Inclusive Employer 2019-2020 by Diversity Council Australia
- Implemented our "one company, one team" Beyond Further program
- Developed a capability framework aligned with future-work requirements
- Delivered mental health awareness training, tools and support for managers and team members
- Introduced new team member benefits aligned with our employee value proposition and internal brand
- Introduced a Human Capital Management System to automate the employee lifecycle.



Challenges

The following work is to be carried forward into our 2020 agenda for completion:

- Addressing several areas highlighted in last year's employee engagement survey
- Further automation of processes and systems implementation
- Identification and development of talent.

Our people in 2019

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1. Leadership and culture

Focus area:	2019 achievements:
Deliver initiatives that enhance team member engagement and enablement.	Launched our Beyond Further program, which reinforces and celebrates our organisational essence and customer-centricity through storytelling and team member-led improvement initiatives. As a cornerstone of our brand harmonisation strategy, this program reinforces Smartgroup's values of collaboration, excellence and respect.
	Delivered a new program and cadence for internal communications, supported by visible leadership interactions, following feedback received in our 2018 engagement survey.

2. Future workforce

Focus area:	2019 achievements:
Foster a diverse and inclusive workforce.	Delivered several initiatives guided by our Diversity and Inclusion Strategy, and finalised an agreement to run a pilot job placement program for people who find access to work challenging.
	Recognised by Diversity Council Australia as an Inclusive Employer 2019-2020.
	Commenced our journey to be recognised as an Employer of Choice for Gender Equality, with an application to the Workplace Gender Equality Agency (WGEA) for citation, submitted September 2019.
	Conducted nationwide unconscious bias training and awareness sessions.
Focus area:	**2019 achievements:**
Understand our future work requirements and identify actions to develop and acquire those capabilities.	Developed a future-geared capability framework for all levels of the organisation, to identify and develop skills and capabilities aligned to our strategic deliverables.
	Re-worked our employee value proposition, benefits, employment practices, and communication methods to align with the changing demographic profile of team members.
	Shared our workforce initiatives with our customers and team members (via our annual Client Breakfast series of roadshows) to actively engage all in shared challenges and learnings with the future of work.

3. Safety and wellbeing

Focus area:	2019 achievements:
Improve our safety and wellbeing leadership accountability.	Undertook external audits of safety practices in all Smartgroup locations.
	Commenced work on improving safety of remote team members, including driver safety and lone worker safety.
	Reviewed and implemented changes to our local safety committees to increase empowerment and support of our safety culture.
	Undertook organisation-wide mental health training and awareness sessions for team members and managers, supported by organisational initiatives.



In 2019, our workforce included 661 people in permanent full-time and part-time roles. The figure excludes contractor or agency resources who were employed on a short-term basis to meet specific business needs or project deliverables.

Diversity is essential to a high-performing and customer-centric culture, and our WGEA statistics from March 2019 demonstrate a truly diverse workforce profile at every level of the organisation. Female leadership at a board, senior executive and management level is high, and we look forward to continuing to be an employer role-model when it comes to demonstrating the value and benefits of gender diversity. The representation of women in IT has seen a positive increase and is the result of awareness across the organisation of the importance of gender balance and measuring and monitoring.

Our commitment to attracting and retaining female talent is demonstrated not only in our workforce statistics but in the role we play in the Australian business community,

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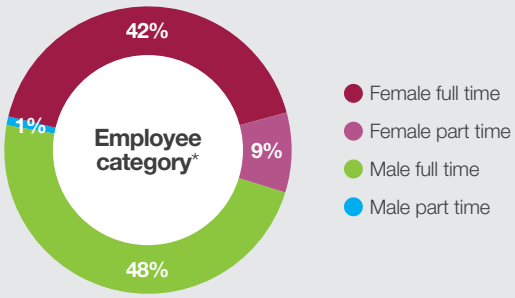
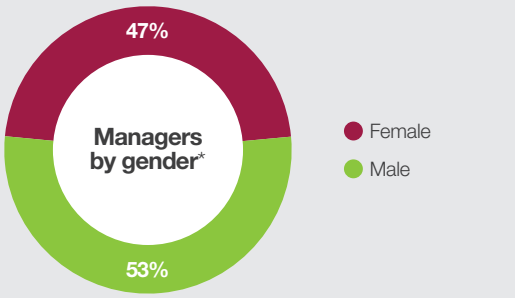
and with our customers and partners. Supporting gender pay equity via our support of women's rugby and hosting a gender equality event for partners and clients at the Sydney Opera House in September are two examples of Smartgroup championing the benefits of diversity externally. Our commitment to attracting and retaining female talent is reflected in our recognition by the Diversity Council Australia as an Inclusive Employer 2019-2020, the first time in Smartgroup's history.

Our workforce profile has remained consistent in 2019. We have focused on catering to the different needs and requirements of the diverse generations in our workforce through our employee value proposition, benefits, flexible work arrangements, career paths, and capability framework.

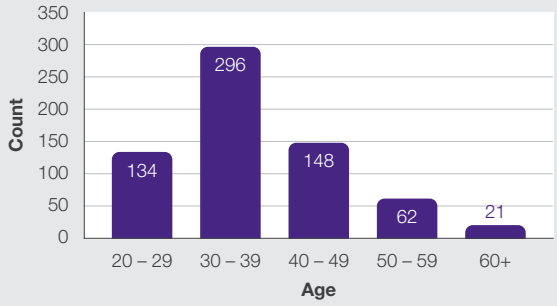
Flexible work options include compressed work weeks, staggered start times, shift work, part time hours, work from home arrangements, paid and unpaid leave arrangements, and the ability for employees to work from remote workplaces with strong technological support that connects colleagues across Australia.

Our Code of Conduct is the foundation of our culture and sets the expected standards for how our team members behave and interact with each other, our customers and other stakeholders. Our Code of Conduct was reviewed in 2019, along with all other people policies, to ensure it captures the cultural and behavioural expectations of our organisation.

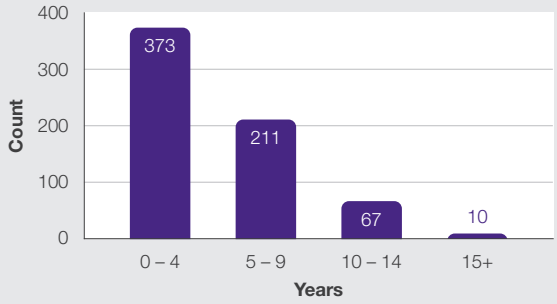




Age profile*



Tenure profile*



The Company has a Whistleblower Policy which was extensively revised in 2019 to comply with the requirements of the Corporations Act and relevant ASIC regulatory guidance. The Company also has an Anti-Bribery and Corruption Policy and an Ethics Policy. These Policies are available on the Company website. Company employees undertake training in relation to their rights and obligations under the Code of Conduct, the Anti-Bribery and Corruption Policy, the Whistleblower Policy and the Ethics Policy.

The Board requires that management creates a culture within the Company which promotes ethical and responsible behaviour. Under its Charter, the Audit and Risk Committee is responsible for receiving and evaluating reports from management about breaches of the Code of Conduct and the Anti-Bribery and Corruption Policy and for receiving and evaluating reports from management about matters reported under the Whistleblower Policy. The ARC is also responsible for encouraging voluntary reporting by employees of breaches of internal controls or company policies having regard to the terms of the Whistleblower Policy.

*Permanent team members as at 31 December 2019.

> **"I feel a sense of inclusion, unlike any other employer. It fills me with pride as I know this is a safe place and I can be myself.**
>
> Daniel Rose, Team Leader – Administration Team, Smartgroup

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Leadership and Culture

Beyond Further

Our *Beyond Further* initiative was launched in early 2019 using feedback from team member focus groups to identify "what makes us tick". From hundreds of stories gathered and celebrated, it was evident that we go beyond further for each other, our teams, our customers, suppliers, and partners.

Going *Beyond Further* is the cornerstone of our organisational culture and has been brought to life by the relaunch of this internal brand, and the creation of Beyond Further supergroups, comprising team members from around Australia to create and embed *Beyond Further* practices in the workplace. In 2020, the *Beyond Further* initiative will enter a second phase and involve renewing our values for all our brands – the first time this has been done since the acquisition of many of our businesses. This reflects the maturing of Smartgroup as an employer, and the continued emphasis we place on culture as the foundation for customer excellence and employee satisfaction.

Engagement and change

Our annual engagement survey was conducted in December 2019 by external provider, Kincentric, to enable benchmarking against Australia's best employers and to ensure unbiased statistical data from which to draw conclusions and take appropriate actions. Our engagement score is consistent with our 2018 results and we have seen positive shifts in the areas that we focused on in 2019. Diversity and inclusion, improved manager and team member feedback and interaction, flexible work and more effective internal communication were all achieved.

Communication, consultation and conversation

The relaunch of our employee communication framework was positively received, as indicated by team member feedback and our 2019 engagement survey. Interactive monthly town halls (The Loop) held across the company, a refreshed fortnightly e-newsletter (Groupvine), monthly team meetings and monthly agile performance conversations via manager and team member one-to-ones have positively improved information, awareness and feedback, consistent with our "one company, one team" approach. In 2019, we conducted 53 People and Culture Roadshows in our five key hubs, all of which centred on our engagement survey commitments and *Beyond Further* program.

In 2020 our focus will be increased visibility of senior leadership in fostering aligned communication with team members.





Photo credit: Koomurri Aboriginal Dance Troupe

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Future Workforce

Diversity and inclusion

Our commitment to creating and sustaining a diverse and inclusive culture, where every person feels valued, respected and welcome at Smartgroup, has been a priority in 2019. Our dedication to this commitment has yielded great outcomes that have benefited our team members and customers, and positively impacted the culture of the organisation.

Being recognised by Diversity Council Australia as an Inclusive Employer 2019-2020, is a significant organisational milestone. Setting an ambitious diversity strategy led us to submit our application for citation as an Employer of Choice for Gender Equality through WGEA in September 2019, with results expected to be known in February 2020.

Our diversity focus has not been limited to gender. We conducted unconscious bias awareness training and education sessions, and held many events and celebrations to embrace all aspects of diversity, including Harmony Day, Lunar New Year, Disability Awareness Day with guest speaker Nas Campanella, PRIDE Month, NAIDOC week, International Women's Day, and Men's Health Month.

In 2020, we will commence a pilot program that will provide opportunities for employment at Smartgroup for job seekers who find accessing work challenging. This will further embed our cultural commitment to organisational inclusiveness.

Capability and contribution

The development of our bespoke Capability Framework and Leadership Narrative in 2019 was undertaken to ensure our current and future team members have the skills required to meet the strategic deliverables of Smartgroup and be "future-ready" for the changes and challenges in our industry and employment and society generally. Embedding the framework through our employee lifecycle will enable us to deliver on our commitment to team members to grow their personal and professional capability during their tenure at Smartgroup.



Safety, Health, Wellbeing

Workplace Health and Safety (WHS) Committees

Smartgroup has in place committees to ensure that consultation and communication of safety and wellbeing issues are prioritised and supported, across all locations and levels of the business. Active and empowered WHS committees support the strategic direction for Smartgroup's safety and wellness.

Wellbeing

Ensuring the wellbeing of our people is essential for a high performing, engaged team. Acknowledging the imperative of life/work balance and supporting mental health during 2019 have been key achievements. National mental health programs – training and awareness, supported by initiatives like R U OK Day and Stress Down Day coupled with the active promotion of our Employee Assistance Program – have been integral to our focus on wellbeing. The launch of our Wellness Reimbursement benefit – where team members can be reimbursed by the company to the value of $295 each year for any wellness activity or expenditure – demonstrates our commitment to helping team members improve their health and wellness.

Safety initiatives

A comprehensive safety review of all Smartgroup offices by an independent provider was conducted in 2019. From this review, we have prioritised lone worker safety, driver safety and embedding safety as a core part of manager responsibilities for 2020.

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Our Environment

Smartgroup is committed to operating sustainably, with a focus on positive environmental outcomes to deliver long-term growth and benefits to the communities we serve. As an administrative services company, Smartgroup has a relatively small environmental footprint, primarily from employee travel, energy usage and materials consumed in our offices.

Smartgroup recognises the importance of continually monitoring and improving its operations to reduce environmental impact and deliver sustainable value to our stakeholders.

Reducing the carbon footprint of vehicles under management

Smartgroup manages vehicles for both our novated leasing customers and our fleet customers and undertakes different initiatives in each area to promote responsible and sustainable environmental practices in connection with those vehicles.

Novated leasing

Novated leasing is available for electric, hybrid and traditional petrol and diesel cars. In our novated leasing business, we cannot direct or control the type of vehicle that our customers choose to purchase. However, we can help our customers manage and offset the environmental impact of the vehicle that they choose to own.

Our Purple Meets Green program, with our carbon offset partner, Greenfleet, is now in its 11th year. Greenfleet aims to reduce the impact of climate change by restoring native biodiverse forests in Australia and New Zealand.

In 2019, contributions from Smartgroup and our customers funded the planting of 310,730 trees across various sites in Victoria, New South Wales and Queensland. These trees will sequester 83,244 tonnes of carbon in their lifetime. Since 2008, our partnership with Greenfleet has contributed to the planting of 2.4 million trees, which will sequester over 640,000 tonnes of carbon in their lifetime.

In keeping with long-standing tradition, our team members were personally involved in tree planting with Greenfleet in 2019. There were over 700 trees planted in New South Wales by Smartgroup team members. In Lake Connewarre Victoria, we had 3 team members contribute to the planting of over 1,000 trees in the one day.

Fleet management

In our Smartfleet business, we continue to facilitate the efficient use of vehicles in workplaces with the following initiatives that reduce unnecessary vehicle utilisation and contribute to a reduction in our clients' environmental footprint.

- **Smart vehicle allocation** – Pool Vehicle Booking is a powerful online tool that maximises the usage and availability of vehicles, reducing trip duplication and identifying excess vehicles, saving time and money and ultimately reducing the environmental impact of the fleet.
- **Car sharing** – Smartfleet has partnered with DriveMyCar to provide a simple on-demand car-sharing service to help organisations reduce both the cost and carbon footprint associated with running a fleet.



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Increasing efficiencies to reduce air travel

With a network of offices in most states and a large remote-based team, air travel is essential to the running of our business. However, we are committed to reducing the impact of work-related air travel on the environment. In 2019, flights undertaken by Smartgroup employees generated 454.17 tonnes of carbon dioxide, which is 244.11 less than in 2018. Through our ongoing partnership with Greenfleet, we once again offset 100% of the annual carbon emissions from work-related air travel.

Over the past year, Smartgroup has increased its reliance on video conferencing technology to connect our office-based and remote team members, which has allowed us to provide for greater flexibility and workplace efficiency. This is an ongoing project with further roll-out planned for 2020, that is expected to have a further positive impact on our travel-related spend and carbon footprint.

Responsible environmental management in our day-to-day operations

Smartgroup is conscious of the environmental impact of our day-to-day operations. We continue to optimise processes by improving our online offering and making it easier for our customers to interact with us digitally, reducing the waste created by paper forms and documents.

We also facilitate waste separation and recycling in each of our offices nationally. In 2019, we reviewed our printing volumes and implemented initiatives to reduce the amount of paper and by-products used to print. Total carbon emissions from printed materials are reported in the Corporate Sustainability Scorecard on page 29. All paper used for printing in our offices is made from recycled paper or from sustainably managed forests.

Smartgroup utilises “Find Me Queue” printing management, so that documents can only be printed by employees by scanning their security passes at the relevant printer. This reduces unnecessary printing of documents and improves printing security.

Reducing our energy consumption

In 2019, Smartgroup further reduced the number of operational offices from seven to six, which contributed to a reduction in our electricity usage and carbon emissions. This trend held up despite Smartgroup acquiring three businesses during the financial year.

In 2019, Smartgroup again engaged BidEnergy to assist in collecting data to allow Smartgroup to measure its electricity usage and emissions for our offices around Australia. Our electricity emissions are reported in the Corporate Sustainability Scorecard on page 29.

We calculate emissions based on two major types of energy use:

- energy used to power our offices – use of grid electricity and use (Scope 2 emissions)
- energy used in transporting employees for work related travel, from air travel and land travel (Scope 3 emissions).

Our office energy use consists of the energy used by and charged to each tenancy, covering lighting, computers, monitors, services, phones etc. It does not include the base building energy use (being the energy used by the building owner for lifts, heating and cooling and central lighting) as we cannot control this usage and do not have access to this information. We do not report energy use or emissions resulting from employee commuting, goods and services purchased from suppliers (eg landlords, IT hardware providers) or waste.

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Our Community

Smartgroup is committed to giving back to the communities in which we live and operate. In 2019, we continued to support community and charity organisations directly and via employee-led activities.

Smartgroup Foundation

This year, we were proud to formally launch the Smartgroup Foundation, which made its first grants in 2019.

Smartgroup team members told us they would like the Foundation to focus on projects that support:

- Animal welfare
- Children's illnesses and disabilities
- Mental illness
- Children and families at risk
- Cancer
- The environment.

Smartgroup Foundation

The grants were made to support the following worthy projects in the community:



Sydney Dogs and Cats Home
To support the purchase of new dog and cat beds for the facility.



Maddie Riewoldt's Vision
To support research into Bone Marrow Failure Syndrome.



Second Chance Animal Rescue
To support the Second Chance Outreach Program, an initiative established to support the disadvantaged in our community to love and care for their companion animals.



Youth Futures WA
To support The Nest project, which provides intensive support to young parents who are at risk of losing custody of their baby because they are experiencing homelessness or are living in unsuitable conditions.

We are proud to support the incredible work done by each of these inspirational organisations and look forward to supporting other worthy projects in 2020.

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Sport

Queensland Reds

In its third year, Smartgroup's partnership with the Queensland Reds is going from strength to strength. Through this partnership, we have provided unique opportunities to clients, school children and young people to participate in the sport of rugby and engage with elite sporting role models.

Australian Wallaroos and Super W

Following a very successful first year as a major partner of the Australia Wallaroos and the inaugural Super W domestic competition, Smartgroup is proud to be contributing to the advancement of women's sport and the professional growth of rugby players through these partnerships. Working with Rugby Australia, we have had the opportunity to connect female role models with clients, school children and other young women.







Arts

Opera Australia

Smartgroup expanded its partnership program in 2019 with the inclusion of Australia's largest arts company, Opera Australia. Beyond the opportunity to reach new and existing customers in Australia's metropolitan areas, it enables us to give something significant back to the regional communities in which we operate.

At the centre of this two-year partnership is our support for Opera Australia's regional and schools programs. In 2019 the Opera Australia Regional Tour took *Madame Butterfly* to 20 locations across Far North Queensland, the Northern Territory, Western Australia and South Australia. This program will tour again in 2020, taking *Carmen* to regional New South Wales, Victoria, Australian Capital Territory and Tasmania. The Opera Australia schools program brings delightful performances like *The Barber of Saville* to over 150 primary schools in New South Wales and Victoria, reaching over 70,000 children a year.

Schools Spectacular

Smartgroup has enjoyed a long partnership with the NSW Department of Education, providing salary packaging administration and novated leasing services to its employees since 2006.

In 2019, we extended our involvement to include supporting the annual Schools Spectacular event at Qudos Bank Arena in November. More than 5,500 students from over 370 schools took part in the production, delivering an unforgettable performance to thousands of attendees.





Local and global communities

PCYC QLD

This year has seen a three-year extension and expansion of Smartgroup's partnership to all PCYC QLD Indigenous Programs. In 2019, this included the funding of two additional Catch Me If You Can programs to the Mareeba and Yarrabah communities in Far North Queensland and being the major partner for the Bunburra and Culture Corroboree Series and Touch Football Tournament, which brought 31 Indigenous communities together on the Gold Coast in October.

UN Women Australia

The longstanding partnership between Autopia and UN Women Australia was extended in 2019 with the entire Smartgroup organisation coming on board to support UN Women Australia. Fundraising and support by Smartgroup included hosting tables at UN Women Australia's International Women's Day Breakfasts in Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra. Smartgroup also continued its tradition of matching donations up to $5,000 to help the UN Women Australia Tax Appeal reach their target of $60,000.

Supporting our clients and their people

As part of our commitment to supporting our clients and their people, Smartgroup has partnered with many of our clients to support their initiatives, including employee educational scholarships, employee award days, employee wellness days, and Christmas appeals.

Supporting team members and community causes

Throughout 2019, Smartgroup management and employees supported several team member-initiated activities for worthy causes. Team members chose awareness and fundraising activities, and food and gift collections to support the likes of Cancer Council, Men's Health Week, Lifeline Stress Down Day, Jeans for Genes Day, Steptember for the Cerebral Palsy Alliance, R U OK Day and the McGrath Foundation.

From 2020, Smartgroup will be rolling out two 'Make a Difference' days for all team members to choose to take time away from work to support a cause that matters to them.

Promoting sustainable and ethical supply chain management

81% of our annual supplier spend is in relation to our engaged providers of IT, facilities, contractors and temporary staff, consulting and specialist advice, business development and marketing. These make up our largest supply agreements and are overseen by the relevant Executive and by our Finance team. The remaining 19% of supplier spend is in relation to smaller, regular products and services or one-off requirements. In 2019, we implemented a Group Procurement Policy, overseen by Finance, to govern our procurement decisions for third party supplied products and services at a group level. The key objectives of the Policy are to achieve value for money; encourage sustainable competition; demonstrate probity, ethical behaviour and accountability; make efficient and effective use of resources and mitigate supplier risk.

Smartgroup does not tolerate or support the use of forced or compulsory labour, and we extend this approach through all areas of our supply chain. Smartgroup has a structured approach to Modern Slavery, as follows, that ensures both Smartgroup as well as our suppliers, operate a sustainable and ethical supply chain and to help protect against Modern Slavery. We are working with our employees and our suppliers to extend our Modern Slavery obligations and impact in the following areas:

1. **Policy** – incorporation of Modern Slavery obligations into our policies and work practices.
2. **Education** – Working with our staff and our suppliers to educate them on the impacts of modern slavery.
3. **Assurance** – defining the risk profile in our supply chain, prioritising risk areas and proactively engaging with our suppliers to confirm their compliance.

To date, Smartgroup has incorporated Modern Slavery into our Group Procurement Policy and has defined standard compliance terms and conditions that will be incorporated into all our new supplier contracts and existing supplier contracts upon renewal. We are required by the Modern Slavery Act in Australia to issue a Modern Slavery Statement and our first report will be issued in June 2021 and will cover the 2020 financial year.

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Corporate Sustainability Scorecard

	2019	2018
People		
Headcount	**762**	752
Full time equivalents (FTEs)	**689**	695
Number of permanent employees	**661**	670
Permanent employees who are female (%)	**51%**	50%
Number of full time permanent employees	**594**	605
Full time employees who are female (%)	**47%**	46%
Number of part time permanent employees	**67**	65
Part time employees who are female (%)	**90%**	83%
Number of fixed term/temp/casual employees	**100**	82
Fixed term/temp/casual employees who are female (%)	**55%**	60%
Employee Engagement score (%)	**52%**	55%
Employee participation in the engagement survey	**79%**	76%
Eligible employees receiving annual performance reviews (%)	**100%**	100%
Team members eligible to participate in training and development (%)	**100%**	100%
Safety incidents per FTE (total)	**0.07 (45)**	0.08 (59)
Lost time injury frequency rate (injuries/million hours worked)	**3.24**	2.83
Absenteeism (%)	**2%**	2%
Risk Culture score (risk awareness, values and behaviours) (%)	**74%**	66%
Parental leave		
Number of employees who took parental leave	**F 31 M 20**	F 40 M 11
Number of employees who returned to work after leave	**F 21 M 19**	F 28 M 5
Employee share ownership		
Employee share plan participation rate (% of eligible employees)	**54%**	63%
Number of employee shareholders (via share plan)	**422**	422
Employee gender diversity		
Board	**F 25% M 75%**	F 14% M 86%
Executive	**F 43% M 57%**	F 38% M 62%
Senior Management	**F 47% M 53%**	F 46% M 54%
All employees	**F 51% M 49%**	F 51% M 49%
Environment		
Electricity – total consumption (kwh)	**557,707**	690,207
Electricity (tonnes CO_2-e per FTE)	**0.65**	0.78
Air travel (tonnes CO_2 per FTE)	**0.66**	1.00
Land travel (tonnes CO_2-e per FTE)	**0.25**	0.31
Printed material (tonnes CO_2-e total)	**2,437**	2,073
Customers		
Smartsalary and Smartleasing		
Net Promoter Score (average monthly score)	**46%**	47%
Customer complaints (as a percentage of total customers)	**0.74%**	1.02%

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Governance and risk

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 (at ir.smartgroup.com.au/Investors/?page=Corporate-Governance).

Risk management

Smartgroup recognises risk management as an integral part of good corporate governance and fundamental in achieving its strategic and operational objectives. The Board is responsible for approving policies and overseeing the management of financial and non-financial (including economic, environmental and social sustainability) risks. The Board is also responsible for reviewing, ratifying and monitoring management's framework and systems of risk management, internal controls and compliance.

Smartgroup has a Risk Management Policy (available at ir.smartgroup.com.au/Investors/?page=Corporate-Governance) and a Risk Management Framework in place to identify, assess, manage and report risks on a consistent and reliable basis in accordance with the risk appetite and tolerances set by the Board. The Risk Management Framework was reviewed and updated in 2019 and requires each business function to manage the risks associated with its activities.

The Board regularly discusses all economic, environmental and social sustainability risks that it considers are likely to have a material effect on the Company's financial performance or value over the short, medium and long term. All relevant risks are included and categorised on Smartgroup's risk register and are closely analysed in detail by the Board and Audit and Risk Committee. Like all businesses, the Company is subject to economic risks, including any downturn in the economy and the effect it could have on customers and their businesses.

The Board considers that a primary risk to the Company's business are changes to the relevant Fringe Benefits Tax (FBT) legislation or legislation impacting the sales and distribution of insurance in connection with vehicles, and accordingly these risks are closely monitored. Another particular risk for the Company is any decline in new private car sales. Similar to other companies, Smartgroup is exposed to the risk of business disruption caused by loss of key staff, failure of IT systems and cyber-attacks. The Company is constantly reviewing these risks, which are a matter for regular discussion by the Board.

Climate change risks can arise in several categories, such as regulatory, technological, market, and reputational. The Company is exposed to climate change risks associated with the ownership of vehicles, since any climate change legislation or government intervention which affects the cost or attractiveness of private vehicle ownership could, in turn, have an impact on Smartgroup.

The Board considers that Smartgroup can continue operating in a manner that does not unduly compromise the environment in which it operates over the long term. The Board further considers that Smartgroup can continue operating in a manner that meets accepted social norms and needs over the long term.



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Stakeholder engagement

Smartgroup identifies our key stakeholders as those who have the greatest impact in our business, or who are most impacted by our activities. To ensure we focus on the issues that matter most to our stakeholders we regularly engage throughout the year with stakeholders and ensure that the feedback is appropriately shared within the company. Engaging with different stakeholder groups provides us with a better understanding of their needs and expectations and allows us to effectively develop our strategy to ensure we continue to operate at the highest levels of compliance whilst striving to exceed the needs and expectations of all stakeholders.

The following table outlines our approach to engagement with each of our key stakeholder groups:

Customers and clients	
Stakeholder engagement: NPS surveys, customer service interactions, regular scheduled meetings with employer clients.	**Stakeholder interests and key topics:** Customer feedback on various products and services.
Employees	
Stakeholder engagement: Direct contact, intranet, internal newsletters, 'The Loop' business briefings, engagement and risk culture surveys, periodic reviews, HR roadshows.	**Stakeholder interests and key topics:** Business results and strategy, employee related policies and change, development and training.
Shareholders and investors	
Stakeholder engagement: Direct contact with Investor Relations team, shareholder meetings, financial results briefings, website, Annual Report.	**Stakeholder interests and key topics:** Corporate results and strategy, ESG initiatives.
Suppliers	
Stakeholder engagement: Business meetings, direct contact, performance reviews, periodic audits, dedicated portals for certain supplier groups.	**Stakeholder interests and key topics:** Procurement Policy and service requirements.
Government and regulators	
Stakeholder engagement: Engagement through industry associations, NALSPA and AFIA; direct engagement through attendance at conferences and meetings.	**Stakeholder interests and key topics:** Managing through regulatory change.
Local communities	
Stakeholder engagement: Assistance of community projects via Smartgroup Foundation, donations and community based sponsorships.	**Stakeholder interests and key topics:** Support for community projects and employment in regional areas.

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Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the Group) consisting of Smartgroup Corporation Ltd (referred to hereafter as the Company or parent entity) and the entities it controlled at the end of, or during, the financial year ended 31 December 2019.

Directors

The following people were Directors of the Company during the financial year and up to the date of this report. Each Director held that position from the start of the financial year until the date of this report, unless otherwise stated:

Michael Carapiet
Deven Billimoria
John Prendiville
Gavin Bell
Andrew Bolam
Ian Watt
Deborah Homewood
Carolyn Colley (appointed 15 March 2019)

Principal activities

During the financial year, the principal activities of the Group consisted of outsourced employee benefits and administration services, being primarily salary packaging, novated leasing, fleet management, share plan administration, payroll administration and workforce optimisation services.

Dividends

Dividends paid during the financial year were as follows:

Consolidated	2019 $'000	2018 $'000
Final dividend for the year ended 31 December 2018 of 21.0 cents (2017: 18.5 cents) per ordinary share	27,446	24,154
Special dividend for the year ended 31 December 2019 of 20.0 cents per ordinary share	26,300	–
Interim dividend for the year ended 31 December 2019 of 21.5 cents (2018: 20.5 cents) per ordinary share	28,305	26,855
	82,051	**51,009**

On 19 February 2020, the Directors declared a fully franked final dividend for the year ending 31 December 2019 of 21.5 cents per share. The final dividend will be paid on 16 March 2020 to shareholders registered on 2 March 2020 resulting in a total distribution of $28,300,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2019 financial statements, and will be recognised in subsequent financial reports.





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Review of operations

The Group's profit after income tax expense for the year amounted to $61,449,000 (2018: $59,286,000). Refer to the Chairman's Report and the Managing Director and CEO Report for further commentary.

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 three new businesses as described below.

Significant changes in the state of affairs of the Group

During the financial year, the Group acquired the novated leasing assets of iNovation Pty Ltd (Mylease), as well as the salary packaging and novated leasing business of SET Leasing Pty Ltd and Pay-Plan Pty Ltd (collectively Pay-Plan) and the novated lease business of Lease & Asset Finance Pty Ltd for an aggregate of $9,986,000 in cash. There were no other significant changes in the state of affairs of the Group during the financial year.

Smartgroup's insurance underwriting partner has advised Smartgroup that it intends to change the terms of the insurance products sold by Smartgroup. It is expected that the unmitigated financial impact of the changes will be a reduction in Smartgroup's after-tax profits of approximately $4 million for each half year. The implementation date for the change is expected to be 1 July 2020.

Matters subsequent to the end of the financial year

There are two ongoing regulatory reviews from the Australian Securities and Investments Commission (ASIC) and the Australian Department of Treasury (Treasury) which have the potential to impact the future contribution Smartgroup receives from add-on insurance products[1].

In October 2019, ASIC released a consultation paper *CP324: Product Intervention: The sale of add-on financial products through caryard intermediaries*. Submissions were provided by 12 November 2019 since which point ASIC has not provided an update.

On 31 January 2020, Treasury released its paper entitled *Financial Services Royal Commission – Enhancing consumer protections and strengthening regulators* which includes exposure draft legislation for public comment to be introduced into Parliament by mid-2020. This includes recommendations associated with the provision of add-on insurance with a consultation process open until 28 February 2020.

Smartgroup will continue to consult with both ASIC and Treasury in relation to proposed reforms.

After adjusting for the insurance underwriter changes announced in December 2019, Smartgroup estimates that it generates ~$17m[2] revenue per annum from the sale of add on insurance products expected to be covered by the ASIC and Treasury reviews. Given the draft nature of the recommendations, the range of possible outcomes and potential steps Smartgroup might take to mitigate any impact, Smartgroup is not yet able to provide specific detail on the quantum and timing of any such impacts, and whether or not they will be material.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Group and the expected results of those operations are contained in the Managing Director and CEO Report on page 10.

Environmental regulation

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

1. Add-on insurance recommendations include Recommendation 4.3 – Deferred sale model for add-on insurance and Recommendation 4.4 – Cap on vehicle dealer commissions.
2. Aggregate revenue from sales of Lease Protection Insurance, Platinum Warranty Insurance, Tyre and Wheel Insurance and Total Assist Insurance. Does not include revenue from Comprehensive Insurance and other products that are not expected to be covered by the proposed Treasury reforms.

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.

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Michael Carapiet
Chairman and
Non-Executive Director

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

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

Former directorships (last three years): None
Special responsibilities: Member of ARC, HRRC and ITIC
Interests in shares: 2,201,956
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' experience in financial and general management. He is currently a Director and the Chief Financial Officer of Media Innovations Holdings Pty Ltd, the operator of the Fetch TV business in Australia. Andrew previously held several senior roles in the Usaha Tegas Group of Companies including Benaris International Pty Ltd (oil and gas), Usaha Tegas Sdn Bhd (diversified investment), Bumi Armada Berhad (offshore oil and gas services) and Astro All Asia Networks plc (pay TV). Andrew's earlier career included senior roles with the Shell Group of Companies in Australia and Malaysia.

Former directorships (last three years): None
Special responsibilities: Member of ARC and Member of ITIC
Interests in shares: 257,760
Interests in options: None



Deven Billimoria
Chief Executive Officer and
Managing Director

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

Experience and expertise: Deven has worked with Smartgroup for almost 20 years. He was appointed Managing Director and CEO of Smartgroup Corporation in 2014. Before that, Deven was Managing Director and CEO of Smartsalary Pty Ltd, a position he held from 2001. Deven began his career as an engineering consultant, before moving to management consulting with Booz Allen Hamilton.

Former directorships (last three years): None
Special responsibilities: None
Interests in shares: 2,300,000
Interests in options: 978,837



Deborah Homewood
Non-Executive Director

Qualifications: Deborah completed her registered nurse training at St Andrew's Hospital (Qld), as well as a Master of Management at Macquarie Graduate School of Management.

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

Former directorships (last three years): None
Special responsibilities: Member of ITIC and Member of HRRC
Interests in shares: 6,618
Interests in options: None

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Ian Watt AC
Non-Executive Director

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

Experience and expertise: Ian worked for nearly 20 years at very senior levels of the Australian public service. His most recent appointment was as Secretary of the Department of Prime Minister and Cabinet and head of the Australian Public Service, a position he held from 2011 to 2014. Before 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 chair of the International Centre for Democratic Partnerships, the ADC Advisory Council, and the Australian Governance and Ethical Index Fund Advisory Board. Ian is also on the Board of Citibank Pty Ltd, the Grattan Institution, EnviroPacific Services Pty Ltd, the Committee for Economic Development, and a Member of the Council of the Australian National Maritime Museum. He is a Senior Advisor to Flagstaff Partners.

Former directorships (last three years): Non-Executive Chairman of BAE Systems Australia from July 2016 to February 2019.
Special responsibilities: Chairman of ITIC and Member of ARC
Interests in shares: 83,522
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 a 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 (and member of the Audit and Risk Committee) of the University of Notre Dame. John is also a material shareholder and director of 1300 Australia Pty Limited, a provider of telecommunication services to the SME space, and GetCapital Pty Ltd, a rapidly growing provider of finance to the SME space in Australia. Previously, John held numerous senior roles at Macquarie Group, where he worked for 20 years until his departure in 2011.

Former directorships (last three years): None
Special responsibilities: Chairman of ARC and Member of HRRC
Interests in shares: 655,000
Interests in options: None



Gavin Bell
Non-Executive Director

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

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

Former directorships (last three years): None
Special responsibilities: Chairman of HRRC and Member of ARC
Interests in shares: 77,650
Interests in options: None



Carolyn Colley
Non-Executive Director
Appointed 15 March 2019

Qualifications: Ms Colley holds a Bachelor of Economics from Macquarie University and a Diploma of Applied Finance and Investment. She is a Fellow of Chartered Accountants Australia and New Zealand and a Graduate of the Australian Institute of Company Directors.

Experience and expertise: Ms Colley is currently Chief Operating Officer and co-founder of Faethm, a global analytics SaaS platform. Previously, she was CEO of Decimal Software Ltd, and before that she held senior executive roles at Macquarie Bank, St. George Bank and BT Financial Group. Ms Colley is also an independent non-executive director of OnePath Custodians Limited and Oasis Fund Management Limited, both wealth businesses of ANZ.

Former directorships (last three years): None
Special responsibilities: Member of HRRC and Member of ITIC
Interests in shares: 3,000
Interests in options: None

Note: former directorships (last three years) quoted above are directorships held in the last three years for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.



Company secretaries

Chief Legal Officer and Company Secretary
Sophie MacIntosh was appointed as Chief Legal Officer on 7 November 2016 and was appointed Joint Company Secretary on 13 December 2016. Sophie is an experienced legal and governance professional with over 20 years' experience gained working in global law firms specialising in all aspects of corporate and commercial law. Sophie holds a Master of Laws from the University of Sydney and a Bachelor of Business and a Bachelor of Law from the University of Technology Sydney and is a member of the Australian Institute of Company Directors.

Company Secretary
Jonathan Swain was appointed Company Secretary effective 19 August 2019. Jonathan is a Senior Company Secretary with Company Matters Pty Ltd. He has previously worked in a range of legal, company secretarial and management roles. Jonathan is admitted as a solicitor in New South Wales, is a Fellow Member of the Governance Institute of Australia and a Graduate of the Australian Institute of Company Directors.

Meetings of Directors

The number of meetings of the Company's Board of Directors and each Board committee held during the year ended 31 December 2019, and the number of meetings attended by each Director were as follows:

	Full Board		Audit and Risk Committee		Human Resources and Remuneration Committee		IT and Innovation Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Michael Carapiet	17	17	1	1	3	3	3	3
Deven Billimoria	17	17	–	–	–	–	–	–
Gavin Bell	14	17	4	4	2	3	–	–
Andrew Bolam	17	17	4	4	–	–	3	3
Carolyn Colley	13	15	–	–	1	1	2	2
Deborah Homewood	17	17	–	–	3	3	3	3
John Prendiville	16	17	3	4	3	3	–	–
Ian Watt	17	17	4	4	–	–	3	3

Note: the column headed Held represents the number of meetings held during the time the Director held office or was a member of the relevant Committee

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Remuneration Report

The Remuneration Report describes the remuneration arrangements for the Key Management Personnel of the Group (KMP) for the year ended 31 December 2019. The Remuneration Report has been prepared in accordance with requirements of section 300A of the *Corporations Act 2001* and has been audited.

Introduction

The Remuneration Report is designed to provide shareholders with an understanding of Smartgroup's remuneration philosophy and strategy and the principles used to determine KMP remuneration for the year ended 31 December 2019.

At the AGM held in May 2019, the 2018 Remuneration Report received strong support from shareholders, with more than 99% of votes in favour of the resolution to adopt it.

Key Management Personnel

The names and titles of the KMP during the year ended 31 December 2019 are set out below. On 18 November 2019, the Company announced that Managing Director and CEO, Deven Billimoria would retire at the end of February 2020 and that Tim Looi would be appointed to that role effective from Mr Billimoria's retirement.

Name	Title	KMP for full year or part year
Non-Executive Directors:		
Michael Carapiet	Chairman and Non-Executive Director	Full year
Gavin Bell	Non-Executive Director	Full year
Andrew Bolam	Non-Executive Director	Full year
Carolyn Colley	Non-Executive Director	Part year – commenced 15 March 2019
Deborah Homewood	Non-Executive Director	Full year
John Prendiville	Non-Executive Director	Full year
Ian Watt	Non-Executive Director	Full year
Continuing Executive KMP:		
Deven Billimoria	Managing Director and Chief Executive Officer	Full year
Tim Looi	Chief Financial Officer	Full year
Sarah Haas	Chief Executive – Salary Packaging	Full year
Sophie MacIntosh	Chief Legal Officer	Full year
Executives that ceased to be KMP during the year:		
Dave Adler	Chief Executive – Novated Leasing and Fleet	Part year – ceased 1 August 2019
Clarence Yap	Chief Information Officer	Part year – ceased 31 January 2019

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Remuneration strategy

Smartgroup's remuneration strategy:

- focuses the Executive KMP on sustained growth in earnings for interest, tax, depreciation and amortisation of intangibles adjusted to exclude significant non-operating items (EBITDA) and net profit after tax, adjusted to exclude the non-cash tax effected amortisation of intangibles and significant non-operating items (NPATA), and key non-financial drivers of value and 'risk management
- is intended to attract, motivate and retain high-calibre executives who are critical to the organisation's growth and success
- rewards team and individual performance, capability and experience
- reflects competitive rewards for contributing to growth in shareholder wealth
- provides a clear structure for earning rewards.

This year, Smartgroup has also focused on the alignment of remuneration and benefit policies across all brands, and increasing employee engagement and wellbeing through the implementation of our "one company, one team" *Beyond Further* program: the delivery of mental health awareness education, tools and support for managers and team members.

Key principles used to determine the nature and amount of remuneration

The Board ensures that the remuneration of the Executive KMP is:

- set in a way that is consistent with the strategy outlined above
- competitive but reasonable, and acceptable to shareholders
- transparent and clearly aligned to performance.

The Board has a Human Resources and Remuneration Committee (HRRC), whose role includes assisting the Board in fulfilling its corporate governance responsibilities, and reviewing and recommending 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 consistent with the reward strategy of the Group.

Following corporate governance best-practice, separate structures apply to the remuneration of Non-Executive Directors and executives.

Non-Executive Directors' remuneration

Fees and payments to Non-Executive Directors reflect the time committed by, 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 the amount fixed by the Company in a general meeting. 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.

The limit on the aggregate remuneration for Non-Executive Directors was increased from $1,150,000 to $1,300,000 by a resolution passed at the AGM in May 2019. Any further increase to the aggregate annual sum referred to above would require further approval by shareholders.

The fees (exclusive of superannuation) paid to the current Non-Executive Directors are:

- $230,000 per annum for the Chairman
- $100,000 per annum for each other Non-Executive Director.

In addition to the above:

- the Chair of the Audit and Risk Committee is paid $25,000 per annum
- each other member of the Audit and Risk Committee is paid $12,500 per annum
- the Chair of the Human Resources and Remuneration Committee and the IT and Innovation Committee are paid $20,000 per annum
- each other member of those Committees is paid $10,000 per annum per Committee.

The fees paid to the Chairman, Michael Carapiet, were increased from $210,000 to $230,000 in October 2019 on the basis that the Chairman would no longer receive separate fees for acting as a member of the Board Committees on which he serves. The total fees received by the Chairman, therefore, are unchanged, although he now serves as a member of all three Board Committees rather than two Committees on which he served until October 2019.

In addition to the fees, superannuation contributions and GST, if applicable, are paid in each case. There are no retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

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Executive KMP remuneration

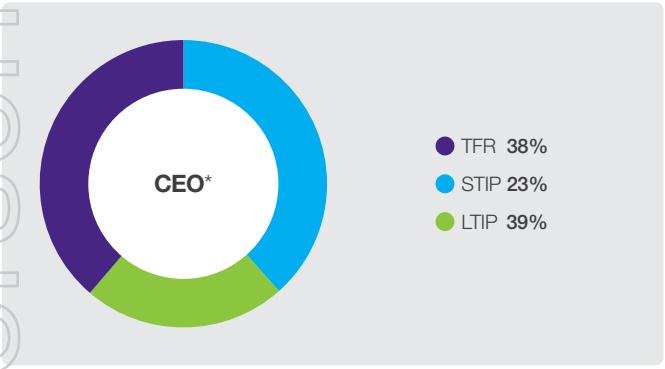
The Group aims to reward Executive KMP with a level and mix of remuneration based on their position, responsibility and performance. This remuneration has both fixed and variable components.

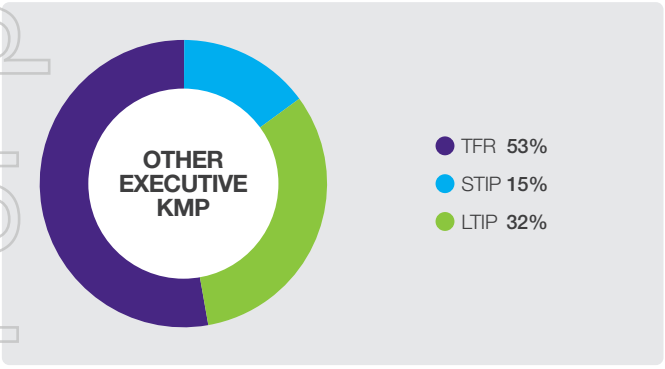
The Executive remuneration and reward framework consists of four components:

- total fixed remuneration (TFR) comprising base salary, superannuation and non-monetary benefits
- short-term performance incentives (STI)
- long-term performance incentives (LTI)
- other statutory entitlements such as long-service leave.

In alignment with its remuneration strategy, the Board's policy is to structure remuneration for Executive KMP so that it includes both a fixed component and an at-risk or performance-based component (comprising a combination of STI and LTI), such that a significant part of the Executive's total remuneration is at risk.

The two charts below show the relative proportions of TFR, STI and LTI for the CEO and the other Executive KMP for the year ended 31 December 2019 that would have been payable if each Executive had achieved their maximum STI and LTI entitlement for the year and excludes any accelerated vesting and end of service benefits:





How the components of each Executive KMP's remuneration is determined is outlined below.

Total Fixed Remuneration

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

Short term incentives

The Executive KMP are eligible to participate in the Company's Short Term Incentive Plan (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 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. Also, data from competitors is 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 set every year as a percentage of their total fixed annual remuneration. In 2019, this target was 60% of total fixed annual remuneration for the CEO and 28% for each other Executive KMP.

In any given year, payments under the STIP 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 2019 STIP provided for financial and non-financial KPIs, with up to 50% of the total STI payable for the achievement of financial KPIs. Provided a threshold NPATA result is achieved by the Group, then achievement of other non-financial KPIs will trigger the payment of some or all of the remaining STI. If the threshold NPATA is not achieved, the Board may exercise its discretion to pay some part of the STI to reflect achievement of non-financial KPIs. Executive KMP may be entitled to up to 130% of target STI in any given year, to reflect outperformance against KPIs.

Each year, the KPIs set in relation to the STIP are designed to compensate and reward the Executive team for achieving the Company's short-term business strategy. The 2019 KPIs were primarily designed to ensure ongoing business growth as measured by the financial KPI. Emphasis on driving efficiencies across business units also featured strongly with other non-financial KPIs.

*Excludes $268,562 accelerated 2019 LTIP expense. Refer to Table 7 of the Remuneration Report.

Financial KPI

The financial KPI is required to be met by all members of the Executive KMP. In 2019, the percentage of the payment was set to vary depending on the NPATA (excluding significant items and transaction costs) achieved by the Group. Table 1 below describes the arrangement.

Table 1: Financial KPI.

	NPATA for 2019	% of STI
1.	$88m or more	50%
2.	$86m or more but less than $88m	25%
3.	$84m or more but less than $86m	12.5%
4.	Less than $84m	0%

NPATA for the year ended 31 December 2019 was $81.0m (compared to $77.8m[1] in 2018), which is an increase of 4% from 2018.

The threshold NPATA result for payment of STIs related to non-financial KPIs was $84m (see number 4 in the table above). As indicated above, this requirement was not satisfied. Accordingly, no STI was paid to the CEO and CFO.

Based on the achievements of non-financial KPIs and significant individual performance, the Board paid a discretionary STI amount to the two remaining Executive KMP. This discretionary STI payment is 39% and 25% of target STI for these two Executive KMP, respectively.

Non-financial KPIs

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

The Board's assessment of performance against KPIs in 2019 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. Existing clients:			
a) Retain key clients	CESP, CENL	100% retention of identified clients	55%
b) Net organic package growth	CESP, CENL	Growth targets set to increase the number of packages and leasing uptake	100%
2. Increase operational efficiency:			
a) HR Initiatives	All	Team engagement, development and succession planning targets	22%
b) Consolidated IT systems, technology and infrastructure	CIO	Complete IT projects on time and budget	71%
3. M&A:			
a) Acquire new businesses	CEO, CFO, CLO	As approved by Chairman	35%
4. Risk:			
a) Manage and embed risk management and audit	All	Risk and Audit Plan delivered and 100% of risk and audit remediation plans closed in agreed time period	84%

1. Adjusted to reflect one-off impact on adoption of AASB 16 Leases from January 2018.

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Payment of STI

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.

No payment will be made to the CEO and CFO and a total of $64,000 will be paid to other Executive KMP under the STIP upon finalisation of the Financial Report for the year ended 31 December 2019.

The table below shows the actual STIP outcome for each Executive KMP for the year ended 31 December 2019 as a percentage of their target STIP opportunity.

Table 3: 2019 STIP outcomes.

Name of Executive	2019
Deven Billimoria	0%
Timothy Looi	0%
Sarah Haas	39%
Sophie MacIntosh	25%

None of the Executives that ceased to be KMP during the year received any STI payment.

Long-Term Incentives

In early 2015, the Board established a Long-Term Incentive Plan (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 2019, shareholders approved the issue of shares under the plan for a further three years, in accordance with the ASX Listing Rules.

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

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

The loan is for five years from issue, is subject to limited recourse and is interest free, as required by ASIC *Class Order CO 14/1000* and consistent with ASIC's policy published in *Regulatory Guide 49*. The loan is repayable in full on the earlier of the termination date of the loan and the date on which the shares are sold. If the vesting/performance conditions are not met, and the shares do not vest for any other reason, the shares will be acquired by the Company for the value of the outstanding loan.

The shares are forfeited if the performance hurdles are not met, or the participant ceases employment before vesting (subject to the Board's assessment of the circumstances in which the participant ceases employment). 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.

From time to time, the Board may consider amending the vesting terms and the performance hurdles, to ensure they are aligned to market practices and to safeguard 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.

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2019 grant under the LTIP

The number of shares granted is based on a proportion of the relevant executive's fixed remuneration. For 2019, the LTIP grant to the CEO was 101% of TFR, and the other Executive KMP was between 53% and 75% of TFR, as measured by the fair value of the shares on the grant allocation date (i.e. when the number of shares to be issued was determined).

Under the 2019 LTIP grant, the CEO purchased shares at $8.20 per share. The other Executive KMP purchased shares at $8.55 per share. Those prices were the market value on the date of issue. 'Market value' for the CEO's shares was the 20-day VWAP of shares, up to and including the trading day immediately before the date of the 2019 AGM. 'Market value' for the other Executive KMP's shares was the 20-day VWAP of shares, up to and including the trading day immediately prior to the date of issue, wherein 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 2019 LTIP grant, the vesting period was three years ending on 31 December 2021. The vesting of 75% of shares is subject to an earnings per share (EPS) performance hurdle, based on NPATA per share and vesting of the other 25% of shares is subject to a total shareholder return (TSR) hurdle using the ASX 200 as the comparator group.

The two performance hurdles are described below in relation to the 2019 grant and were explained to shareholders in the 2019 Notice of AGM which sought approval for the issue of shares to the CEO under the LTIP. That approval was granted at the AGM in May 2019 with 99% of votes in favour.

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

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 EPS performance hurdle is based on achievement of a CAGR in the Company's NPATA per share from the 2018 NPATA per share of $0.596 (calculated on the basis of reported NPATA of $78.0m and 130.9m shares on issue). The Board considers that the 2019 EPS performance hurdle is an appropriately challenging target.

Table 4: EPS performance hurdle.

EPS performance hurdle Applies to a maximum of 75% of the total number of shares issued under the 2019 LTIP grant				
Measure	**Vesting period**	**EPS CAGR**	**EPS target**	**Loan-funded shares subject to vesting**
EPS CAGR	The period of three calendar years ending 31 December 2021*	Below 10.0%		Nil
		10.0%	$0.793	50%
		Between 10.0% and 15%		Straight line between 50% and 100%
		15% or greater	$0.906	100% (capped)

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

TSR performance hurdle

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

TSR measures the growth in the price of the shares plus cash distributions notionally reinvested in shares. Each of the companies in the S&P/ASX 200 Index are ranked from highest to lowest based on their TSR over the performance measurement period (which is the same as the vesting period). For the purpose of calculating the TSR measurement, the relevant share prices are determined by reference to the VWAP over the 20 trading days up to and including 1 January 2019 (the performance measurement period start-date for the 2019 grant) and the 20 trading days up to and including the performance measurement period end date (as provided in Table 5).

Accordingly, the TSR hurdle is based on the TSR performance (ranking) of the Company as determined over the vesting period compared to the TSR of companies in the S&P/ASX 200 Index as explained in Table 5.

The Board believes it is appropriate to have a proportion of the shares awarded under the LTIP to be subject to a TSR performance hurdle to provide a market-based hurdle. In 2019 (as in previous years), it was restricted to 25% of the LTIP shares.

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Table 5: Relative TSR performance hurdle.

TSR performance hurdle Applies to a maximum of 25% of the total number of shares issued under the 2019 LTIP grant			
Measure	**Vesting period**	**Smartgroup TSR performance compared to index**	**Loan-funded shares subject to vesting**
Relative TSR (ranking)	The period of three calendar years ending 31 December 2021*	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.

2017 grant under the LTIP – shares vesting as at 31 December 2019

The 2017 LTIP grant had a vesting period ending on 31 December 2019. The vesting of shares under the 2017 LTIP grant was subject to the achievement of an EPS hurdle and a TSR hurdle.

EPS hurdle: The EPS hurdle applies to 75% of the shares under the 2017 LTIP grant. It is based on achievement of CAGR in the Company's NPATA per share from the pro-forma 2016 NPATA per share of $0.42. As at 31 December 2019, the NPATA per share was $0.62, which represents a CAGR of 14% from the pro-forma 2016 NPATA per share. Under the terms of the 2017 LTIP grant, that result entitles the relevant Executives to receive 85% of the LTIP shares subject to the EPS hurdle.

TSR hurdle: The TSR hurdle applies to 25% of the shares under the 2017 LTIP grant. The Company's TSR performance was measured to be in the 63rd percentile of the S&P/ASX Small Ordinaries Index (which was the index used for the TSR hurdle for the 2017 LTIP grant). Under the terms of the 2017 LTIP grant, that result entitles the relevant executives to receive 77% of the 2017 LTIP shares subject to the TSR hurdle.

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

Accordingly, the three Executive KMP participating in the 2017 LTIP grant that are still employed by the Company had their 2017 LTIP shares vest in accordance with the column headed 'Vested in year' in Table 12. In addition, one Executive who participated in the 2017 LTIP grant but ceased to be KMP on 1 August 2019, had their 2017 LTIP shares vest in the same proportion as the other Executive KMP.

Remuneration outcomes in 2019 financial year and link to 2019 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 four financial years.

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

Index	2016	2017	2018	2019
NPATA[1] ($m)	44.0	64.1	77.8[2]	81.0
EPS (cents)	36.2	52.0	59.4[2]	61.5
Ordinary dividends declared in respect of the financial year – per share (cents)	24.8	35.0	41.5	43.0
Special dividend declared in respect of the financial year – per share (cents)	–	–	–	20.0
Share price – year end ($)	6.28	10.85	8.88	6.94
3 year TSR performance compared to index (percentile) (%)	N/A	100%	87%	71%

1. The relevant comparator index for 2017 and 2018 was the S&P/ASX Small Ordinaries Index. The relevant comparator index for 2019 was the S&P/ASX 200.
2. Adjusted to reflect one-off impact on adoption of AASB 16 Leases from January 2018.

As shown above, the Company's three year TSR to 31 December 2019 was in the second quartile of all companies in the S&P/ASX 200.

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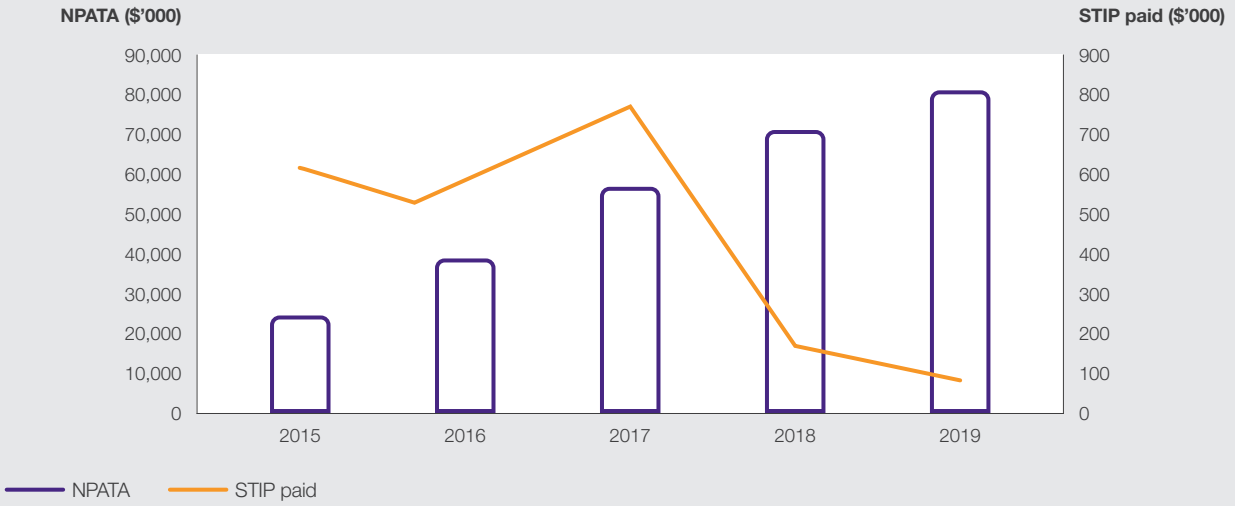
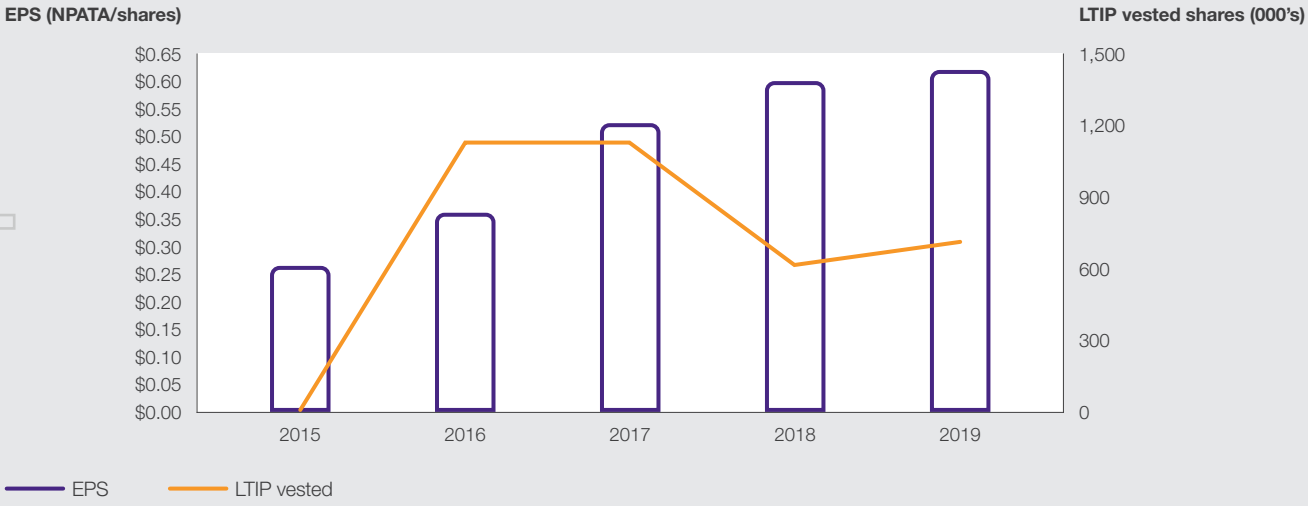
The graph below illustrates the relationship between the Group's performance and STIP awards in respect of the financial year ended 31 December 2019 and the preceding four financial years. In 2018, NPATA grew by 21% to $77.8m and the Executive KMP earned 25% of the maximum available STIP awards. In 2019, NPATA grew by 4% to $81.0m and the Executive KMP earned 14% of the maximum available STIP awards.

RELATIONSHIP BETWEEN THE GROUP'S PERFORMANCE AND STIP OUTCOMES



The graph below illustrates the relationship between the Group's performance and LTIP awards in respect of the financial year ended 31 December 2019 and the preceding four financial years. As explained in the previous sections describing the LTIP grants, the LTIP has two hurdles, the most significant being the growth in NPATA per share. For the year ended 31 December 2019, the three year CAGR in NPATA per share was 14% and 83% of LTIP shares were vested. For each of the four previous financial years, the growth in NPATA per share exceeded the relevant hurdles and 100% of LTIP shares were vested.

RELATIONSHIP BETWEEN THE GROUP'S PERFORMANCE AND LTIP OUTCOMES



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2019 remuneration structure

Details of remuneration

Amounts of remuneration

Details of the remuneration of the KMP of the Group are set out in the following tables in accordance with the *Corporations Act* and the Accounting Standards. The KMP are set out on page 91.

Table 7: 2019 Remuneration.

	Short-term benefits		Post-employment benefits	Long-term benefits		
	Cash salary and fees $	Bonus $	Superannuation $	Annual and long service leave[1] $	LTIP expense $	Total $
2019						
Non-Executive Directors:						
Michael Carapiet	230,000	–	21,850	–	–	251,850
Gavin Bell	132,500	–	12,588	–	–	145,088
Andrew Bolam	122,500	–	11,637	–	–	134,137
Carolyn Colley[2]	88,968	–	8,021	–	–	96,989
Deborah Homewood	120,000	–	11,400	–	–	131,400
John Prendiville	135,000	–	12,825	–	–	147,825
Ian Watt	132,500	–	12,588	–	–	145,088
Executive Directors:						
Deven Billimoria[3]	579,272	–	20,746	54,188	879,617	1,533,823
Other Executive KMP:						
Timothy Looi	398,808	–	20,746	37,463	260,107	717,124
Sarah Haas	319,272	39,000	20,746	29,855	97,825	506,698
Sophie MacIntosh	364,272	25,000	18,230	29,855	172,132	609,489
Dave Adler[4]	319,254	–	20,746	29,851	62,217	432,068
Clarence Yap[5]	151,029	–	1,711	2,453	–	155,193
TOTAL	**3,093,375**	**64,000**	**193,834**	**183,665**	**1,471,898**	**5,006,772**

1. The amounts disclosed in this column represent the accrued leave expense for the period.
2. Carolyn Colley commenced as Non-Executive Director on 15 March 2019.
3. Prior to the balance date, Smartgroup entered into an agreement with Deven Billimoria whereby, in consideration of Mr Billimoria agreeing to a significant extended restraint period, Smartgroup would grant him a termination benefit of no more than one years' annual base salary (calculated as the average of the past three years' annual base salary), being a maximum of $564,760. This benefit was initially proposed to be represented in part by a grant of a portion of unvested 2018 and 2019 LTI shares on Mr Billimoria's final day of service, 28 February 2020. In accordance with AASB 2 *Share-based Payment*, the modification of vesting conditions requires that the LTIP expense associated with the 2018 and 2019 grants be accelerated, the effect of which is to increase LTIP expense and Mr Billimoria's reported 2019 remuneration by $268,562. Post balance date, it has been agreed that none of his 2018 or 2019 grant shares will vest but rather will lapse. In lieu of any shares vesting in favour of Mr Billimoria, and in consideration of Mr Billimoria agreeing to further extend the restraint period to 30 months post the termination date, the Board has resolved to pay Mr Billimoria as a termination benefit a total of $586,261 in cash on termination. This payment represents 100% of his annual base salary (calculated as the average of the past three years' annual base salary). This termination benefit is in addition to Mr Billimoria's statutory entitlements.
4. Dave Adler ceased to be KMP on 1 August 2019. Remuneration amounts in this table reflect earnings from 1 January 2019 to 31 December 2019.
5. Clarence Yap ceased to be KMP on 31 January 2019. Remuneration amounts in this table reflect earnings from 1 January 2019 to 31 December 2019 and include an end of service payment of $124,823.

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Table 8: 2018 Remuneration.

	Short-term benefits		Post-employment benefits	Long-term benefits		
	Cash salary and fees $	Bonus $	Superannuation $	Annual and long service leave[1] $	LTIP expense $	Total $
2018						
Non-Executive Directors:						
Michael Carapiet	230,000	–	21,850	–	–	251,850
Gavin Bell	132,500	–	12,588	–	–	145,088
Andrew Bolam	122,500	–	11,638	–	–	134,138
Deborah Homewood	120,000	–	11,400	–	–	131,400
John Prendiville	135,000	–	12,825	–	–	147,825
Ian Watt	132,500	–	12,588	–	–	145,088
Executive Directors:						
Deven Billimoria	461,119	34,500	20,162	54,232	593,817	1,163,830
Other Executive KMP:						
Timothy Looi	411,320	40,153	20,162	35,744	230,112	737,491
Sarah Haas[2]	254,579	46,015	22,158	29,431	35,446	387,629
Sophie MacIntosh[3]	205,512	17,228	19,035	29,476	112,477	383,728
Dave Adler	310,926	50,833	20,162	29,431	178,664	590,016
Clarence Yap	302,110	–	20,414	29,431	112,191	464,146
TOTAL	**2,818,066**	**188,729**	**204,982**	**207,745**	**1,262,707**	**4,682,229**

1. The amounts disclosed in this column represent the accrued leave expense for the period.
2. Sarah Haas became KMP on 1 March 2018. Remuneration reflects earnings from 1 January 2018 to 31 December 2018.
3. On parental leave from 10 May 2018 to 31 May 2018, part time from 1 June 2018 to 18 November 2018.

The proportion of remuneration linked to performance is as follows:

Table 9: Proportion of Remuneration.

	Fixed remuneration		At risk – STIP		At risk – LTIP	
Name	2019	2018	2019	2018	2019	2018
Non-Executive Directors:						
Michael Carapiet	100%	100%	–	–	–	–
Gavin Bell	100%	100%	–	–	–	–
Andrew Bolam	100%	100%	–	–	–	–
Carolyn Colley	100%	–	–	–	–	–
Deborah Homewood	100%	100%	–	–	–	–
John Prendiville	100%	100%	–	–	–	–
Ian Watt	100%	100%	–	–	–	–
Executive Directors:						
Deven Billimoria[1]	43%	46%	–%	3%	57%	51%
Other Executive KMP:						
Timothy Looi	64%	63%	–%	6%	36%	31%
Sarah Haas	73%	79%	8%	12%	19%	9%
Sophie MacIntosh	68%	66%	4%	5%	28%	29%
Dave Adler[2]	86%	61%	–%	9%	14%	30%
Clarence Yap[3]	100%	76%	–%	–%	–%	24%

1. Includes $268,562 accelerated 2019 LTIP expense. Refer to Table 7 of the Remuneration Report.
2. Dave Adler ceased to be KMP on 1 August 2019.
3. Clarence Yap ceased to be KMP on 31 January 2019.

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Service agreements

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

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

Name:
Deven Billimoria

Title:
Managing Director and Chief Executive Officer

Agreement commenced:
1 June 2014

Term of agreement:
Open ended

Details:
Deven Billimoria is entitled to:

- Receive fixed annual remuneration of $605,000 inclusive of superannuation contributions
- Participate in the STIP with target participation under the STIP capped at a maximum of 60% of his fixed annual remuneration. Payments under the STIP in any given year depend on the achievement of a range of financial and non-financial KPIs as approved by the Board on an annual basis.

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

Other key management personnel

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

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

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Share-based compensation

Bonus shares and cash offers

No bonus shares were issued or cash offers made to Directors or other KMP as part of compensation during the year ended 31 December 2019 or the year ended 31 December 2018.

LTIP

As described above, the Company has established an LTIP for the CEO, the Executive KMP and other senior management. The LTIP is in the form of a loan funded share plan. The securities issued under the LTIP are ordinary shares which are held subject to escrow until vesting. The terms of the LTIP are therefore 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, for the purposes of compliance with the *Corporations Act* in relation to the disclosure of details of options, the Company provides a summary below of the terms of the shares issued under the LTIP during the year ended 31 December 2019

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

Table 10: Terms and Conditions of the shares granted under the LTIP in 2019.

Date of issue of shares	Vesting period	Earliest exercise date	Expiry date	Number of shares granted	Price of shares granted	Value of option at grant date	Performance achieved
20 March 2019	Three calendar years to 31 December 2021	1 January 2022	19 March 2024	830,191	$8.55	$1.35	To be determined
13 May 2019	Three calendar years to 31 December 2021	1 January 2022	12 May 2024	383,468	$8.20	$1.65	To be determined

As noted above, the shares issued under the LTIP are not options. However, for compliance with the *Corporations Act*, the Company provides a summary below of the vesting of shares issued under the LTIP in 2017 that have a vesting period ending on 31 December 2019.

Table 11: LTIP shares with a vesting period ending on 31 December 2019.

Date of issue of shares	Vesting period	Exercise date	Expiry date	Number of non-forfeited shares[1]	Price of shares granted	Value of option at grant date	Performance achieved	Number of shares vested at 31 December 2019[2]	% Vested at 31 December 2019[2]
17 March 2017	Three calendar years to 31 December 2019	1 January 2020	16 March 2022	543,165	$6.39	$1.65	Partial	434,215	83%
5 May 2017	Three calendar years to 31 December 2019	1 January 2020	4 May 2022	338,628	$6.50	$1.67	Partial	281,053	83%

1. Prior to determination by Board.
2. As determined by the Board on 11 February 2020.

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Table 12: Shares granted under the LTIP in 2019 and the vesting profile of long term incentives granted as remuneration.

						Balance at end of the year	
Name	Balance at the start of the year (unvested)	Granted as compensation	Vested in year	Forfeited	Balance at the end of the year (unvested)	Balance at end of year (vested but unexercised)	Balance at end of year (vested and unvested)
Deven Billimoria	652,764	383,648	(281,053)	(57,575)	697,784	281,053	978,837
Timothy Looi	281,860	191,824	(103,574)	(21,218)	348,892	103,574	452,466
Sarah Haas	68,848	113,208	–	–	182,056	–	182,056
Sophie MacIntosh	198,103	113,208	(88,376)	(18,104)	204,831	88,376	293,207
Dave Adler[1]	210,086	128,931	(87,458)	(251,559)	–	87,458	87,458
Clarence Yap[2]	197,619	–	–	(197,619)	–	–	–
TOTAL KMP	**1,609,280**	**930,819**	**(560,461)**	**(546,075)**	**1,433,563**	**560,461**	**1,994,024**

1. Dave Adler ceased to be KMP on 1 August 2019.
2. Clarence Yap ceased to be KMP on 31 January 2019.

There were no options over ordinary shares issued to Directors and other KMP as part of compensation as at 31 December 2019.

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.

Shareholdings

The number of shares in the Company held during the financial year by each Director and other members of KMP, including their personally related parties is set out below. These numbers exclude shares received from the LTIP as part of remuneration which was vested but unexercised as at 31 December 2019.

Table 13: Director and Executive KMP shareholding.

	Balance at the start of the year including vested LTIP	Received as part of remuneration	Other additions	Disposals	Balance at the end of the year
Ordinary shares					
Michael Carapiet	2,051,956	–	150,000	–	2,201,956
Gavin Bell	74,850	–	2,800	–	77,650
Andrew Bolam	202,760	–	55,000	–	257,760
Carolyn Colley	–	–	3,000	–	3,000
Deborah Homewood	5,318	–	1,300	–	6,618
John Prendiville	852,902	–	30,000	227,902	655,000
Ian Watt	78,522	–	5,000	–	83,522
Deven Billimoria	3,046,348	353,652	–	1,100,000	2,300,000
Timothy Looi	222,522	128,458	25,112	375,518	574
Sarah Haas	–	–	–	–	–
Sophie MacIntosh	235	–	112	–	347
Dave Adler[1]	149,951	107,520	3,267	235,738	25,000
Clarence Yap[2]	235	–	–	235	–
TOTAL	**6,685,599**	**589,630**	**275,591**	**1,939,393**	**5,611,427**

1. Dave Adler ceased to be KMP on 1 August 2019.
2. Clarence Yap ceased to be KMP on 31 January 2019.

This concludes the remuneration report, which has been audited.

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Shares under option

There were 1,433,563 unvested shares issued to employees under the LTIP (2018 and 2019 grants). 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 2019 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*. 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* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

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

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

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

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

Officers of the Company who are former partners of PricewaterhouseCoopers

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

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act*.

On behalf of the Directors



Michael Carapiet
Chairman
19 February 2020
Sydney

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Auditor's Independence Declaration

As lead auditor for the audit of Smartgroup Corporation Ltd for the year ended 31 December 2019, 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.



Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
19 February 2020

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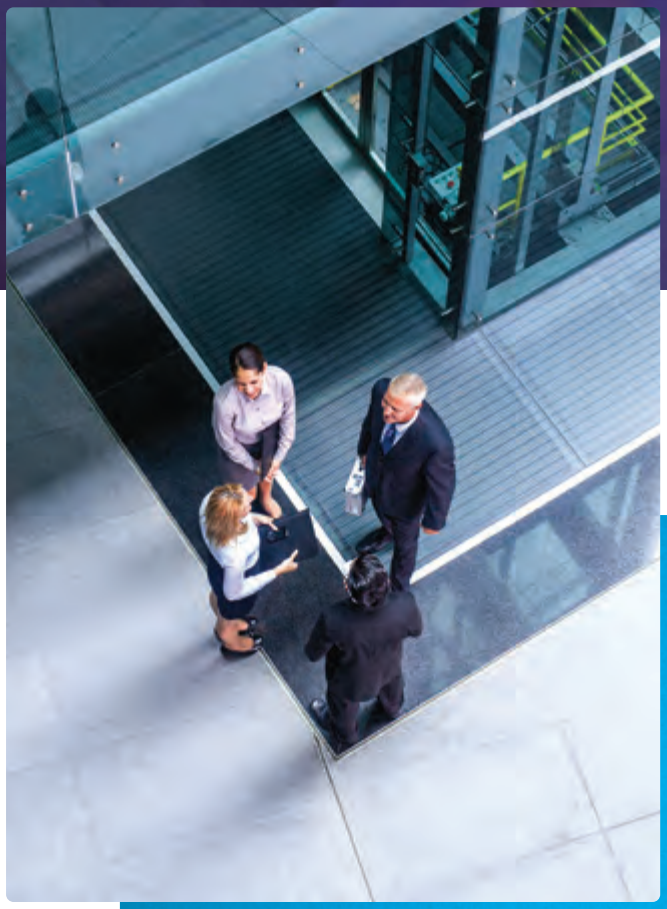

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Reconciliation of Statutory Results to Adjusted Results

For the year ended 31 December 2019

$ million	Statutory Financials: CY 2019	Reclassify: Equity share of investments	Add back: Acquisition costs	Add back: Onerous lease costs (acquired properties)	Add back: Acceleration of LTIP expense	Adjusted CY 2019
Revenue	249.8	–	–	–	–	249.8
Operating EBITDA	**116.9**	**–**	**0.6**	**0.4**	**0.3**	**118.2**
Joint venture contribution	–	0.3	–	–	–	0.3
EBITDA	**116.9**	**0.3**	**0.6**	**0.4**	**0.3**	**118.5**
Depreciation	(3.5)	–	–	–	–	(3.5)
Amortisation	(21.7)	(0.3)	–	–	–	(22.0)
Net finance costs	(3.0)	–	–	–	–	(3.0)
PBT	**88.7**	**–**	**0.6**	**0.4**	**0.3**	**90.0**
Income tax expense	(27.3)	–	(0.1)	(0.1)	–	(27.5)
NPAT	**61.4**	**–**	**0.5**	**0.3**	**0.3**	**62.5**
Add back: Amortisation of acquired intangibles (tax-effected)	14.8	0.2	–	–	–	15.0
Cash tax benefit	3.5	–	–	–	–	3.5
NPATA	**79.7**	**0.2**	**0.5**	**0.3**	**0.3**	**81.0**
Shares (# millions)						131.7
NPATA per share (cents)						**61.5**



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2019

Financial Report

56 Consolidated Statement of Profit or Loss and Other Comprehensive Income

57 Consolidated Statement of Financial Position

58 Consolidated Statement of Changes in Equity

59 Consolidated Statement of Cash Flows

60 Notes to the Consolidated Financial Statements

107 Directors' Declaration

108 Independent Auditor's Report to the Members of Smartgroup Corporation Ltd

114 Shareholder Information

116 Five Year Summary

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

Consolidated	Note	2019 $'000	2018 $'000
Revenue	7	249,835	241,815
Share of profits from joint venture accounted for using the equity method		8	44
Expenses			
Product costs		(8,059)	(6,676)
Employee benefits expense		(89,098)	(86,450)
Administration and corporate expenses		(28,421)	(27,095)
Occupancy expenses	8	(1,366)	(1,277)
Advertising and marketing expenses		(3,397)	(3,702)
Depreciation expense	8	(3,521)	(4,081)
Amortisation of acquired intangible assets	8	(21,221)	(20,927)
Amortisation of contract rights	8	(459)	–
Other expenses		(1,573)	(1,359)
Operating profit		**92,728**	**90,292**
Onerous lease costs	8	(438)	(1,116)
Acquisition transaction costs		(561)	(191)
Net finance costs	8	(3,019)	(4,691)
Profit before income tax expense		**88,710**	**84,294**
Income tax expense	9	(27,261)	(25,008)
Profit after income tax expense for the year		**61,449**	**59,286**
Other comprehensive income *Items that may be reclassified subsequently to profit or loss*			
Net change in fair value of cash flow hedges taken to equity, net of tax		(160)	(60)
Other comprehensive income for the year, net of tax		(160)	(60)
Total comprehensive income for the year		**61,289**	**59,226**
		Cents	Cents
Basic earnings per share	16	47.7	46.7
Diluted earnings per share	16	47.6	46.4

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

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Consolidated Statement of Financial Position

As at 31 December 2019

Consolidated	Note	2019 $'000	2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	39,639	39,186
Restricted cash and cash equivalents	37	65,821	42,291
Trade and other receivables	18	25,649	24,354
Derivative financial instruments	21	–	199
Other current assets	20	2,621	11,760
Total current assets		**133,730**	**117,790**
Non–current assets			
Investments accounted for using the equity method	24	6,400	6,392
Deferred tax assets	9	8,367	8,051
Right–of–use assets	39	11,592	11,543
Property and equipment	33	1,369	1,911
Intangible assets	6	311,855	318,305
Total non–current assets		**339,583**	**346,202**
Total assets		**473,313**	**463,992**
LIABILITIES			
Current liabilities			
Trade and other payables	34	35,273	29,240
Customer salary packaging liability	37	65,821	42,291
Income tax payable	9	1,474	5,541
Provisions	35	11,041	11,046
Lease liabilities	39	3,629	3,830
Other current liabilities	22	5,733	13,663
Total current liabilities		**122,971**	**105,611**
Non–current liabilities			
Provisions	36	1,684	1,310
Derivative financial instruments	21	10	–
Lease liabilities	39	11,543	11,752
Borrowings	11	60,392	53,011
Total non–current liabilities		**73,629**	**66,073**
Total liabilities		**196,600**	**171,684**
Net assets		**276,713**	**292,308**
EQUITY			
Issued capital	12	259,115	256,687
Reserves	13	8,435	5,856
Retained profits		9,163	29,765
Equity attributable to the owners of Smartgroup Corporation Ltd		**276,713**	**292,308**
Total equity		**276,713**	**292,308**

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

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

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

Consolidated	Note	Share capital $'000	Reserves $'000	Retained earnings $'000	Non–controlling interests $'000	Total equity $'000
Balance at 1 January 2019		256,687	5,856	29,765	–	292,308
Profit for the year		–	–	61,449	–	61,449
Other comprehensive income		–	(160)	–	–	(160)
Total comprehensive income for the year		**–**	**(160)**	**61,449**	**–**	**61,289**
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	12	2,428	–	–	–	2,428
Share–based payments	13	–	2,739	–	–	2,739
Dividends provided for or paid	15	–	–	(82,051)	–	(82,051)
Balance at 31 December 2019		**259,115**	**8,435**	**9,163**	**–**	**276,713**

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

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Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Consolidated	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		283,031	270,113
Payments to suppliers and employees		(161,355)	(156,074)
Transaction costs relating to business acquisitions		(457)	(858)
Interest received from cash held on behalf of customers		2,181	2,550
Interest paid on borrowings		(1,576)	(3,846)
Interest paid on lease liabilities	39	(986)	(888)
Income taxes paid		(31,853)	(31,405)
Net cash inflow from operating activities excluding salary packaging receipts and payments		**88,985**	**79,592**
Receipts in restricted cash		2,363,663	2,193,446
Payments of customer salary packaging liability		(2,349,537)	(2,218,799)
Net cash inflow from operating activities	32	**103,111**	**54,239**
Cash flows from investing activities			
Payments for business acquisitions (net of cash acquired)	23	(450)	(6,725)
Proceeds from business acquisition escrow claims		531	–
Payments for property, plant and equipment		(882)	(430)
Capitalised contract rights		(4,500)	-
Interest received		301	491
Other dividends paid in relation to the Fleet West acquisition		–	(1,000)
Net cash outflow from investing activities		**(5,000)**	**(7,664)**
Cash flows from financing activities			
Proceeds from issuance of shares (net of transaction costs)		–	76,380
Repayment of borrowings		–	(88,252)
Dividends paid	15	(82,051)	(51,009)
Proceeds from long-term incentive plan		3,869	2,141
Payment of lease liabilities	39	(2,846)	(2,483)
Proceeds from borrowings (net of borrowing costs)		6,900	(379)
Net cash outflow from financing activities		**(74,128)**	**(63,602)**
Net increase/(decrease) in cash and cash equivalents		**23,983**	**(17,027)**
Cash and cash equivalents at the beginning of the year		39,186	30,860
Restricted cash and cash equivalents at the beginning of the year		42,291	67,644
Cash and cash equivalents at the end of the financial year		39,639	39,186
Restricted cash and cash equivalents at the end of the financial year		65,821	42,291
Cash and cash equivalents at the end of the year		**105,460**	**81,477**

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

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Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 19 February 2020. The Directors have the power to amend and reissue the financial statements.

Note 2. Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Parent entity information

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

Rounding of amounts

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

Note 3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out in the respective notes and in note 40. 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 with the following standards and amendments applied for the annual reporting period commencing 1 January 2019:

AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle
Interpretation 23 Uncertainty over Income Tax Treatments

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

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 4. Critical accounting judgements, estimates and assumptions

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

Goodwill and other indefinite life intangible assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired, in accordance with the accounting policy stated in note 6 and note 40. 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 5. Operating segments

Identification of reportable operating segments

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

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

Types of products and services

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

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

Intersegment transactions

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

Intersegment receivables, payables and loans

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

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 5. Operating segments (continued)

Operating segment information

Consolidated – 2019	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations/ Corporate $'000	Total $'000
Revenue					
Products, services and commissions	134,335	–	17,217	–	151,552
Management and administrative fees	67,658	6,936	671	–	75,265
Performance fees and rebates	17,674	3,789	1,555	–	23,018
Inter-segment sales	208	3,600	22,466	(26,274)	–
Total revenue	**219,875**	**14,325**	**41,909**	**(26,274)**	**249,835**
Segment results (EBITDA)	**102,815**	**8,709**	**21,162**	**(15,756)**	**116,930**
Depreciation					(3,521)
Amortisation					(21,680)
Net finance costs					(3,019)
Profit before income tax expense					**88,710**
Income tax expense					(27,261)
Profit after income tax expense					**61,449**
Assets					
Total segment assets	163,341	16,668	39,821	253,483	473,313
Total assets					**473,313**
Liabilities					
Total segment liabilities	95,582	11,873	16,782	72,363	196,600
Total liabilities					**196,600**

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 5. Operating segments (continued)

Operating segment information (continued)

Consolidated – 2018	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations/ Corporate $'000	Total $'000
Revenue					
Products, services and commissions	130,646	–	18,032	–	148,678
Management and administrative fees	65,810	6,574	687	–	73,071
Performance fees and rebates	15,133	3,437	1,496	–	20,066
Inter-segment sales	–	2,952	19,958	(22,910)	–
Total revenue	**211,589**	**12,963**	**40,173**	**(22,910)**	**241,815**
Segment results (EBITDA)	**99,272**	**6,826**	**18,091**	**(10,196)**	**113,993**
Depreciation					(4,081)
Amortisation					(20,927)
Net finance costs					(4,691)
Profit before income tax expense					**84,294**
Income tax expense					(25,008)
Profit after income tax expense					**59,286**
Assets					
Total segment assets	143,741	33,146	20,513	266,592	463,992
Total assets					**463,992**
Liabilities					
Total segment liabilities	72,955	18,062	10,136	70,531	171,684
Total liabilities					**171,684**

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.

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Note 6. Non-current assets – intangible assets

Consolidated	2019 $'000	2018 $'000
Goodwill – at cost	274,346	266,588
Goodwill	**274,346**	**266,588**
Customer contracts and relationships – at cost	65,109	64,429
Less: Accumulated amortisation	(50,081)	(41,319)
Customer contracts and relationships	**15,028**	**23,110**
Software and websites – at cost	77,915	75,680
Less: Accumulated amortisation	(60,836)	(48,377)
Software and websites	**17,079**	**27,303**
Contract rights – at cost	4,557	–
Less: Accumulated amortisation	(459)	–
Contract rights	**4,098**	–
Brand names and logos – at cost	1,304	1,304
Brand names and logos	**1,304**	**1,304**
Intangible assets	**311,855**	**318,305**

Reconciliations

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

Consolidated	Goodwill $'000	Customer contracts and relationships $'000	Software and websites $'000	Contract rights $'000	Brand names and logos $'000	Total $'000
Balance at 1 January 2018	261,672	27,405	38,408	–	1,304	328,789
Additions through business combinations (note 23)	4,916	4,700	846	–	–	10,462
Disposals	–	(13)	(6)	–	–	(19)
Amortisation expense	–	(8,982)	(11,945)	–	–	(20,927)
Balance at 31 December 2018	**266,588**	**23,110**	**27,303**	–	**1,304**	**318,305**
Additions through business combinations (note 23)	7,758	680	2,235	–	–	10,673
Additions	–	–	–	4,557	–	4,557
Amortisation expense	–	(8,762)	(12,459)	(459)	–	(21,680)
Balance at 31 December 2019	**274,346**	**15,028**	**17,079**	**4,098**	**1,304**	**311,855**

Impairment testing

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

The CGUs identified remain consistent to the previous financial year, but now include the new businesses integrated under the Smartsalary and Autopia brands – Pay-Plan, Mylease and Lease & Asset Finance (L&A). The composition of the CGUs has also been realigned to reflect the transition of clients, following systems consolidation, the reallocation of assets, and the redeployment of internal resources. As a result, goodwill in 2019 has been reallocated to reflect the changes in CGUs during the year.

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

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

Goodwill	2019 $'000	2018 $'000
CGU 1: Outsourced administration	124,327	115,777
CGU 2: Vehicle services	8,564	8,827
CGU 3: SDGS	5,574	7,650
CGU 4: Autopia	29,424	23,715
CGU 5: Selectus	26,547	30,709
CGU 6: PBI	79,910	79,910
Goodwill	**274,346**	**266,588**

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

Brand names and logos	2019 $'000	2018 $'000
CGU 1: Outsourced administration	1,285	1,285
CGU 2: Vehicle services	15	15
CGU 3: SDGS	4	4
Brand names and logos	**1,304**	**1,304**

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

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

A projected terminal growth rate of 1.4% (2018: 2.8%) has been used for all CGUs.

Pre-tax discount rates	2019 %	2018 %
CGU 1: Outsourced administration	16.0%	16.0%
CGU 2: Vehicle services	15.7%	16.3%
CGU 3: SDGS	15.5%	17.0%
CGU 4: Autopia	21.8%	23.2%
CGU 5: Selectus	13.6%	16.4%
CGU 6: PBI	16.1%	17.3%

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 in each CGU is greater than the carrying value of the assets and, therefore, the intangible assets are not considered to be impaired.

Sensitivity analysis

CGUs 1, 3, 4, 5, and 6

Any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount. This assessment is on the assumption that there will be no significant changes to legislation for the salary packaging concession or sale of add-on insurance products. Should the relevant legislation change, depending on the impact of the changes, there may be a different impairment testing conclusion.

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

Sensitivity analysis (continued)

CGU 2

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 Consolidated Statement of Profit or Loss and Other Comprehensive Income in the year in which the expenditure is incurred.

Goodwill

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

Customer contracts and relationships

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

Software and website

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

Brand names and logos

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

Contract rights

Contract rights consist of exclusive rights to distribute services to certain customers in accordance with AASB 138 *Intangible Assets*, as well as capitalised incremental costs and fulfilment costs arising from contractual obligations over a period greater than one year which are recoverable and generate revenue. Amortisation is on a straight-line basis over the period of their expected benefit, the life of the contract, and being up to 5 years.

Accounting policy for 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.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 7. Revenue

Consolidated	2019 $'000	2018 $'000
Sales revenue		
Products, services and commissions	151,552	148,678
Management and administration fees	75,265	73,071
Performance fees and rebates	23,018	20,066
Revenue	**249,835**	**241,815**

Accounting policy for revenue recognition

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

Nature of goods and services

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

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

Management and administration fees

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

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

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

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

Products, services and commissions

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

Performance fees and rebates

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

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. Incremental costs and directly attributable costs to fulfil a contract over one year that are recoverable and generate resources are capitalised, in accordance with AASB 15 *Revenue,* and included within contract rights in note 6.

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 result from satisfaction of performance obligations.

Transaction price allocated to the remaining performance obligations

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

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 8. Expenses

Consolidated	2019 $'000	2018 $'000
Depreciation		
Office equipment	199	124
Computer equipment	318	551
Furniture, fixtures and fittings	102	151
Other assets	6	9
Leasehold improvements	426	695
Right-of-use assets	2,470	2,551
Total depreciation	**3,521**	**4,081**
Amortisation		
Customer contracts and relationships	8,762	8,982
Software and website	12,459	11,945
Total amortisation of acquired intangible assets	**21,221**	**20,927**
Contract rights	459	–
Total amortisation of contract rights	**459**	**–**
Total depreciation and amortisation	**25,201**	**25,008**
Net finance costs		
Interest and finance charges paid/payable	2,334	4,302
Interest on lease liabilities	986	888
Finance income	(301)	(499)
Total net finance costs	**3,019**	**4,691**
Occupancy costs		
Outgoings and other property costs	**1,366**	**1,277**
Superannuation expense		
Defined contribution superannuation expense	**6,362**	**6,207**
Share-based payments expense		
Share-based payments expense	**1,596**	**1,021**
Onerous lease costs		
Accelerated depreciation	361	–
Right-of-use asset write-down	10	1,116
Other lease termination costs	67	–
Total onerous lease costs	**438**	**1,116**

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Note 9. Income tax

Income tax expense

Consolidated	2019 $'000	2018 $'000
Current tax	28,527	30,050
Deferred tax – origination and reversal of temporary differences	(1,266)	(5,042)
Income tax expense	**27,261**	**25,008**
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	**1,266**	**5,042**

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

Consolidated	2019 $'000	2018 $'000
Profit before income tax expense	88,710	84,294
Tax at the statutory tax rate of 30%	26,613	25,288
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	133	44
Share-based payments	479	306
Share of profits – joint venture	(4)	(19)
Sundry items	–	(250)
	27,221	**25,369**
Prior year tax claims not recognised now recouped	26	(430)
Prior year temporary differences not recognised now recognised	14	69
Income tax expense	**27,261**	**25,008**

Amounts recognised directly in equity

Consolidated	2019 $'000	2018 $'000
Amounts (charged)/credited directly to equity:		
Deferred tax assets	**(947)**	**1,388**

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Note 9. Income tax (continued)

Deferred tax assets

Deferred tax assets comprised of temporary differences attributable to:

Consolidated	2019 $'000	2018 $'000
Amounts recognised in consolidated statement of profit or loss:		
Impairment of receivables	30	51
Employee benefits	2,412	2,384
Accruals and other provisions	4,163	4,785
Property and equipment	(401)	337
Revenue received in advance	1,396	1,273
Acquisition and issuance costs	2,704	3,378
Leased property and equipment	1,093	470
Intangible assets	(3,087)	(5,655)
Prepayments	(131)	(30)
Accrued revenue	(180)	(203)
Derivative financial instruments	3	(60)
Sundry items	(22)	(13)
Total temporary differences	**7,980**	**6,717**
Amounts recognised in equity:		
Derivative financial instruments	9	(28)
Share issue transaction costs	378	608
Adoption of new accounting standards - Leased property and equipment	–	754
Total recognised in equity	**387**	**1,334**
Net deferred tax assets	**8,367**	**8,051**

Movements

Consolidated	2019 $'000	2018 $'000
Opening balance	8,051	2,704
Credited to consolidated statement of profit or loss	1,266	5,042
Credited/(charged) to equity	(947)	1,388
Additions through business combinations	(3)	(1,083)
Closing balance	**8,367**	**8,051**

Income tax payable

Consolidated	2019 $'000	2018 $'000
Income tax payable	**1,474**	**5,541**

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Note 9. Income tax (continued)

Accounting policy for income tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the year

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

Tax consolidation group

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

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

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

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 10. Current assets – cash and cash equivalents

Consolidated	2019 $'000	2018 $'000
Cash at bank and in hand	39,623	30,341
Term deposits	16	8,845
Cash and cash equivalents	**39,639**	**39,186**

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	2019 $'000	2018 $'000
Bank loan	60,648	53,748
Borrowing costs prepaid	(256)	(737)
Borrowings	**60,392**	**53,011**

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	2019 $'000	2018 $'000
Bank loan	**60,648**	**53,748**

The following facilities are available to the Group:

- A three-year facility of $99 million;
- A three-year letter of credit facility of $4 million; and
- Ancillary facilities: credit card and electronic pay away facility of $12.5 million.

The banking facilities are guaranteed and secured by the Company and a number of the Company's subsidiaries. The facilities are subject to a variable interest rate, which is based on the BBSY plus a margin. The banking facilities mature on 20 December 2021.

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

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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

Financing arrangements

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

Consolidated	2019 $'000	2018 $'000
Bank loan	99,000	99,000
Letter of credit facility	4,000	4,000
Total facilities	**103,000**	**103,000**
Bank loan	60,648	53,748
Letter of credit facility	3,572	2,694
Used at the reporting date	**64,220**	**56,442**
Bank loan	38,352	45,252
Letter of credit facility	428	1,306
Unused at the reporting date	**38,780**	**46,558**

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.

Accounting for finance 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.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 12. Equity – issued capital

Consolidated	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary Shares – fully paid	131,651,028	130,891,931	277,799	272,114
Less: Shares associated with the loan funded share plan (LFSP)	(2,682,932)	(2,513,465)	(18,684)	(15,427)
Issued capital	**128,968,096**	**128,378,466**	**259,115**	**256,687**

Movements in ordinary share capital

Details	Date	Shares	Total $'000
Balance	1 January 2018	123,213,010	189,224
Shares issued for LFSP	28 March 2018	529,582	5,767
	4 May 2018	465,243	5,043
Buy-back of forfeited LFSP shares	20 June 2018	(436,241)	(4,921)
	8 October 2018	(82,259)	(988)
Shares issued	4 January 2018	99,236	1,000
	27 February 2018	6,787,331	75,000
	6 April 2018	316,029	3,434
Share issue transaction costs, net of tax			(1,445)
Balance	**31 December 2018**	**130,891,931**	**272,114**
Shares issued for LFSP	20 March 2019	830,191	7,023
	13 May 2019	383,648	3,146
Buy-back of forfeited LFSP shares	4 February 2019	(210,952)	(2,004)
	2 September 2019	(243,790)	(2,182)
Deferred tax directly recognised in equity			(298)
Balance	**31 December 2019**	**131,651,028**	**277,799**

Movements in loan funded share plan

Details	Date	Shares	Total $'000
Balance	1 January 2018	(3,155,626)	(12,341)
LFSP shares exercised	15 February 2018	1,118,486	1,815
Shares issued for LFSP	28 March 2018	(529,582)	(5,767)
	4 May 2018	(465,243)	(5,043)
Buy-back of forfeited LFSP shares	20 June 2018	436,241	4,921
	8 October 2018	82,259	988
Balance	**31 December 2018**	**(2,513,465)**	**(15,427)**
LFSP shares exercised	8 February 2019	589,630	2,726
Shares issued for LFSP	20 March 2019	(830,191)	(7,023)
	13 May 2019	(383,648)	(3,146)
Buy-back of forfeited LFSP shares	4 February 2019	210,952	2,004
	2 September 2019	243,790	2,182
Balance		**(2,682,932)**	**(18,684)**

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Note 12. Equity – issued capital (continued)

Ordinary shares

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

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

Loan funded share plan (LFSP)

On 20 March 2019, loan funded shares were granted to the management team under the LFSP based on the 20-day volume-weighted average price (VWAP) up to and including 18 March 2019, and at the Annual General Meeting on 9 May 2019, the 2019 LFSP grant to the Chief Executive Officer was approved, with shares being granted based on the 20-day VWAP up to and including 9 May 2019. The shares vest on 31 December 2021.

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

The 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, and a continuous employment condition. The shares can only be exercised once the participant has repaid the loan.

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

LFSP shares forfeited

For the year ended 31 December 2019, the Group recorded $4,185,965 to buy back shares issued under the LFSP, because the vesting conditions on the shares had not been met and the shares were forfeited. 454,742 shares were bought back and cancelled, resulting in a reduction of ordinary shares on issue.

Share buy-back

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

Capital risk management

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

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

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

The capital risk management policy remains unchanged from the 31 December 2018 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.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 13. Equity – reserves

Consolidated	2019 $'000	2018 $'000
Hedging reserve – cash flow hedges	(21)	139
Share-based payments reserve	8,456	5,717
Reserves	**8,435**	**5,856**

Hedging reserve – cash flow hedges

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

Share-based payments reserve

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

Movements in reserves

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

Consolidated	Cash flow hedges $'000	Share-based payments $'000	Total $'000
Balance at 1 January 2018	199	4,371	4,570
Movements in hedges	(86)	–	(86)
Deferred tax	26	–	26
Share-based payments	–	3,700	3,700
LFSP exercised	–	(1,815)	(1,815)
LFSP forfeited	–	(539)	(539)
Balance at 31 December 2018	**139**	**5,717**	**5,856**
Movements in hedges	(229)	–	(229)
Deferred tax	69	–	69
Share-based payments	–	5,698	5,698
LFSP exercised	–	(2,726)	(2,726)
LFSP forfeited	–	(233)	(233)
Balance at 31 December 2019	**(21)**	**8,456**	**8,435**

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Note 14. Share-based payments

Loan funded share plan (LFSP)

The LFSP is a long-term incentive plan for the senior management team. Refer to note 12 for the terms of LFSP. The LFSP shares are legally held by the employees, however, they cannot trade in the shares until the vesting conditions are satisfied and the loan is fully repaid. These have been treated as options in accordance with AASB 2 *Share-based payment*. Refer to note 40 for the accounting policy relating to share-based payments.

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

Grant date	Vesting date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
2019							
18 March 2016	31 December 2018	$4.42	235,978	–	(235,978)	–	–
9 May 2016	31 December 2018	$4.76	353,652	–	(353,652)	–	–
17 March 2017	31 December 2019	$6.39	672,641	–	–	(129,476)	543,165
5 May 2017	31 December 2019	$6.50	338,628	–	–	–	338,628
28 March 2018	31 December 2020	$10.89	529,582	–	–	(196,335)	333,247
4 May 2018	31 December 2020	$10.84	382,984	–	–	–	382,984
20 March 2019	31 December 2021	$8.55	–	830,191	–	(128,931)	701,260
13 May 2019	31 December 2021	$8.20	–	383,648	–	–	383,648
Share-based payments – 2019			**2,513,465**	**1,213,839**	**(589,630)**	**(454,742)**	**2,682,932**
Weighted average exercise price			$7.62	$8.44	$4.62	$8.95	$8.42
2018							
25 February 2015	31 December 2017	$1.60	602,262	–	(602,262)	–	–
27 April 2015	31 December 2017	$1.65	516,224	–	(516,224)	–	–
18 March 2016	31 December 2018	$4.42	449,866	–	–	(213,888)	235,978
9 May 2016	31 December 2018	$4.76	353,652	–	–	–	353,652
17 March 2017	31 December 2019	$6.39	894,994	–	–	(222,353)	672,641
5 May 2017	31 December 2019	$6.50	338,628	–	–	–	338,628
28 March 2018	31 December 2020	$10.89	–	529,582	–	–	529,582
4 May 2018	31 December 2020	$10.84	–	465,243	–	(82,259)	382,984
Share-based payments – 2018			**3,155,626**	**994,825**	**(1,118,486)**	**(518,500)**	**2,513,465**
Weighted average exercise price			$4.25	$10.87	$1.62	$6.28	$7.62

The weighted average share price during the financial year was $9.54 (2018: $11.01). The loan funded shares have an expiry date of 5 years from the date of issue and their weighted average remaining contractual life outstanding at the end of the financial year was 3.4 years (2018: 3.4 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
20 March 2019	31 December 2021	$8.37	$8.55	31.36%	4.91%	1.57%	$1.35
13 May 2019	31 December 2021	$8.75	$8.20	32.17%	4.80%	1.34%	$1.65

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 15. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

Consolidated	2019 $'000	2018 $'000
Final dividend for the year ended 31 December 2018 of 21.0 cents (2017: 18.5 cents) per ordinary share	27,446	24,154
Special dividend for the year ended 31 December 2019 of 20.0 cents per ordinary share	26,300	–
Interim dividend for the year ended 31 December 2019 of 21.5 cents (2018: 20.5 cents) per ordinary share	28,305	26,855
Dividends paid	**82,051**	**51,009**

On 19 February 2020, the Directors declared a fully franked dividend of 21.5 cents per ordinary share. The final dividend will be paid on 16 March 2020 to shareholders registered on 2 March 2020 with an expected total distribution of $28,300,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2019 financial statements and will be recognised in subsequent financial reports.

Franking credits

Consolidated	2019 $'000	2018 $'000
Franking credits available at the reporting date based on a tax rate of 30%	49,628	53,108
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%	1,474	5,541
Franking credits available for subsequent financial years based on a tax rate of 30%	**51,102**	**58,649**

Of the existing franking account balance, $24,130,000 (2018: $24,130,000) are exempt credits and are not available for franking dividends to new Australian shareholders. These exempt credits were available to Smartgroup's former major shareholder, Smart Packages Pte Ltd, until it sold its entire shareholding on 17 October 2019. As the exempt credits are not available for any other party, Smartgroup will cease recognising these exempt credits in future Annual Reports.

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	2019 $'000	2018 $'000
Profit after income tax attributable to the owners of Smartgroup Corporation Ltd	**61,449**	**59,286**

Consolidated	2019 Number	2018 Number
Weighted average ordinary shares used in calculating basic earnings per share	128,905,094	127,074,764
Adjustments for calculation of diluted earnings per share:		
Shares issued under LFSP	238,141	707,423
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**129,143,235**	**127,782,187**

Consolidated	2019 Cents	2018 Cents
Basic earnings per share	47.7	46.7
Diluted earnings per share	47.6	46.4

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Note 16. Earnings per share (continued)

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-tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares, including non-vested ordinary shares such as the LFSP, which are treated as options in the calculation of diluted earnings per share, as they may not vest. Shares issued under LFSP are only included where the average market price of ordinary shares during the period exceeds the exercise price of the options.

Note 17. Financial instruments

Financial risk management objectives

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

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

Refer to note 40 for the accounting policy for financial instruments.

Market risk

Foreign exchange risk

The Group operates primarily in Australia and is not exposed to any significant foreign currency risk.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

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

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Note 17. Financial instruments (continued)

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

	2019		2018	
Consolidated	Weighted average interest rate	Balance $'000	Weighted average interest rate	Balance $'000
Bank loans	2.17%	60,648	3.32%	53,748
Cash and cash equivalents	0.91%	(39,639)	1.70%	(39,186)
Restricted cash and cash equivalents	0.69%	(65,821)	1.35%	(42,291)
Interest rate swaps (notional principal amount)	0.96%	(31,000)	1.76%	(51,250)
Net exposure to cash flow interest rate risk		**(75,812)**		**(78,979)**

An increase/decrease in interest rates of 100 (2018: 100) basis points would have a favourable/adverse effect on profit before tax and equity of $760,000 (2018: $790,000) 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 2019 of $31,000,000 (2018: $51,250,000). The interest rate contracts hedge the Group's risk against an increase in variable interest rate. Weighted average fixed rate is 0.96% (2018: 1.76%).

Sensitivity – derivative valuation

An increase/decrease in interest rates of 100 (2018:100) basis points would have a favourable/adverse effect on derivative financial instruments value and total equity by $488,100 (2018: $355,100).

Credit risk

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

Expected credit loss assessment for corporate customers

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

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables for corporate customers as at 31 December 2019:

Grade	Weighted average loss rate	Gross carrying amount ($'000)	Impairment loss allowance ($'000)
Grade 1 (Financiers and insurers)	0.00%	989	–
Grade 2 (Employer/Corporate)	1.14%	7,554	86
Grade 3 (Dealers)	0.50%	2,580	13

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.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 17. Financial instruments (continued)

Financing arrangements

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

Consolidated	2019 $'000	2018 $'000
Bank loan	38,352	45,252
Letter of credit facility	428	1,306
Undrawn borrowing facilities	**38,780**	**46,558**

Remaining contractual maturities

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

Consolidated	1 year or less $'000	>1 to 2 years $'000	>2 to 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
2019					
Non-interest bearing					
Trade payables	10,860	–	–	–	**10,860**
Customer salary packaging liability	65,821	–	–	–	**65,821**
Interest-bearing – variable					
Bank loans	–	64,200	–	–	**64,200**
Total non-derivatives	**76,681**	**64,200**	–	**–**	**140,881**
2018					
Non-interest bearing					
Trade payables	8,475	–	–	–	**8,475**
Customer salary packaging liability	42,291	–	–	–	**42,291**
Interest-bearing – variable					
Bank loans	11,701	11,373	34,758	–	**57,832**
Total non-derivatives	**62,467**	**11,373**	**34,758**	**–**	**108,598**

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

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Note 18. Current assets – trade and other receivables

Consolidated	2019 $'000	2018 $'000
Trade receivables	11,123	10,424
Less: Provision for impairment of receivables	(99)	(169)
	11,024	**10,255**
Accrued revenue	10,559	11,312
Other receivables	4,066	2,787
	14,625	**14,099**
Trade and other receivables	**25,649**	**24,354**

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $4,299,000 as at 31 December 2019 ($3,875,000 as at 31 December 2018). Following the review of customer credit terms, and recent collection practices, the Group does not consider a credit risk issue to exist in relation to past due but not impaired receivables.

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

Consolidated	2019 $'000	2018 $'000
0 to 3 months overdue	4,168	3,786
> 3 to 6 months overdue	117	77
> 6 months overdue	14	12
Past due and not impaired	**4,299**	**3,875**

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. A number of indicators are considered in assessing whether trade receivables may be impaired: significant financial difficulties of the debtor, the probability that a debtor will enter bankruptcy, financial reorganisation, and/or default, and delinquency in payments (over 60 days past due) based on historical losses incurred to date. 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.

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Note 19. Fair value measurement

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs for the asset or liability.

Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019				
Interest rate swap contracts – cash flow hedges	–	(10)	–	(10)
Total liabilities	**–**	**(10)**	**–**	**(10)**
2018				
Interest rate swap contracts – cash flow hedges	–	199	–	199
Total assets	**–**	**199**	**–**	**199**

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.

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.

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Note 20. Current assets – other current assets

Consolidated	2019 $'000	2018 $'000
Prepayments	1,943	2,974
Back-to-back leased vehicles	582	8,203
Other current assets	96	59
Escrowed funds	–	524
Other current assets	**2,621**	**11,760**

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

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

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

Note 21. Derivative financial instruments

Consolidated	2019 $'000	2018 $'000
Interest rate swap contracts – fair value hedges	**(10)**	**199**

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

Accounting policy for derivative financial instruments

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

Cash flow hedges

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

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

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

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Note 22. Current liabilities – other current liabilities

Consolidated	2019 $'000	2018 $'000
Leased vehicle borrowings	1,081	9,421
Income received in advance	4,652	4,242
Other current liabilities	**5,733**	**13,663**

All opening contract liability balances pertaining to income received in advance were recognised as revenue during the period.

Note 23. Business combinations

(a) Current period acquisitions

(i) Mylease

On 1 April 2019, the Group acquired the novated leasing assets of Mylease from iNovation Pty Ltd for a total cash consideration of $6,900,000. The goodwill of $5,189,000 reflects synergies expected to be obtained by the Group from this acquisition.

Excluding integration costs, Mylease contributed revenues of $1,068,000 and net profit after tax of $147,000 to the Group for the period from 1 April 2019 to 31 December 2019. If the acquisition had occurred on 1 January 2019, the full year contribution would have been revenue of $1,590,000 and profit after tax of $276,000 subject to adjustments arising as a result of purchase price allocation.

The business combination is provisional for the year ended 31 December 2019.

(ii) Pay-Plan Pty Ltd and SET Leasing Pty Ltd (collectively Pay-Plan)

On 1 June 2019, the Group acquired 100% of the shares in Pay-Plan Pty Ltd and SET Leasing Pty Ltd (collectively, Pay-Plan) for a total cash consideration of $2,200,000. The goodwill of $1,529,000 reflects synergies expected to be obtained by the Group from this acquisition.

Excluding integration costs, Pay-Plan contributed revenues of $795,000 and net profit after tax of $363,000 to the Group for the period from 1 June 2019 to 31 December 2019. If the acquisition had occurred on 1 January 2019, the full year contribution would have been revenue of $1,900,000 and profit after tax of $675,000 subject to adjustments arising as a result of purchase price allocation.

The business combination is provisional for the year ended 31 December 2019.

(iii) Lease and Asset Finance (L&A)

On 10 October 2019, the Group acquired certain novated leasing assets of Lease and Asset Finance (L&A) for a total cash consideration of $886,000. The goodwill of $1,040,000 reflects the synergies expected to be obtained by the Group from this acquisition.

Excluding integration costs, L&A contributed revenues of $121,000 and net profit after tax of $47,000 to the Group for the period from 10 October 2019 to 31 December 2019. If the acquisition had occurred on 1 January 2019, the full year contribution would have been revenue of $522,000 and profit after tax of $239,000 subject to adjustments arising as a result of purchase price allocation.

The business combination is provisional for the year ended 31 December 2019.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 23. Business combinations (continued)

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

Business combinations	Mylease Fair value $'000	Pay-Plan Fair value $'000	L&A Fair value $'000	Total Fair value $'000
Cash and cash equivalents	–	132	–	132
Restricted cash and cash equivalents	3,821	3,903	1,680	9,404
Trade receivables	–	22	–	22
Other current assets	–	35	–	35
Other intangibles	1,907	902	106	2,915
Net deferred tax liabilities	(50)	(19)	66	(3)
Trade and other payables	–	(174)	–	(174)
Customer salary packaging liability	(3,821)	(3,903)	(1,680)	(9,404)
Provision for income tax	–	(2)	–	(2)
Employee provisions	(63)	(119)	(20)	(202)
Other provisions	(83)	(106)	(306)	(495)
Net assets acquired	**1,711**	**671**	**(154)**	**2,228**
Goodwill	5,189	1,529	1,040	7,758
Acquisition date fair value of consideration transferred	**6,900**	**2,200**	**886**	**9,986**
Cash paid	6,900	2,200	886	9,986
Acquisition costs	173	116	119	408
Cash used to acquire business, net of cash acquired:				
Cash paid to vendor	6,900	2,200	886	9,986
Less: Cash and cash equivalents	–	(132)	–	(132)
Less: Restricted cash and cash equivalents	(3,821)	(3,903)	(1,680)	(9,404)
Net cash used	**3,079**	**(1,835)**	**(794)**	**450**

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

Consolidated	2019 $'000	2018 $'000
Investment in joint venture – Health-e Workforce Solutions Pty Ltd	6,400	6,392

Interests in joint ventures

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

Name of entity	Place of business/country of incorporation	2019 %	2018 %
Health-e Workforce Solutions Pty Ltd	Australia	50	50

Health-e Workforce Solutions Pty Ltd	2019 $'000	2018 $'000
Summarised Statement of Financial Position		
Current assets	2,447	2,083
Non-current assets	1,204	1,195
Total assets	**3,651**	**3,278**
Current liabilities	125	234
Total liabilities	**125**	**234**
Net assets	**3,526**	**3,044**
Summarised Statement of Profit or Loss and Other Comprehensive Income		
Revenue	2,723	2,941
Amortisation expense	(572)	(572)
Other expenses	(2,127)	(2,242)
Profit before income tax	**24**	**127**
Income tax expense	(7)	(38)
Profit after income tax	**17**	**89**
Other comprehensive income		
Total comprehensive income	**17**	**89**
Reconciliation of the Group's carrying amount		
Opening carrying amount	6,392	6,348
Share of profit after income tax expense	8	44
Closing carrying amount	**6,400**	**6,392**

Contingent liabilities

Share of contingent liabilities relating to joint venture as at 31 December 2019 was $nil (2018: $nil).

Commitments

Share of commitments relating to joint venture as at 31 December 2019 was $nil (2018: $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 Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities increase the carrying amount of the investment.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 25. Related party transactions

Parent entities

Smartgroup Corporation Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 27.

Joint ventures

Interests in joint ventures are set out in note 24.

Key management personnel compensation

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

Receivable from/payable to related parties

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

Transactions with other related parties

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

Loans to/from related parties

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

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 26. Parent entity financial information

Summary financial information

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

Statement of Profit or Loss and Other Comprehensive Income

Parent	2019 $'000	2018 $'000
Profit after income tax expense	115,481	64,533
Total comprehensive income	**115,481**	**64,533**

Statement of Financial Position

Parent	2019 $'000	2018 $'000
Current assets	608,621	506,018
Total assets	**696,921**	**595,145**
Current liabilities	304,951	249,705
Total liabilities	**365,404**	**302,508**
Issued capital	258,115	255,078
Reserves		
Hedging reserve – cash flow hedges	(21)	139
Share-based payments reserve	8,082	5,509
Retained earnings	65,341	31,911
Total equity	**331,517**	**292,637**

Guarantees entered into by the parent entity

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

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

Contingent liabilities of the parent entity

The parent entity has given bank guarantees as at 31 December 2019 of $1,409,000 (2018: $2,667,000).

Capital commitments – Property and equipment

The parent entity had no capital commitments for property and equipment as at 31 December 2019 and 31 December 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3 and note 40, 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.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 27. Interests in subsidiaries

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

Name	Principal place of business/corporation	2019 %	2018 %
Australian Vehicle Consultants Pty Ltd	Australia	100	100
Autopia Group Pty Limited	Australia	100	100
Autopia Management Pty Limited	Australia	100	100
PBI Benefit Solutions Pty Limited	Australia	100	100
Salary Packaging Solutions Pty Ltd	Australia	100	100
Selectus Employee Benefits Pty Ltd[1]	Australia	–	100
Selectus Financial Services Pty Ltd[1]	Australia	–	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[1]	Australia	–	100
ABM Corporation Pty Limited	Australia	100	100
AccessPay Pty Ltd	Australia	100	100
Salary Solutions Australia Pty Ltd	Australia	100	100
Smartsalary Payroll Solutions Pty Ltd*	Australia	100	100
Fleet West Pty Ltd	Australia	100	100
Pay-Plan Pty Ltd[2]	Australia	100	–
SET Leasing Pty Ltd[2]	Australia	100	–

1. Denotes entity deregistered during the year.
2. On 1 June 2019, Smartgroup Benefits Pty Ltd acquired the 100% of the shares in Pay-Plan Pty Ltd and SET Leasing Pty Ltd.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

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	2019 $	2018 $
Short-term employee benefits	3,032,552	3,006,795
Post-employment benefits	193,834	204,982
Termination benefits	124,823	–
Long-term benefits	183,665	207,745
Share-based payments	1,471,898	1,262,707
Compensation	**5,006,772**	**4,682,229**

Prior to the balance date, Smartgroup entered into an agreement with Deven Billimoria whereby, in consideration of Mr Billimoria agreeing to a significant extended restraint period, Smartgroup would grant him a termination benefit of no more than one years' annual base salary (calculated as the average of the past three years' annual base salary), being a maximum of $564,760. This benefit was initially proposed to be represented in part by a grant of a portion of unvested 2018 and 2019 LTI shares on Mr Billimoria's final day of service, 28 February 2020. In accordance with AASB 2 *Share-based Payment*, the modification of vesting conditions requires that the LTIP expense associated with the 2018 and 2019 grants be accelerated, the effect of which is to increase LTIP expense and Mr Billimoria's reported 2019 remuneration by $268,562.

Post balance date, it has been agreed that none of his 2018 or 2019 grant shares will vest but rather will lapse. In lieu of any shares vesting in favour of Mr. Billimoria, and in consideration of Mr Billimoria agreeing to further extend the restraint period to 30 months post the termination date, the Board has resolved to pay Mr Billimoria as a termination benefit a total of $586,261 in cash on termination. This payment represents 100% of his annual base salary (calculated as the average of the past three years' annual base salary).

This termination benefit is in addition to Mr Billimoria's statutory entitlements.

Note 29. Contingent liabilities

The Group had contingent liabilities at 31 December 2019 of $3,572,000 (2018: $2,694,000). The Group has given guarantees for performance of contracts to its customers as at 31 December 2019 of $500,000 (2018: $500,000).

Note 30. Events occurring after the reporting period

Smartgroup's insurance underwriting partner has advised Smartgroup that it intends to change the terms of the insurance products sold by Smartgroup. It is expected that the unmitigated financial impact of the changes will be a reduction in Smartgroup's after-tax profits of approximately $4 million for each half year. The implementation date for the change is expected to be 1 July 2020.

There are two ongoing regulatory reviews from the Australian Securities and Investments Commission (ASIC) and the Australian Department of Treasury (Treasury) which have the potential to impact the future contribution Smartgroup receives from add-on insurance products.

In October 2019, ASIC released a consultation paper *CP324: Product Intervention: The sale of add-on financial products through caryard intermediaries*. Submissions were provided by 12 November 2019 since which point ASIC has not provided an update.

On 31 January 2020, Treasury released its paper entitled *Financial Services Royal Commission – Enhancing consumer protections and strengthening regulators* which includes exposure draft legislation for public comment to be introduced into Parliament by mid-2020. This includes recommendations associated with the provision of add-on insurance with a consultation process open until 28 February 2020.

Smartgroup will continue to consult with both ASIC and Treasury in relation to proposed reforms.

After adjusting for the insurance underwriter changes announced in December 2019, Smartgroup estimates that it generates ~$17m[1] revenue per annum from the sale of add on insurance products expected to be covered by the ASIC and Treasury reviews. Given the draft nature of the recommendations, the range of possible outcomes and potential steps Smartgroup might take to mitigate any impact, is not yet able to provide specific detail on the quantum and timing of any such impacts, and whether or not they will be material.

No other matter or circumstance has arisen since 31 December 2019 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.

1. Aggregate revenue from sales of Lease Protection Insurance, Platinum Warranty Insurance, Tyre and Wheel Insurance and Total Assist Insurance. Does not include revenue from Comprehensive Insurance and other products that are not expected to be covered by the proposed Treasury reforms.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 31. Deed of cross guarantee

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

Smartgroup Corporation Ltd
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 Consolidated Statement of Financial Position of the 'Closed Group'.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Deed of cross guarantee	2019 $'000	2018 $'000
Revenue	251,431	233,032
Product costs	(8,059)	(6,677)
Employee benefits expense	(85,487)	(83,356)
Administration and corporate expenses	(28,186)	(26,602)
Occupancy expenses	(1,332)	(1,244)
Advertising and marketing expenses	(3,389)	(3,664)
Amortisation of acquired intangibles	(21,859)	(20,275)
Depreciation expense	(3,422)	(4,150)
Other expenses	(2,556)	(4,523)
Operating profit	**97,141**	**82,541**
Net finance costs	(3,052)	(5,365)
Profit before income tax expense	**94,089**	**77,176**
Income tax expense	(25,704)	(22,789)
Profit after income tax expense	**68,385**	**54,387**
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(160)	(60)
Total comprehensive income for the year	**68,225**	**54,327**

Summary of movements in consolidated retained earnings

Deed of cross guarantee	2019 $'000	2018 $'000
Retained earnings at the beginning of the financial year	**14,825**	**11,192**
Profit after income tax expense	68,385	54,387
Adoption of new accounting standards	–	255
Dividends paid	(82,051)	(51,009)
Retained earnings at the end of the financial year	**1,159**	**14,825**

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 31. Deed of cross guarantee (continued)

Consolidated Statement of Financial Position

Deed of cross guarantee	2019 $'000	2018 $'000
ASSETS		
Current assets		
Cash and cash equivalents	38,057	34,761
Restricted cash and cash equivalents	65,505	42,291
Trade and other receivables	32,319	36,752
Derivative financial instruments	–	199
Other current assets	2,022	3,032
Total current assets	**137,903**	**117,035**
Non-current assets		
Investments accounted for using the equity method	34,119	37,371
Deferred tax assets	8,436	9,169
Property and equipment	1,356	1,843
Intangible assets	281,833	284,728
Right-of-use assets	11,592	11,293
Total non-current assets	**337,336**	**344,404**
Total assets	**475,239**	**461,439**
LIABILITIES		
Current liabilities		
Trade and other payables	48,972	50,596
Customer salary packaging liability	65,505	42,291
Income tax payable	160	7,639
Provisions	10,955	10,995
Lease liabilities	3,629	3,832
Other current liabilities	4,363	4,167
Total current liabilities	**133,584**	**119,520**
Non-current liabilities		
Provisions	1,630	1,360
Derivative financial instruments	10	–
Borrowings	60,392	53,010
Lease liabilities	11,543	11,461
Total non-current liabilities	**73,575**	**65,831**
Total liabilities	**207,159**	**185,351**
Net assets	**268,080**	**276,088**
EQUITY		
Share capital	258,486	255,406
Reserves	8,435	5,857
Retained earnings	1,159	14,825
Total equity	**268,080**	**276,088**

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Note 32. Reconciliation of profit after income tax to net cash from operating activities

Consolidated	2019 $'000	2018 $'000
Profit for the year	**61,449**	**59,286**
Adjustments for		
Share of profits – joint ventures	(8)	(44)
Share-based payments	1,596	1,021
Fair value change to derivative financial instruments	(21)	(10)
Interest received – disclosed under investing activities	(301)	(491)
Amortisation of borrowing costs	481	789
Loss on sale of non-current assets	12	45
Depreciation	3,521	4,081
Amortisation	21,680	20,927
Onerous lease costs	438	1,116
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,274)	(1,741)
Increase in net deferred tax assets	(548)	(4,491)
Decrease in other current assets	8,977	2,289
Increase/(decrease) in trade and other payables	3,626	(4,526)
Decrease in provision for income tax	(4,069)	(1,373)
Increase in provisions and other liabilities	(6,574)	2,714
	88,985	**79,592**
Increase/(decrease) in customer salary packaging liability	14,126	(25,353)
Net cash from operating activities	**103,111**	**54,239**

Changes in liabilities arising from financing activities

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

Consolidated	Borrowings $'000
Balance as at 1 January 2018	140,853
Repayments of borrowings	(88,252)
Refinancing costs	(379)
Amortisation of borrowing costs (non-cash)	789
Balance at 31 December 2018	**53,011**
Proceeds from borrowings (net of borrowing costs)	6,900
Amortisation of borrowing costs (non-cash)	481
Balance at 31 December 2019	**60,392**

The above table excludes changes in lease liabilities, as set out in note 39.

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Note 33. Non-current assets – property and equipment

Consolidated	2019 $'000	2018 $'000
Office equipment		
At cost	1,643	1,428
Accumulated depreciation	(1,288)	(1,117)
	355	**311**
Computer equipment		
At cost	6,383	6,278
Accumulated depreciation	(6,033)	(5,871)
	350	**407**
Furniture, fixtures and fittings		
At cost	1,455	1,204
Accumulated depreciation	(1,226)	(901)
	229	**303**
Leasehold improvements		
At cost	4,757	4,423
Accumulated depreciation	(4,338)	(3,589)
	419	**834**
Other assets		
At cost	22	93
Accumulated depreciation	(6)	(37)
	16	**56**
Property and equipment	**1,369**	**1,911**

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Note 33. Non-current assets – property and equipment (continued)

Reconciliations

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

Consolidated	Computer equipment $'000	Furniture, fixtures and fittings $'000	Office equipment $'000	Leasehold improvements $'000	Other assets $'000	Total $'000
2019						
Opening net book amount	407	303	311	834	56	1,911
Additions	258	72	297	279	–	906
Transfers	28	–	(28)	–	–	–
Assets written off	(2)	–	–	–	(34)	(36)
Depreciation expense (note 8)	(318)	(102)	(199)	(426)	(6)	(1,051)
Accelerated depreciation (note 8)	(23)	(44)	(26)	(268)	–	(361)
Closing net book amount	**350**	**229**	**355**	**419**	**16**	**1,369**
2018						
Opening net book amount	708	358	255	1,567	44	2,932
Additions	252	97	114	5	45	513
Additions through business combinations (note 23)	–	–	66	124	–	190
Transfer to right-of-use assets	–	–	–	(115)	–	(115)
Assets written off	(2)	(1)	–	(52)	(24)	(79)
Depreciation expense (note 8)	(551)	(151)	(124)	(695)	(9)	(1,530)
Closing net book amount	**407**	**303**	**311**	**834**	**56**	**1,911**

Accounting policy for property and equipment

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

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

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

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

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

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

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Note 34. Current liabilities – trade and other payables

Consolidated	2019 $'000	2018 $'000
Trade payables	10,860	8,475
Accrued expenses	18,842	13,153
Other payables and accruals	5,571	7,612
Trade and other payables	**35,273**	**29,240**

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.

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Note 35. Current liabilities – provisions

Consolidated	2019 $'000	2018 $'000
Employee benefits	7,004	5,934
Operations provision	4,037	4,573
Make good provision	–	539
Provisions – current	**11,041**	**11,046**

Employee benefits

The provision for employee benefits relates to the Group's liability for annual leave and long service leave. Refer to note 40 for the accounting policy relating to employee benefits.

Operations provision

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

Amounts not expected to be settled within the next 12 months

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

Consolidated	2019 $'000	2018 $'000
Employee benefits obligation expected to be settled after 12 months	**973**	**801**

Accounting policy for provisions

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

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Note 36. Non-current liabilities – provisions

Consolidated	2019 $'000	2018 $'000
Employee benefits	1,221	1,226
Make good provision	463	84
Provisions – non-current	**1,684**	**1,310**

Make good provision

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

Movements in provisions

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

Consolidated 2019	Make good provision $'000	Operations provision $'000
Carrying amount at start of year	623	4,573
Additional provisions recognised/(de-recognised)	(210)	(981)
Additions through business combinations (note 23)	50	445
Carrying amount at end of year	**463**	**4,037**

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Note 37. Cash held on behalf of customers and associated liabilities

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

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

Restricted cash and cash equivalents

Consolidated	31 December 2019 $'000	31 December 2018 $'000
Restricted cash and cash equivalents	65,821	42,291
Customer salary packaging liability	(65,821)	(42,291)

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

The restricted cash accounts are held with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the year ended 31 December 2019, the Group has recognised finance revenue of $468,000 (31 December 2018: $641,000) 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 Consolidated Statement of Financial Position

	2019		2018	
Consolidated	Weighted average interest rate	$'000	Weighted average interest rate	$'000
Accounts established by the Group as cash held on behalf of customers	0.88%	113,925	1.50%	98,941
Accounts established by customers directly	0.03%	96,837	0.03%	77,843
Cash held on behalf of customers		**210,762**		**176,784**

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

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the year ended 31 December 2019, the Group has recognised interest revenue of $1,683,000 (31 December 2018: $2,262,000) from those accounts established by the Group as cash held on behalf of customers, and $29,000 (31 December 2018: $23,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

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Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

Note 38. Remuneration of auditors

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

Consolidated	2019 $	2018 $
Audit and review of financial statements	500,000	504,800
Total remuneration for audit and other assurance services	**500,000**	**504,800**
Other assurance services		
Tax compliance	35,000	35,000
Risk and governance	46,376	–
Total remuneration for other services	**81,376**	**35,000**
PricewaterhouseCoopers Australia	**581,376**	**539,800**

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Note 39. Leases

Amounts recognised in the Consolidated Statement of Financial Position

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

Right-of-use assets

Consolidated	Property $'000	Equipment $'000	Total $'000
Balance at 1 January 2018	9,445	–	9,445
Additions	531	492	1,023
Transferred from property and equipment	115	–	115
Depreciation charge for the year	(2,494)	(57)	(2,551)
Impairment charge for the year	(1,116)	–	(1,116)
Re-measurement of leases on lease renewal	4,627	–	4,627
Balance at 31 December 2018	**11,108**	**435**	**11,543**
Additions	2,741	–	2,741
Depreciation charge for the year	(2,371)	(99)	(2,470)
Impairment charge for the year	(10)	–	(10)
Re-measurement of leases on lease renewal	(212)	–	(212)
Balance at 31 December 2019	**11,256**	**336**	**11,592**

Lease liabilities

Consolidated	2019 $'000	2018 $'000
Balance at 1 January	15,582	12,900
Interest incurred	986	888
Interest paid on lease liabilities	(986)	(888)
Payments of lease liabilities	(2,846)	(2,483)
Additions	2,853	1,023
Re-measurement of leases on lease renewal	–	4,627
Lease surrender costs	(417)	(485)
Balance at 31 December	**15,172**	**15,582**

Maturity analysis – contractual undiscounted cash flows	1 year or less $'000	>1 to 2 years $'000	>2 to 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Lease liabilities	3,629	3,738	11,330	–	**18,697**

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

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

Consolidated	2019 $'000	2018 $'000
Interest on lease liabilities	(986)	(888)
Expense relating to short-term leases (included within occupancy expenses)	(46)	(100)

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Note 39. Leases (continued)

Amounts recognised in the Consolidated Statement of Cash Flows

Consolidated	2019 $'000	2018 $'000
Total cash outflow for leases	(3,832)	(3,371)

Accounting policy for leases

As a lessee

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

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Note 40. Additional significant accounting policies

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Smartgroup Corporation Ltd as at 31 December 2019 and the results of all subsidiaries for the year then ended.

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

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

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

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

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

(b) Current and non-current classification

Assets and liabilities are presented in the Consolidated Statement of Financial Position based on current and non-current classification.

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

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

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

(c) Financial instruments (Note 17)

Recognition and measurement

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

Classification and subsequent measurement

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

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

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

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

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

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

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

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

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

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Note 40. Additional significant accounting policies (continued)

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

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

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

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

De-recognition

Financial assets

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

Financial liabilities

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

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

(d) Employee benefits

Short-term employee benefits (Notes 35)

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

Other long-term employee obligations (Notes 35 and 36)

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 (Note 8)

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

Share-based payments (Note 14)

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.

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Note 40. Additional significant accounting policies (continued)

(g) Business combinations (Note 23)

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 re-measures 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 re-measured and its subsequent settlement is accounted for within equity.

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

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

(h) Goods and Services Tax (GST)

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

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

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

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

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Directors' Declaration

For the year ended 31 December 2019

In the Directors' opinion:

(a) the financial statements and notes set out on pages 56 to 106 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board, and

  (iii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date, and

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

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 31.

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
19 February 2020
Sydney

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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 2019 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 2019
- 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 (including Independence Standards)* (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 operations of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $4.3 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, profit before tax (which is a generally accepted benchmark for profit-orientated entities) is a key metric against which the performance of the Group is measured.
- We 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.
- 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 operations of the Group, its accounting processes and controls and the industry in which it operates.

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- Smartgroup Corporation Ltd's financial report consolidates the businesses of Smartsalary, Smartfleet, Autopia, Selectus, AccessPay, Salary Packaging Solutions, Smartgroup Benefits and other smaller Smartgroup businesses located in Sydney, Adelaide, Brisbane, Perth and Melbourne. The Group provides outsourced salary packaging and novated leasing, fleet management, payroll and workforce optimisation services to a wide range of government, health and corporate customers across Australia. The Group has a substantially centralised finance function with some recent acquisitions still being integrated.

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 businesses, Set Leasing, Mylease and Lease and Asset Finance. Accounting for the acquisition of a business can be complex and accounting standards require the Group to identify all assets and liabilities of the newly acquired businesses and estimate the fair value of each item. The accounting for these acquisitions was a key audit matter due to the complex methods used to value software and customer contract assets.	We performed the following audit procedures, amongst others: • we read the relevant purchase agreements and due diligence reports in relation to the acquisitions and assessed whether the accounting for the acquisitions was consistent with the purchase agreements • for the provisional initial accounting, we compared the take on balances to the completion statements and due diligence reports • we reviewed the financial statements to assess whether the disclosures are in line with the requirements of the Australian Accounting Standards • we assessed the competency and objectivity of the external valuers used to determine the value of intangible assets.
Goodwill and other indefinite life assets impairment assessment *Refer to note 6 - $275.7 million (2018: 267.9 million)* The Group's goodwill and brand names and logos are required by Australian Accounting Standards to be tested at year end for impairment at the cash generating unit (CGU) level. The impairment assessment was a key audit matter due to the size of the goodwill and other indefinite life intangible assets balances and the judgement involved in assessing whether an impairment was required.	We performed the following audit procedures, amongst others: • we assessed whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines and the level of integration of the newly acquired businesses • we evaluated the process by which the cash flow forecasts were developed • we compared the cash flow forecasts to Board approved budgets and inspected evidence of oversight over key assumptions in the forecasts by the directors

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The Group performed an impairment assessment over goodwill and other indefinite life intangible assets by calculating the value in use for each CGU, using discounted cash flow models (the models). Key judgements in the models included the determination of CGUs, discount rates, annual revenue and terminal growth rates and the assumption that there will be no significant changes to the legislation governing the provision of products and services within the salary packaging administration and novated leasing industries in the forecast periods.

- we assessed the Group's ability to accurately forecast by comparing previous forecasts with actual business results
- we considered the sensitivity of the key assumptions in the models by analysing the impact on the recoverable amount from changes in key assumptions
- we engaged our valuation experts to assess the reasonableness of the discount rates and terminal growth rates used for the calculation of the value in use
- we considered 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 compared the Group's net assets of $276.7 million as at 31 December 2019 to its market capitalisation of $914 million on the same date
- we evaluated 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 37 - $65.8 million (2018: $42.3 million)

The provision of salary packaging services involves the Group holding funds on behalf of certain customers, either as restricted cash or cash equivalents held on behalf of customers.

This was a key audit matter as the Group may be responsible for any shortfall in these accounts, there is a significant volume of transactions impacting restricted cash and cash held on behalf of customers' accounts throughout the year and due to the large volume of accounts and employees under management (EUM).

We performed the following audit procedures, amongst others:

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

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

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Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 37 to 50 of the directors' report for the year ended 31 December 2019.

In our opinion, the remuneration report of Smartgroup Corporation Ltd for the year ended 31 December 2019 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

Joe Sheeran
Partner

Sydney
19 February 2020

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Shareholder Information

This section contains additional information required by the ASX Listing Rules not disclosed anywhere else in this report. The information in this section is current as at 31 January 2020.

Substantial Shareholders

As at 31 January 2020, the following persons were disclosed as substantial holders in substantial holding notices given to the Company under the Corporations Act:

Name	Number of shares in which relevant interests held	Voting power
CHALLENGER LIMITED	8,407,486	6.39%
NORGES BANK	7,016,921	5.33%
PERPETUAL LIMITED	7,007,648	5.32%

Class of shares and voting rights

At 31 January 2020 there were 5,515 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 31 January 2020:

Size of holding	Number of holders	Total shares held	Percentage of total shares
1 – 1,000	2,278	1,088,351	0.83
1,001 – 5,000	2,339	6,053,052	4.60
5,001 – 10,000	475	3,466,940	2.63
10,001 – 100,000	371	9,260,536	7.03
100,001 and over	52	111,782,149	84.91
Total shareholders	**5,515**	**131,651,028**	**100.00**



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Twenty largest shareholders of ordinary shares as at 31 January 2020:

Name	Number of ordinary shares	Percentage of ordinary shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	37,561,309	28.53%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	25,873,443	19.65%
CITICORP NOMINEES PTY LIMITED	16,156,113	12.27%
BNP PARIBAS NOMINEES PTY LTD	8,072,686	6.13%
NATIONAL NOMINEES LIMITED	7,912,548	6.01%
DEVENDRA BILLIMORIA	2,009,581	1.53%
GENTILLY HOLDINGS 2 PTY LIMITED	1,606,897	1.22%
APINTO PTY LTD	1,326,831	1.01%
HEATHERWOOD COURT PTY LTD	1,246,001	0.95%
BUTTONWOOD NOMINEES PTY LTD	1,088,453	0.83%
WARBONT NOMINEES PTY LTD	1,000,704	0.76%
AOTEAROA INVESTMENT COMPANY PTY LIMITED	728,715	0.55%
POINT CAPITAL PTY LTD	625,000	0.47%
UBS NOMINEES PTY LTD	604,639	0.46%
TIMOTHY LOOI	473,684	0.36%
NETWEALTH INVESTMENTS LIMITED	448,247	0.34%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	361,430	0.27%
MUTUAL TRUST PTY LTD	342,767	0.26%
THE LF POINT PTY LTD	330,000	0.25%
SOPHIE MACINTOSH	311,311	0.24%
Total	**108,080,359**	**82.09%**

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 2019 are released	49,618

Note: in accordance with the ASX Listing Rules, securities issued under the Company's LTIP that have restrictions on their transfer under the terms of the LTIP are not regarded as being subject to voluntary escrow.

On-market buy-back

There is no current on-market buy-back.

Five Year Summary

Index	2019	2018	2017	2016	2015
Income statement ($m)					
Revenue	249.8	241.8	205.4	147.1	94.5
EBITDA	118.2	115.0	93.6	63.3	37.4
NPAT (statutory)	61.4	59.3	41.2	32.8	20.2
NPATA	81.0	77.8	64.1	44.0	26.2
Statement of financial position ($m)					
Assets	473.3	464.0	466.7	438.6	167.4
Liabilities	196.6	171.7	262.0	244.3	84.9
Net assets	276.7	292.3	204.7	194.3	82.5
Net (debt)/cash	(21.0)	(14.6)	(111.1)	(72.0)	(33.5)
Share information					
Ordinary shares (million shares)	131.7	130.9	123.2	121.5	103.7
Dividends per share (cents per share)					
Interim	21.5	20.5	16.5	9.8	7.9
Special	20.0	–	–	–	–
Final	21.5	21.0	18.5	15.0	8.7
Total dividends	**63.0**	**41.5**	**35.0**	**24.8**	**16.6**
Share price at 31 December ($)	6.94	8.88	10.85	6.28	5.11
NPATA/ordinary shares (cents per share)	61.5	59.4	52.0	36.2	25.3
Ratios					
Ordinary dividend payout ratio	70%	70%	67%	68%	66%
Operating cashflow/NPATA	110%	103%	99%	103%	106%
Net debt/EBITDA	0.2	0.1	1.2	1.1	0.9
Operational metrics					
FTEs	689	695	706	544	398
Packages	358,500	343,000	325,000	221,000	182,500
Novated leases under management	68,500	65,250	62,500	53,000	34,000

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Glossary of Terms

AGM	The 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 and Chief Executive Officer
CESP	Chief Executive, Salary Packaging
CFO	Chief Financial Officer
CGS	Corporate Governance Statement. Available on the website at http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance
CHRO	Chief Human Resources Officer
CIO	Chief Information Officer
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
Executive	The CEO and each of his direct reports
Executive KMP	The KMP, excluding the Non-Executive Directors
Greenfleet	An environmental not-for-profit organisation, whose mission is to protect the climate by restoring forests.
GRI	The Global Reporting Initiative is an international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption. It developed the GRI Standards.
Group	The consolidated Smartgroup Corporation Ltd entity consisting of the Company and the entities it controlled at the end of or during the year ended 31 December 2019.
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 2019 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 corporate borrowings, adjusted to exclude capitalised borrowing costs.
Non-Executive Director	Director who is not an Executive
NPAT	Net Profit After Tax
NPATA	Net Profit After Tax, adjusted to exclude the non-cash tax effected acquired amortisation of intangibles and significant non-operating items.
NPS	Net promoter score. Net promoter score is a measure of how likely a customer is to provide a word-of-mouth referral, measured on a scale of -100 to +100.
Operating cash flow	Operating cash flow excludes receipts and payments from customers' salary packaging accounts, 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
TFR	Total fixed remuneration
TSR	Total shareholder return
VWAP	Volume-Weighted Average Price
WGEA	Workplace Gender Equality Agency
Website	smartgroup.com.au

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GRI Content Index

The 2019 Smartgroup Sustainability Report has been prepared in accordance with the GRI Standards Core Option.

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identifying material topics, report content and boundaries

We have selected material topics to report on that have the greatest impact on our stakeholders and the communities in which we operate and over which we have some ability to influence or address related impacts. A significant number of the possible material topics listed in the GRI standards are not relevant to our business, or have limited impact on our business and importance to our share holders and thus have been excluded from our review. Our process to identify material topics will continue to evolve as we continuously review the expectations of stakeholders and broader sustainability trends.

The impacts for employee related topics are entirely within Smartgroup, whilst governance, environmental and community impacts occur both inside and outside Smartgroup and client, customer and supplier impacts occur mostly outside Smartgroup.

The location of the disclosures are referenced to the relevant pages in this report, to Smartgroup's Corporate Governance Statement and its website. Where it has not been possible to disclose information, then a brief explanation is given.

GRI Standard	Disclosure	Reference or link
General Disclosures		
GRI 102: General Disclosures 2016		
GRI 102: 1. Organisational Profile		
102-1	Name of the organisation	Smartgroup Corporation Ltd
102-2	Activities, brands, products and services	Website: "About Us", "What we do". Pages 3 – 5.
102-3	Location of headquarters	Corporate Directory (page 120)
102-4	Location of operations	Australia – see Website
102-5	Ownership and legal form	ASX-listed public company
102-6	Markets served	Website: "About Us", "Who we Help", "What we do". Page 4.
102-7	Scale of the operation	Page 3 and Financial Report (page 55 onwards)
102-8	Information on employees and other workers	Pages 19 – 23, page 29 and Corporate Governance Statement
102-9	Supply chain	Page 28
102-10	Significant changes to the organisation and its supply chain	Nil. There were no such changes in FY 2019.
102-11	Precautionary principle or approach	Not applicable
102-12	External initiatives	Not applicable
102-13	Membership of associations	Smartgroup is a member of NALSPA (National Automotive Leasing and Salary Packaging Association) and AFIA (Australian Finance Industry Association)
GRI 102: 2. Strategy		
102-14	Statement from senior decision-maker	Managing Director and CEO Report (page 11).
102-15	Key impacts, risks and opportunities	Pages 30 – 31 and Corporate Governance Statement
GRI 102: 3. Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	Pages 20 – 22 and Corporate Governance Statement
102-17	Mechanisms for advice and concerns about ethics	Page 21
GRI 102: 4. Governance		
102-18	Governance Structure	Corporate Governance Statement
GRI 102: 5. Stakeholder engagement		
102-40	List of stakeholder groups	Page 31
102-41	Collective bargaining agreements	Nil
102-42	Identifying and selecting stakeholders	Page 31
102-43	Approach to stakeholder engagement	Page 31
102-44	Key topics and concerns raised	Page 31

GRI Standard	Disclosure	Reference or link
GRI 102: 6. Reporting practice		
102-45	Entities included in the consolidated financial statements	Financial report of the Company for the year ended 31 December 2019 comprises the Company and its subsidiaries (the Group). Refer page 55 onwards.
102-46	Defining report content and topic Boundaries	Page 118
102-47	List of material topics	Reporting is limited to the disclosures most relevant to Smartgroup and are located at pages 18 – 31.
102-48	Restatements of information	No material restatements
102-49	Changes in reporting	In 2019, Smartgroup progressed from 'GRI Referenced' to 'GRI: Core' reporting
102-50	Reporting period	1 January to 31 December 2019
102-51	Date of most recent report	February 2019
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Email: ir@smartgroup.com.au
102-54	Claims of reporting in accordance with the GRI Standards	Page 118
102-55	GRI Content Index	Pages 118 – 119
102-56	External assurance	No external assurance sought for the Sustainability Report
Material topics		
GRI 200: Economic		
GRI 205: Anti-corruption		
205-1	Operations assessed for risks related to corruption	The whole Smartgroup Group is subject to the risk assessment. No significant risks identified.
205-2	Communication and training about anti-corruption policies and procedures	All employees of the Smartgroup Group undertake training.
205-3	Confirmed incidents of corruption and actions taken	There have been no confirmed incidents
GRI 206: Anti-competitive behaviour		
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	None
GRI 300: Enviromental		
GRI 302: Energy		
302-1	Energy consumption within the organisation	Page 29 (Electricity – total consumption (kwh))
302-3	Energy intensity	Page 29 (Electricity (tonnes CO2-e per FTE))
302-4	Reduction of energy consumption	Page 25 and page 29
GRI 305: Emissions		
305-1	Direct (Scope 1) GHG emissions	Not applicable
305-2	Energy indirect (Scope 2) GHG emissions	Page 25 and page 29
305-3	Other indirect (Scope 3) GHG emissions	Page 29 (in part)
305-4	GHG emissions intensity	Page 29 (Electricity (tonnes CO2-e per FTE))
305-5	Reduction of GHG emissions	Page 25 and page 29
GRI 400: Social		
GRI 401: Employment		
401-1	New employee hires and employee turnover	Page 21
401-3	Parental leave	Page 29
GRI 404: Training and education		
404-3	Percentage of employees receiving regular performance and career development reviews	Page 29
GRI 405: Diversity and equal opportunity		
405-1	Diversity of governance bodies and employees	Page 20 – 23, page 29
GRI 419: Socioeconomic compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	No non-compliance identified.

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Corporate Directory

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

Company secretaries
Sophie MacIntosh
Jonathan Swain

Registered office and principal place of business
Smartgroup Corporation Ltd
Level 8, 133 Castlereagh Street
Sydney, NSW, Australia, 2000
Tel: 1300 476 278

Share register
LINK Market Services Limited
Level 12, 680 George Street,
Sydney, NSW, Australia, 2000
Tel: 1300 554 474

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

Solicitors
MinterEllison Lawyers
Level 23, 525 Collins Street
Melbourne, VIC, Australia, 3000
Tel: 03 8608 2000

Bankers
Westpac Group
275 Kent Street
Sydney, NSW, Australia 2000

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

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

Website
smartgroup.com.au

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

Annual General Meeting
14 May 2020 at 11am.
Please refer to the website for further details.

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1999 — Initial establishment of Smartsalary.com

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

2004 — Launched vehicle lease broking business

2006 — Acquired by Paxys Australia Pty Ltd

2009 — Acquired Melbourne Systems Group assets and Seqoya

2010 — Acquired Webfleet

2011 — Acquired Australian Vehicle Consultants and creation of Smartfleet

Acquired PBI Solutions

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

2013 — Acquired TAINS business (Insurance products distribution)

2014 — Smartgroup Corporation lists on the ASX

2015 — Acquired 50% of Health-e Workforce Solutions

Acquired Advantage Salary Packaging

2016 — Acquired Selectus

Acquired Autopia

Acquired Trinity Management Group assets. Trading as Smartequity.

2017 — Acquired AccessPay

Acquired Aspire Benefits Management

Acquired RACV Salary Solutions and renamed to Salary Solutions

2018 — Acquired Fleet West

2019 — Acquired MyLease

Acquired Pay-Plan

Acquired select assets of Lease & Asset Finance

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

smartgroup.com.au