Smartgroup Corporation Ltd
Half-year report

30 June 2016

ABN 48 126 266 831

Contents

Market release

24 August 2016
ASX Market Announcements Office
ASX Limited
20 Bridge Street
Sydney, NSW, Australia, 2000

Smartgroup Corporation Ltd - Results for announcement to the market

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

1. Appendix 4D,
2. Review of operations, and
3. Smartgroup Corporation Ltd half-year report 2016.

Smartgroup Corporation Ltd will conduct an analyst briefing on the results at 8:30 am (Sydney time) on 25 August 2016.

Amanda Morgan
General Counsel and Company Secretary

Appendix 4D

Statutory results for announcement to the market

		$'000
Revenue from ordinary activities	up 36%	to $60,903
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up 61%	to $14,704
Net profit for the period attributable to the owners of Smartgroup Corporation Ltd	up 61%	to $14,704

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2015 dividend per share (paid 31 March 2016)	8.7	8.7	30%
Interim 2016 dividend per share (to be paid 30 September 2016)	9.8	9.8	30%

The record date for determining entitlement to the interim dividend is 15 September 2016.
There is no dividend reinvestment plan in place.

Net tangible assets	30 June 2016	30 June 2015
Net tangible assets per ordinary security, cents per share	(27.85)	10.30

The net tangible assets per ordinary share is calculated based on 104,270,139 ordinary shares on issue as at 30 June 2016 (30 June 2015: 101,461,150 ordinary shares), which excludes the 3,040,492 shares outstanding and unvested issued under the 2016 and 2015 long-term incentive plans (30 June 2015: 2,236,974).

Independent auditors review

The half-year financial report for the half-year ended 30 June 2016 has been reviewed by PricewaterhouseCoopers and there is no review dispute or qualification.

Review of operations

	Consolidated 30 June 2016 $'000	30 June 2015 $'000	Movement %
Revenue	60,903	44,818	36%
Share of profits of joint ventures accounted for using the equity method	229	-	n/a
Expenses			
Employee benefits expense	(24,564)	(17,872)	37%
Administration and corporate costs	(7,849)	(5,812)	35%
Advertising and marketing expenses	(1,165)	(1,221)	-5%
Occupancy expenses	(1,320)	(1,168)	13%
Other expenses	(685)	(751)	-9%
Depreciation expense	(579)	(482)	20%
Earnings before interest, tax and amortisation (EBITA)	**24,970**	**17,512**	**43%**
Amortisation expense	(2,861)	(3,846)	-26%
Finance costs	(1,003)	(458)	119%
Profit before income tax for the half-year	**21,106**	**13,208**	**60%**
Income tax expense	(6,402)	(4,062)	58%
Net profit after income tax for the half-year	**14,704**	**9,146**	**61%**
Add back: Amortisation, tax effected	2,102	2,692	-22%
Add: Cash tax benefit on deductible amortisation	905	619	46%
Net profit after tax and amortisation (NPATA) *	**17,711**	**12,457**	**42%**
EBITA margin	41%	39%	2 pts
NPATA margin	29%	28%	1 pt
Net cash inflow from operating activities	**15,950**	**9,295**	**72%**
Net cash inflow as a percentage of NPATA	90%	75%	15 pts
	Cents	**Cents**	
NPATA per share **	14.8	12.0	23%
Dividends declared per share **	9.8	7.9	24%

** NPATA reflects the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangible assets.*

*** NPATA per share and Dividends declared per share are based on the number of shares estimated to be 119,533,800 shares (30 June 2015: 103,698,124 shares), which includes the 3,040,492 shares held by the Company under the Loan Funded Share Plan (LFSP) (30 June 2015: 2,236,974 shares).*

Financial performance

Smartgroup Corporation Ltd's ('the Group') half-year 2016 financial results have shown continued growth with revenues of $60.9m and Earnings before interest, tax and amortisation (EBITA) of $25.0m representing increases of 36% and 43% respectively from the prior corresponding period.

The half-year 2016 NPATA of $17.7m (including after tax merger and acquisition costs of $0.4m) represents growth of 42% from the prior corresponding period Excluding the merger and acquisition costs, the half year 2016 NPATA is $18.1m and represents growth of 45% from the prior corresponding period.

Revenues have increased 36% due primarily to the inclusion of Advantage Salary Packaging (acquired in December 2015), Smartequity (acquired in January 2016) and also higher novated leasing revenues.

The Group's EBITA margin for the half-year 2016 of 41% compared to the prior year of 39%, reflecting the inclusion of the acquired Advantage business which generates a higher margin than the Smartsalary business. Smartgroup's cash flow from operations, at $16.0m for the half year ended 30 June 2016, is 88% of NPATA.

Smartgroup's net asset position has grown to $88.5m and with net debt to EBITDA of 121%.

Smartgroup has declared an interim fully franked dividend of 9.8 cents per share. The record date is 15 September 2016, and will be paid on 30 September 2016.

Review of operations (cont'd)

Operations

Customer engagement

Smartgroup believes that the best proponent of its services comes from word-of-mouth customer referrals. As such, Smartsalary introduced Net Promoter Score (NPS) in 2009 as a key metric to measure the quality of employee customer engagement. NPS ranges from -100% to 100%. The Group's score of 43% for the 12 months to 30 June 2016 puts Smartsalary among the best performing companies nationally.

Smartsalary was first accredited by the Customer Service Institute of Australia (CSIA) in 2008. It was the NSW State Winner of the Australian Service Excellence Award (Medium Business Category) from 2011 to 2015. It was also the National Winner of the Australian Service Excellence Award (Medium Business Category) in 2012 and Highly Commended for National Medium Business and Customer Charter in 2015. Smartgroup was awarded an aggregate score of 8.44 out of 10 in 2015 and received a high number of 9+ scores for individual attributes.

Employee engagement accreditation

Smartgroup continues to rank among the most highly engaged organisations in Australia and New Zealand, with an engagement score of 69% for 2016. The analysis of our 2016 survey showed our employees feel that Smartgroup has a high-performance culture, with both frontline managers and new starters being more engaged than ever before.

Acquisitions

Trinity Management Group (Smartequity)

On 29 January 2016, the Group completed the acquisition of selected assets of TMG, for an initial payment of $1.7m with a further payment to be made in 36 months on a multiple based on the increment of EBIT greater than $864,000. The business trades as Smartequity Pty Ltd, a 100% subsidiary of Smartgroup.

Post balance date events

Acquisition of Autopia Group Pty Ltd (Autopia)

On 4 July 2016, the Group acquired 100% of Autopia for $36m. Autopia, based in Sydney, provides novated leasing to a corporate client base that includes over 300 employer clients. Autopia has a recognised brand in the corporate market and manages approximately 3,000 vehicles across Australia. The acquisition was funded by new debt facilities, existing cash reserves and $250,000 of Smartgroup shares to be issued to management shareholders of Autopia.

Acquisition of Selectus Pty Ltd (Selectus)

On 2 August 2016, the Group acquired Selectus for initial consideration of $119m plus subsequent consideration of up to $50m, subject to the FY2017 EBITDA and certain performance metrics relating to the future growth of the Selectus business.

Selectus, based in Melbourne, was the largest privately owned national provider of novated leases and salary packaging administration services. Selectus manages over 13,000 vehicles across Australia. Its client base includes over 500 employer clients, including organisations in the government and rebatable sectors. The acquisition adds another complementary brand to Smartgroup’s salary packaging business and provides exposure to the rebatable segment.

Equity issuance, placement and new debt facilities

The acquisition of Autopia was funded by new debt facilities of $32.5m, cash from the balance sheet and $250,000 of issued equity to the management shareholder of Autopia.

The acquisition of Selectus was funded through the issue of 4,573,169 shares (issue price of $6.56 at the five day volume weighted average price) to Selectus shareholders and a placement of 7,650,000 shares (issue price of $7.00) as well $70m of new debt facilities.

The total shares on issue at the date of this report is reconciled by:

Balance as at 30 June 2016 (including LFSP) - Note 7	107,310,631
Plus: share issue for Selectus	4,573,169
Plus: share placement	7,650,000
	119,533,800

A Share Purchase Plan was also launched on 15 August 2016, closing on 31 August 2016.

Directors' report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of the Smartgroup Corporation Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during the half-year ended 30 June 2016.

Directors
The following persons were directors of the Company for the half-year ended 30 June 2016 and up to the date of this report, unless otherwise stated.

Michael Carapiet (Chairman)
Deven Billimoria
John Prendiville
Gavin Bell
Andrew Bolam
Ian Watt
Deborah Homewood (appointed 9 May 2016)

Principal activities
During the half-year the principal activities of the Group consisted of outsourced salary packaging and share plan administration, vehicle services, and software distribution.

Review of operations
The profit after tax for the Group is $14,704,000 (30 June 2015: $9,146,000). Refer to the Review of operations for further commentary on the results.

Dividends
On 24 August 2016, the directors declared a fully-franked dividend of 9.8 cents per ordinary share. The record date is 15 September 2016 and the dividend will be paid on 30 September 2016.

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

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

On behalf of the directors,

Michael Carapiet
Chairman
24 August 2016, Sydney

Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

2. no contraventions of any applicable code of professional conduct in relation to the review.

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

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
24 August 2016

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Statement of profit or loss and other comprehensive income

For the half-year ended 30 June 2016

	Notes	Consolidated	
		30 June 2016 $'000	**30 June 2015 $'000**
Revenue		60,903	44,818
Share of profits of joint ventures accounted for using the equity method		229	-
Expenses			
Employee benefits expense		(24,564)	(17,872)
Administration and corporate costs		(7,849)	(5,812)
Depreciation expense		(579)	(482)
Amortisation expense		(2,861)	(3,846)
Advertising and marketing expenses		(1,165)	(1,221)
Occupancy expenses		(1,320)	(1,168)
Other expenses		(685)	(751)
Finance costs		(1,003)	(458)
Profit before income tax		21,106	13,208
Income tax expense		(6,402)	(4,062)
Net profit for the half-year attributable to the owners of Smartgroup Corporation Ltd		14,704	9,146
Other comprehensive income for the half-year, net of tax			
Items that may be reclassified subsequently to profit or loss			
Fair value loss on hedging instruments entered into for cashflow hedges		(200)	-
Other comprehensive income / (loss) for the half-year		**(200)**	**-**
Total comprehensive income for the half-year attributable to the owners of Smartgroup Corporation Ltd		14,504	9,146
		Cents	**Cents**
Basic earnings per share	9	14.10	9.01
Diluted earnings per share	9	13.91	9.01

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

Statement of financial position

As at 30 June 2016

	Notes	Consolidated 30 June 2016 $'000	Restated 31 December 2015 $'000
Assets			
Current assets			
Cash and cash equivalents		18,932	19,546
Trade and other receivables		11,805	11,105
Other current assets		2,300	2,322
Total current assets		33,037	32,973
Non-current assets			
Deferred tax asset		6,624	6,032
Property and equipment		2,782	3,400
Investments accounted for using equity method		6,466	6,029
Goodwill	4	103,941	102,455
Identifiable intangible assets		13,568	16,534
Other non-current assets		504	-
Total non-current assets		133,885	134,450
Total assets		166,922	167,423
Liabilities			
Current liabilities			
Trade and other payables		17,988	21,930
Income tax payable		4,303	5,000
Provisions		3,652	3,317
Other current liabilities		1,790	708
Total current liabilities		27,733	30,955
Non-current liabilities			
Provisions		1,158	1,067
Borrowings	6	49,254	52,756
Other financial liabilities		313	140
Total non-current liabilities		50,725	53,963
Total liabilities		78,458	84,918
Net assets		88,464	82,505
Equity			
Issued capital	7	72,373	62,013
Reserves	8	1,581	11,664
Retained profits		14,510	8,828
Total equity		88,464	82,505

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

Statement of changes in equity

For the half-year ended 30 June 2016

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 31 December 2014	62,013	900	3,006	65,919
Profit after income tax for the half-year	-	-	9,146	9,146
Other comprehensive income for the half year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	9,146	9,146
Transactions with owners in their capacity as owners:				
Share-based payments	-	233	-	233
Dividends paid	-	-	(6,189)	(6,189)
Balance at 30 June 2015	62,013	1,133	5,963	69,109
Balance at 31 December 2015	62,013	11,664	8,828	82,505
Profit after income tax for the half-year	-	-	14,704	14,704
Other comprehensive income for the half year, net of tax	-	(200)	-	(200)
Total comprehensive income for the half-year	-	(200)	14,704	14,504
Transactions with owners in their capacity as owners:				
Shares issued on business combination	10,360	(10,360)	-	-
Share-based payments	-	477	-	477
Dividends paid	-	-	(9,022)	(9,022)
Balance at 30 June 2016	72,373	1,581	14,510	88,464

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

Statement of cash flows

For the half-year ended 30 June 2016

	Notes	Consolidated 30 June 2016 $'000	Consolidated 30 June 2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		65,576	47,218
Payments to suppliers and employees (inclusive of GST)		(41,564)	(35,050)
Interest received from operations		590	519
Interest paid		(1,002)	(360)
Income taxes paid		(7,650)	(3,032)
Net cash inflow from operating activities		15,950	9,295
Cash flows from investing activities			
Net proceeds received from investments		75	241
Payments for purchase of property and equipment		(184)	(101)
Payment for business combination	5	(1,708)	-
Net cash (used in) / from investing activities		(1,817)	140
Cash flows from financing activities			
Proceeds from long term incentive plan		195	-
Repayment of borrowings		(5,920)	(22,000)
Dividends paid		(9,022)	(6,189)
Net cash used in financing activities		(14,747)	(28,189)
Net decrease in cash and cash equivalents		(614)	(18,754)
Cash and cash equivalents at beginning of the financial half-year		19,546	27,823
Cash and cash equivalents at end of the financial half-year		18,932	9,069

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

Notes to the financial statements

Note 1. Basis of preparation

Smartgroup Corporation Ltd ('the Company') is a company limited by shares, incorporated and domiciled in Australia. The financial report covers the consolidated entity (referred to hereafter as the 'Group') consisting of the Company and the entities it controlled for the half-year ended 30 June 2016.

The consolidated half-year financial report is a general purpose financial report prepared in accordance with Australian Accounting Standard Board ('AASB') 134 'Interim Financial Reporting' and the Corporations Act 2001.

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. Certain items have been reclassified in nature in the Statement of profit or loss and other comprehensive income and Statement of financial position, including the comparatives, to enhance comparability. There has been no impact to Profit before finance costs, tax and amortisation, Net profit after income tax, and on the total current or non-current assets and liabilities.

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

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

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Derivatives and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its derivatives, managing interest rate risks, as hedges of the cash flows on recognised liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents, at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The effective portion of changes in the fair value of derivatives, that are designated and qualify as cash flow hedges, is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

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

A number of new or amended standards became applicable for the current reporting period. However, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Notes to the financial statements (cont'd)

Note 2. Dividends

On 24 August 2016, the directors declared a fully-franked dividend of 9.8 cents per ordinary share. The record date is 15 September 2016 and the dividend will be paid on 30 September 2016. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $11,700,000.

Note 3. Operating segments

Indentification 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 EBITA (earnings before interest, tax 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, which includes novated leasing, the marketing of salary packaging debit cards and share plan administration.
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, 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.

	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	$'000	$'000	$'000	$'000	$'000
Half-year ended 30 June 2016					
Revenue					
Sales to external customers	51,343	1,978	7,332	-	60,653
Intersegment sales	-	1,128	5,910	(7,038)	-
Total sales revenue	51,343	3,106	13,242	(7,038)	60,653
Finance revenue	192	48	-	10	250
Total revenue	51,535	3,154	13,242	(7,028)	60,903
Segment results (EBITA)	18,355	1,220	9,088	(3,693)	24,970
Amortisation expense					(2,861)
Finance cost					(1,003)
Consolidated profit before income tax					21,106
Income tax					(6,402)
Consolidated profit after income tax					14,704
30 June 2016					
Assets					
Segment assets	81,079	12,161	14,744	58,938	166,922
Consolidated total assets					166,922
Liabilities					
Segment liabilities	21,562	1,642	5,791	49,463	78,458
Consolidated total liabilities					78,458

Notes to the financial statements (cont'd)

Note 3. Operating segments (cont'd)

	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations / Corporate $'000	Total $'000
Half-year ended 30 June 2015					
Revenue					
Sales to external customers	36,199	2,110	6,268	-	44,577
Intersegment sales	-	699	4,783	(5,482)	-
Total sales revenue	36,199	2,809	11,051	(5,482)	44,577
Finance revenue	198	32	1	10	241
Total revenue	36,397	2,841	11,052	(5,472)	44,818
Segment results (EBITA)	11,605	1,195	6,908	(2,196)	17,512
Amortisation expense					(3,846)
Finance cost					(458)
Consolidated profit before income tax					13,208
Income tax					(4,062)
Consolidated profit after income tax					9,146
31 December 2015					
Assets					
Segment assets	61,397	8,661	24,023	73,342	167,423
Consolidated total assets					167,423
Liabilities					
Segment liabilities	21,030	1,310	11,001	51,577	84,918
Consolidated total liabilities					84,918

Note 4. Goodwill

	30 June 2016 $'000	Restated 31 December 2015 $'000
Gross carrying amount		
Balance at beginning of the period	102,455	52,208
Adjustments resulting from business combinations occurring during the period (note 5)	1,486	50,247
Balance at end of the period	103,941	102,455
Accumulated impairment losses		
Balance at beginning of the period	-	-
Impairment losses for the period	-	-
Balance at end of the period	-	-
Net book value		
At the beginning of the period	102,455	52,208
At the end of the period	103,941	102,455

Notes to the financial statements (cont'd)

Note 5. Business combinations

5a. Acquisition of Advantage
On 11 December 2015, the Group acquired 100% interest in Salary Packaging Solutions Pty Ltd and National Tax Manager Pty Ltd which together operate as Advantage Salary Packaging ('Advantage') for a total consideration of $58,543,000.

The initial accounting for the acquisition of Advantage has been provisionally determined at 30 June 2016. Since the 31 December 2015 report, a valuation has been received for the software resulting in a reclassification of $11,825,000 from goodwill to identifiable intangible assets. This adjustment has been reflected in the comparative notes. As at the date of the Directors' report for the half-year ending 30 June 2016, the final valuation report in respect of the contracts acquired has not yet been completed, and consequently the fair value of the contracts and associated deferred tax liabilities were not included in the determination of goodwill. Resulting amortisation charges have not been recorded in the profit and loss.

5b. Acquisition of Trinity Management Group
On 29 January 2016, the Group completed an agreement with Trinity Management Group Pty Ltd ('TMG') to acquire selected assets of TMG. TMG provides and manages tailored equity plans on behalf of over 50 corporate clients.

Consideration transferred

	Fair Value $'000
Cash	1,708
Contingent Consideration	-
	1,708

Assets acquired and liabilities assumed at the date of acquisition

	$'000
Current assets	
Accrued revenue	239
Deferred tax asset	8
Current liabilities	
Current provisions	(12)
Non-current liabilities	
Non-current provisions	(13)
	222

The accounting for the acquisition of TMG has been provisionally determined at 30 June 2016. As at the date of the Directors' report for the half-year ending 30 June 2016, the final valuation report in respect of the contracts acquired has not yet been completed, and consequently the fair value of the contracts and associated deferred tax liabilities were not included in the determination of goodwill.

Goodwill arising on acquisition	**$'000**
Consideration transferred	1,708
Less: fair value of identifiable net assets acquired	(222)
Goodwill arising on acquisition	1,486

Net cash outflow arising on acquisition

Consideration paid in cash	1,708
Less: cash and cash equivalent balances acquired	-
	1,708

Impact of acquisition on the results of the Group

The goodwill of $1,486,000 represents the expected benefits from expanding our outsourced administration segment. TMG contributed revenues of $558,000 and profit after tax of $137,000 to the Group for the period ended 30 June 2016. Had the acquisition of TMG been effected at 1 January 2016 the revenue from continuing operations of the TMG assets would have been $670,000 and the profit from continuing operations would have been $164,000. The directors of the Group consider that the proforma numbers represent an approximate measure of the performance of the combined Group on a half-yearly basis and provide a reference point for comparison in future half-years.

Notes to the financial statements (cont'd)

Note 6. Borrowings

At 30 June 2016 the following bank facilities were available to the Group:

- Tranche A facility: a three year bullet revolving term facility for $22 million;
- Tranche B facility: a three year revolving working capital facility for $5 million;
- Tranche C facility: a three year letter of credit facility for $3 million
- Tranche D facility: a three year amortising term loan facility for $27.5 million; and
- Ancillary facilities: credit card and electronic pay away facility for $1.85 million.

The Tranche A Facility, Tranche B and Tranche D Facility are subject to a variable interest rate, which is based on BBSY plus a margin. The banking facilities mature on 30 May 2018 with the exception of Tranche D which matures on 15 December 2018.

The banking facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The Group is subject to certain financing arrangement 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 period.

After the end of the reporting period additional facilities were secured by the Company as disclosed in Note 11.

Note 7. Equity - issued capital

Consolidated	Date	Shares	Issue price	$'000
Ordinary shares	31 December 2015	101,461,150		62,013
Ordinary shares - LFSP	31 December 2015	2,236,974		3,631
Ordinary shares	18 March 2016	2,808,989	$3.69	10,360
Ordinary shares - LFSP	18 March 2016	449,866	$4.42	1,988
Ordinary shares - LFSP	9 May 2016	353,652	$4.76	1,683
Number of shares legally on issue		107,310,631		79,675
Less: Ordinary shares - LFSP		(3,040,492)		(7,302)
Balance at 30 June 2016		104,270,139		72,373

On 18 March 2016 shares were granted to the management team under the Loan Funded Share Plan ('LFSP') at the market price, and at the Annual General Meeting on 5 May 2016, the CEO's 2016 LFSP grant, under the Long Term Incentive Plan, was approved with shares being purchased at the market price. The shares purchased as part of the LFSP are held by the participant until they vest or are forfeited and are eligible for dividends. Should the Company pay dividends or make capital distributions in the future, any dividends paid or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions.

The shares are vesting on 31 December 2018. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle (based on NPATA per share) and a total shareholder return hurdle.

At 30 June 2016, the shares issued under the LFSP have been treated as contingently issuable as all the vesting conditions have not been satisfied at the balance date. Therefore, the shares issued under the LFSP are excluded from basic earnings per share and included in diluted earnings per share.

Note 8. Equity - reserves

	30 June 2016 $'000	31 December 2015 $'000
Share-based payments reserve	1,781	1,304
Deferred share capital reserve	-	10,360
Cash flow hedge reserve	(200)	-
Balance at end of the period	1,581	11,664

Notes to the financial statements (cont'd)

Note 9. Earnings per share

	30 June 2016 $'000	30 June 2015 $'000
Consolidated profit after income tax expense for the half-year attributable to the owners of Smartgroup Corporation Ltd	14,704	9,146

	Number	Number
Weighted average ordinary shares used in calculating basic earnings per share	104,270,139	101,461,150
Weighted average ordinary shares used in calculating diluted earnings per share	105,680,332	101,461,150

	Cents	Cents
Basic earnings per share	14.10	9.01
Diluted earnings per share	13.91	9.01

Refer to the disclosure in Note 7 regarding the basis of calculation for basic and diluted earnings per share.

Note 10. Fair value of financial instruments

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

The Group's interest rate swap is measured at fair value at the end of each reporting period and is valued using a discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the counterparty.

	30 June 2016 $'000	31 December 2015 $'000
Level 2 - Other financial liabilities - interest rate swap	313	140

Note 11. Events after the reporting period

Acquisition of Autopia Group Pty Ltd (Autopia)
On 4 July 2016, the Group acquired 100% of Autopia for $36m. Autopia, based in Sydney, provides novated leasing to a corporate client base that includes over 300 employer clients. Autopia has a recognised brand in the corporate market and manages approximately 3,000 vehicles across Australia. The acquisition was funded by new debt facilities, existing cash reserves and $250,000 of Smartgroup shares to be issued to management shareholders of Autopia.

Acquisition of Selectus Pty Ltd (Selectus)
On 2 August 2016, the Group acquired Selectus for initial consideration of $119m plus subsequent consideration of up to $50m, subject to the FY2017 EBITDA and certain performance metrics relating to the future growth of the Selectus business.

Selectus, based in Melbourne, was the largest privately owned national provider of novated leases and salary packaging administration services. Selectus manages over 13,000 vehicles across Australia. Its client base includes over 500 employer clients, including organisations in the government and rebatable sectors. The acquisition adds another complementary brand to Smartgroup's salary packaging business and provides exposure to the rebatable segment.

Equity issuance, placement and new debt facilities
The acquisition of Selectus was funded through the issue of 4,573,169 shares (issue price of $6.56 at the five day volume weighted average price) to Selectus shareholders and a placement of 7,650,000 shares (issue price of $7.00) as well $70m of new debt facilities.

The total shares on issue at the date of this report is reconciled by:

Balance as at 30 June 2016 (including LFSP) - Note 7	107,310,631
Plus: share issue for Selectus	4,573,169
Plus: share placement	7,650,000
	119,533,800

A Share Purchase Plan was also launched on 15 August 2016, closing on 31 August 2016.

Directors declaration

In the directors' opinion:

(a) the attached financial statements and note set out on pages 8 to 17 are in accordance with the Corporations Act 2001, including:

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

ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half-year ended on that date, and

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

Signed in accordance with a resolution of directors.

On behalf of the directors,

Michael Carapiet
Chairman
24 August 2016, Sydney

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Smartgroup Corporation Ltd (the company), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Smartgroup Corporation Ltd (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Smartgroup Corporation Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
24 August 2016

Corporate directory

Directors	Michael Carapiet Deven Billimoria John Prendiville Gavin Bell Andrew Bolam Ian Watt Deborah Homewood	**Auditor**	PricewaterhouseCoopers Darling Park, Tower 2 201 Sussex Street Sydney, NSW, Australia, 2000
Company secretaries	Timothy Looi Amanda Morgan	**Solicitors**	Minter Ellison Lawyers Level 23, 525 Collins Street Melbourne, VIC, Australia , 3000 Tel: 02 9921 8888
Registered office	Smartgroup Corporation Ltd Level 8, 133 Castlereagh Street Sydney, NSW, Australia, 2000 Tel: 1300 476 278	**Bankers**	Australia and New Zealand Banking Group Limited 242 Pitt Street Sydney, NSW, Australia, 2000
Principal place of business	Smartgroup Corporation Ltd Level 8, 133 Castlereagh Street Sydney, NSW, Australia, 2000	**Stock exchange listing**	Smartgroup Corporation Ltd shares are listed on the Australian Securities Exchange (ASX Code: SIQ)
Share registry	LINK Market Services Level 12, 680 George Street Sydney, NSW, Australia, 2000 Tel: 1300 554 474	**Website**	www.smartgroup.com.au