

# ASX ANNOUNCEMENT

22 August 2017

## 2017 Financial Report - 30 June 2017

In accordance with ASX Listing Rules, the documents which follow are for immediate release to the market:

1. Preliminary final report for the year ended 30 June 2017 (Appendix 4E)
2. Consolidated Financial Report for the year ended 30 June 2017.

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### About SMS

SMS is an ASX-listed Australian business specialising in business and IT advisory, technology solutions, managed services and recruitment. SMS cultivates innovation, digital, mobile and design-led business and technology capability to empower organisations across all industry sectors. With over 1,400 staff across Australia, Hong Kong, Singapore and the Philippines, SMS promotes and delivers next-generation customer-centric outcomes for our clients.

For more information please visit [www.smsmt.com](http://www.smsmt.com)

## Appendix 4E Listing Rule 4.3A

### Preliminary Final Report

#### SMS MANAGEMENT & TECHNOLOGY LIMITED ABN 49 009 558 865

#### 1. Details of the reporting period and the previous corresponding period

Reporting period: Year ended 30 June 2017

Previous corresponding period: Year ended 30 June 2016

#### 2. Results for announcement to the market

Results	Change from previous corresponding period			June 2017
Total revenue from ordinary activities	down	\$24.2m or 7%	to	\$304.5m
Net loss from ordinary activities after tax attributable to members	down	\$51.8m or 534%	to	\$(42.1)m
Net loss for the period attributable to members	down	\$51.8m or 534%	to	\$(42.1)m

Dividends	Amount per security	Franked amount per security
<i>Current period:</i> <sup>1</sup> Interim dividend	1.5 cents	1.5 cents
<i>Previous corresponding period:</i> Final dividend	3.0 cents	3.0 cents
Interim dividend	6.5 cents	6.5 cents
Record date for determining entitlements to final dividend		n/a
Payment date of final dividend		n/a

<sup>1</sup> It is not proposed to pay a final dividend for the year ended 30 June 2017.

An explanation of the results can be found in the accompanying Media Release, Investor Presentation and the attached audited 2017 Financial Report (incorporating the Directors' Report).

#### 3. Consolidated statement of comprehensive income

Refer to the consolidated statement of profit or loss and other comprehensive income and the accompanying notes in the audited 2017 Financial Report attached.

#### 4. Consolidated statement of financial position

Refer to the consolidated statement of financial position and the accompanying notes in the audited 2017 Financial Report attached.

#### 5. Consolidated statement of cash flows

Refer to the consolidated statement of cash flows and the accompanying notes in the audited 2017 Financial Report attached.

#### 6. Consolidated statement of changes in equity

Refer to the consolidated statement of changes in equity and the accompanying notes in the audited 2017 Financial Report attached.

**7. Details of individual and total dividends and payment dates**

Refer section 2 above and also Note 9 in the audited 2017 Financial Report attached.

There is no foreign sourced income component to any dividend.

**8. Details of dividend reinvestment plan**

Not applicable.

**9. Net tangible assets**

	Current period	Previous corresponding period
Net tangible assets per ordinary security	27 cents	25 cents

**10. Details of entities over which control has been gained or lost during the period**

Not applicable.

**11. Details of associates and joint venture entities**

Not applicable.

**12. Details of any other significant information**

Refer to the accompanying Media Release, Investor Presentation and the attached audited 2017 Financial Report (incorporating the Directors' Report).

**13. For foreign entities, accounting standards used in compiling the report**

Not applicable.

**14. Commentary on the results for the period**

Refer to the accompanying Media Release, Investor Presentation and the attached audited 2017 Financial Report (incorporating the Directors' Report).

**15. Statement as to whether the report is based on accounts which have been audited**

The 2017 Financial Report has been audited.

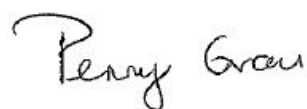
**16. For unaudited accounts, a description of any likely modified opinion, emphasis of matter or other matter paragraph**

Not applicable.

**17. Description of any modified opinion, emphasis of matter or other matter paragraph contained in the independent audit report**

Not applicable.

This report is based on, and should be read in conjunction with, the audited 2017 Financial Report attached.



..... Date: 22 August 2017  
Penny Grau  
Company Secretary



# **SMS Management & Technology Limited**

## **Financial Report**

**30 June 2017**

**ABN 49 009 558 865**

## About this report

### Materiality

Management have included information in this report that we deem to be material and relevant to the understanding of the financial statements. Disclosure may be considered material and relevant due to the dollar amount or nature, or if the information is important to understand:

- (i) our current year results;
- (ii) the impact of significant changes in our business; or
- (iii) aspects of our operations that are important to future performance.

### Use of estimates and judgements

Preparing these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

- Note 2 Segment reporting and revenue
- Note 5 Impairment assessment
- Note 11 Employee benefits provisions and expenses

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**SMS MANAGEMENT & TECHNOLOGY LIMITED AND ITS CONTROLLED ENTITIES**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2017**

The Directors of SMS Management & Technology Limited (the Company) present their report, together with the financial report of the Company and its controlled entities (collectively the Group or SMS) for the financial year ended 30 June 2017 and the auditor's report thereon. The information set out below is to be read in conjunction with the Remuneration Report set out on pages 11 to 20 which forms part of the Directors' Report.

**DIRECTORS**

The Directors of the Company during the financial year ended 30 June 2017 and up to the date of this report were:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p><b>Derek Young, AM CPA, FACCA (UK), MAICD</b></p> <p>Chairman of the Board since June 2014</p> <p>Independent Non-Executive Director</p> <p>Member of the Remuneration and Nominations Committee</p> <p>Member of Audit, Risk and Compliance Committee</p> <p>Director since 22 November 2011</p>	<p>Chairman of the Robert Rose Foundation, OZP Pty Ltd and Orcadia Foundation Ltd; member of the Major Performing Arts Panel of the Australian Council for the Arts; Adjunct Professor at RMIT's School of Accounting.</p> <p>Derek has over 30 years' management consulting experience.</p> <p>Formerly Managing Director of Accenture Australia and Managing Partner of Accenture's Financial Services in Asia Pacific; formerly represented Accenture at the Business Council of Australia; formerly a Board member of the Australian Information Industry Association ("AIIA"); formerly Chairman of the Melbourne Theatre Company and Australia Major Performing Arts Group; formerly a member of the RMIT University Council and Chairman of its Planning and Finance Committee and formerly a member of the Committee for Melbourne.</p>
<p><b>Rick Rostolis Bachelor of Business, FCA</b></p> <p>Chief Executive Officer (CEO) and Managing Director</p> <p>Appointed as CEO on 2 May 2016 and Managing Director on 18 May 2016</p>	<p>Rick joined SMS in October 2010 in the role of Chief Financial Officer and has significant professional services experience from his 12 years with KPMG, together with functional expertise in strategy, finance, mergers and acquisitions and operational performance improvement gained in various senior management roles during his 10 years with Pacific Brands.</p> <p>Rick is a member of the Committee of Management and sits on the Finance and Audit Committee of Assisi Centre Inc.</p>
<p><b>Bruce Thompson B. Ec, FCPA, FAICD</b></p> <p>Graduate of the Wharton Business School Advanced Management Program</p> <p>Independent Non-Executive Director</p> <p>Chairman of the Audit, Risk and Compliance Committee</p> <p>Member of Remuneration and Nominations Committee</p> <p>Director since 18 October 2000</p>	<p>Formerly Chairman and Managing Director of Hewlett Packard Australia Ltd. Bruce worked with Hewlett Packard for 32 years in Australia and overseas until his retirement in August 2000.</p> <p>Formerly Chairman of the Victorian Government Commission for Gambling and Liquor Regulation and Innovonics Ltd; formerly a Council and Board member of the Box Hill Institute of TAFE; formerly Chief Executive Officer of Keycorp Limited; formerly a trustee of Melbourne Cricket Ground Trust; formerly a member of the Business Council of Australia.</p>

## DIRECTORS (continued)

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p><b>Nicole Birrell</b> <b>B. App Ec, M.Sc, FAICD</b></p> <p>Independent Non-Executive Director</p> <p>Member of Audit, Risk and Compliance Committee</p> <p>Director since 20 December 2004</p>	<p>Director of Victorian Plantations Corporation and Chair of the Board of Trustees of International Maize and Wheat Improvement Center (CIMMYT); Operational Risk Management Consultant.</p> <p>Nicole has over 27 years' experience in corporate and investment banking.</p> <p>Formerly Head of Operational Risk and Compliance for the Institutional Financial Services division of ANZ Banking Group; formerly Director of Wheat Quality Australia Ltd, Superpartners Pty Ltd, Queensland Sugar Ltd, Grains Research &amp; Development Corporation, AusBulk Limited, and The Australian Practice Nurses Association Inc.; formerly Chair of AusMalt Pty Ltd; formerly a member of Wheat Exports Australia.</p>
<p><b>Justin Milne</b> <b>B. A, MAICD</b></p> <p>Independent Non-Executive Director</p> <p>Chairman of Remuneration and Nominations Committee</p> <p>Director since 28 August 2014</p>	<p>Chairman of the Australian Broadcasting Company (ABC), Chairman of MYOB Group Ltd (since March 2015) and NetComm Wireless Limited (since March 2012); Non-Executive Director of Tabcorp Holdings Limited (since August 2011), Members Equity Bank Limited and NBN Co.</p> <p>Justin has 35 years' telecommunications, marketing and media experience.</p> <p>Formerly Chairman of pieNETWORKS Limited; formerly Director of Quickflix Ltd, SA Economic Development Board, Basketball Australia Limited and the Sydney Children's Hospital. Previously CEO of the Microsoft Network, OzEmail and Group Managing Director of Bigpond.</p>
<b>Directors who retired during the financial year</b>	
<p><b>Deb Radford</b> <b>B. Ec, Grad Dip Finance &amp; Investment</b></p> <p>Independent Non-Executive Director</p> <p>Director since 9 September 2013 Retired on 14 November 2016</p>	<p>As at the date of her retirement, Deb was a director of Bendigo and Adelaide Bank Ltd (since February 2006) and Council Member of LaTrobe University.</p> <p>Deb has over 10 years' consulting experience to many Victorian Government departments and agencies, as well as private sector organisations dealing with government, advising on government business enterprises and public sector partnerships.</p> <p>Formerly Director and Deputy Chair of City West Water; formerly Director of Forestry Tasmania and Melbourne Market Authority; formerly principal of Deb Radford &amp; Associates Pty Ltd; previously held a number of senior positions within the Department of Treasury and Finance of Victorian Government; formerly a senior manager of HSBC and Wardley Australia Ltd.</p>

## COMPANY SECRETARY

The Company Secretary position is jointly held by Mr Peter Sherar and Ms Penny Grau. There have been no changes to the Company Secretary for the financial year.

Mr Sherar was appointed Company Secretary and Chief Financial Officer on 18 May 2016 and served as Group Financial Controller for six years prior to these appointments. He holds a Bachelor of Accounting and is a Member of the Institute of Chartered Accountants Australia and New Zealand.

Ms Grau was appointed General Counsel and Company Secretary on 2 June 2016. Prior to this appointment, Ms Grau was General Counsel and Company Secretary of Pact Group Holdings Limited and previously Tatts Group Limited. She holds a Bachelors of Law and Commerce, Masters of Law, a Graduate Diploma in Applied Finance and Investment and is a Fellow of the Governance Institute of Australia.

## DIRECTORS' MEETINGS

The number of meetings of the Board and each Board Committee and number of meetings attended by each of the Directors of the Company as a member during the financial year are:

Director	Board of Directors		Audit, Risk and Compliance Committee		Remuneration and Nominations Committee	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
Derek Young	21	21	3	3	2	2
Rick Rostolis	21	20	-	-	-	-
Bruce Thompson	21	20	4	4	2	2
Nicole Birrell	21	19	4	4	1	1
Justin Milne	21	17	1	1	2	2
Deb Radford (iii)	5	4	1	1	1	-

(i) Number of meetings held during the period the Director was a member of the Board or Committee.

(ii) Number of meetings attended as a member.

(iii) Retired 14 November 2016

## DIRECTORS' INTERESTS

The relevant interests of each Director in the shares, rights or options over shares issued by the Company at the date of this report are as follows:

Director	Ordinary shares	Performance rights over ordinary shares
Derek Young	50,000	-
Rick Rostolis	30,644	214,190
Bruce Thompson	70,499	-
Nicole Birrell	9,681	-
Justin Milne	-	-

## PERFORMANCE RIGHTS

### Performance rights granted to the CEO and Executives of the Group

Equity movements during the financial year are disclosed on page 18 to the financial statements.

## STATE OF AFFAIRS & LIKELY DEVELOPMENTS

On 27 February 2017, the Company announced that it had entered into a scheme implementation agreement with DWS Limited (DWS) under which DWS proposed to acquire all of the issued shares in the Company for \$1.00 in cash and 0.39 new DWS shares for each ordinary share in the Company (DWS SIA). On 14 June 2017, the Company received an offer from ASG Group Limited (ASG), a 100% owned subsidiary of Nomura Research Institute, Ltd, under which ASG proposes to acquire all the issued shares in the Company for \$1.80 in cash for each ordinary share in the Company (Scheme Consideration). Following the announcement on 19 June 2017 that DWS did not wish to submit a counter proposal, the Company subsequently terminated the DWS SIA and entered into a scheme implementation agreement with ASG on 20 June 2017 (ASG Scheme).

ASG proposes to acquire the Company by way of a Scheme of Arrangement (the Scheme) pursuant to section 411 of the Corporations Act. The Scheme is subject to several conditions including shareholder approval at a meeting which has been convened by the Supreme Court of Victoria for 1 September 2017 and Court approval. An independent expert has concluded that the Scheme is in the best interests of the Company's shareholders on the basis it is both fair and reasonable, in the absence of a superior proposal. If the Scheme becomes effective (currently expected to occur on or about 7 September 2017) and is implemented (currently expected to occur on or about 26 September 2017), the Company will become a wholly owned subsidiary of ASG and will apply to be removed from the ASX's official list.



## STATE OF AFFAIRS & LIKELY DEVELOPMENTS (continued)

Subject to a favourable draft class ruling from the Australian Taxation Office being obtained, the Company retains the discretion to pay a fully franked special dividend of up to a maximum of 10.2 cents per ordinary share in the Company. If the special dividend is declared by the Board and the ASG Scheme becomes effective, the Scheme Consideration will be reduced by the cash value of any special dividend paid. The Board intends to consider whether it will pay a special dividend following the Scheme meeting convened for 1 September 2017. If declared, the special dividend is expected to be paid to the Company's shareholders as at the special dividend record date which will be before the Scheme is implemented.

## PRINCIPAL ACTIVITIES

The Group provides a broad range of services across business and Information Technology (IT) advisory, technology solutions, managed services and contract recruitment. The Group operates across Australia and the Asia Pacific, with regional offices in Hong Kong and Singapore.

The business operates in two segments:

- **SMS Consulting:** offering a range of specialised business and IT advisory, technology solutions and managed services; and
- **M&T Resources:** offering contract and permanent recruitment of IT resources.

The SMS Consulting brand offers:

Advisory	Solutions	Managed Services
Digital Business Strategy	Web and Mobile & IoT Apps	Application Managed Services
Technology, Strategy and Planning	Data Provisioning and Business Analytics	Infrastructure Managed Services
Design Thinking and Customer Experience	Customer Solutions	IT Managed Services
Agile Transformation	Process and Productivity Solutions	Cloud Orchestration
Information Management Strategy	Cloud Migration and Enablement	Support Services
Project Delivery & Enablement		

The M&T Resources brand offers:

- Recruitment and contract labour (predominantly in the IT sector).

There were no significant changes in the nature of the principal activities of the Group during the year.

## OPERATING AND FINANCIAL REVIEW

### Financial Performance

Full Year Results	2017 \$m	2016 \$m	% Mvt
Revenue	304.5	328.7	(7%)
EBITDA <sup>1</sup> prior to significant items	10.9	15.7	(31%)
Reported EBITDA Loss	(37.9)	n/a	n/a
Net Profit After Tax (NPAT) prior to significant items <sup>2</sup>	6.1	9.7	(37%)
Reported Net Loss After Tax	(42.1)	n/a	n/a

(1) EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortisation and is non-IFRS financial information pre-significant items.

(2) Significant items **net of tax** are represented by a non-cash goodwill impairment charge of \$46.7 million, termination costs of \$0.6 million and DWS scheme transaction costs of \$0.9 million

The business has had a number of challenges over recent years, however, the second half of FY17 delivered an improved EBITDA (increase from \$5.0 million in 1H to \$5.9 million in 2H, prior to significant items), following initiatives to stabilise the business and focus on operational efficiency.

## OPERATING AND FINANCIAL REVIEW (continued)

The reported EBITDA included the following significant items:

- a non-cash goodwill impairment charge of \$46.7 million (recognised in the 1H FY17 results);
- termination costs of \$0.9 million; and
- transaction costs of \$1.2 million in relation to the now terminated DWS SIA.

### Segment Review

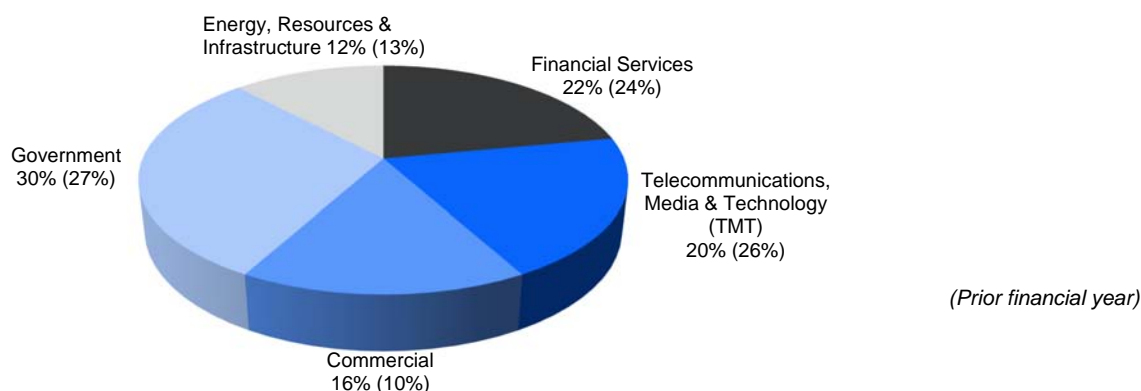
#### SMS Consulting

Full Year Results	2017 \$m	2016 \$m	% Mvt
Revenue	211.6	234.4	(10%)
EBITDA <sup>1</sup>	18.9	25.1	(25%)
EBITDA margin (%)	8.9%	10.7%	

2017 revenue reflected the weak sales pipeline leading into FY17. Although revenue was down 10% on the prior year it remained steady half on half. Despite margin pressures, the second half saw an improvement in EBITDA due to efficiency gains through utilisation increasing from 78% (1H) to 85% (2H). Billable headcount was on average 9% lower than the prior year (closing at 825 compared to 877 per comparative period (pcp)) due to natural attrition and resource capacity adjustments. The second half profit improvement occurred across most states, in particular Victoria, New South Wales, Western Australia and Queensland.

Contract wins of \$237 million were impacted by underperformance primarily in Financial Services and Telecommunications, Media and Technology (TMT).

#### Revenue by Industry - SMS Consulting



#### M&T Resources

Full Year Results	2017 \$m	2016 \$m	% Mvt
Revenue <sup>2</sup>	92.9	94.3	(2%)
EBITDA <sup>1</sup>	5.5	6.1	(9%)
EBITDA margin (%)	5.9%	6.5%	

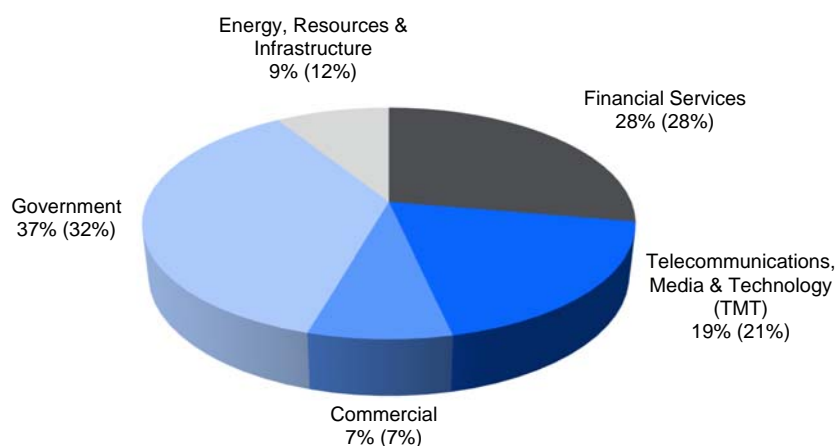
Demand in the contractor recruitment market remained steady with M&T Resources revenue marginally down on the prior year after delivering a strong result in FY16. Demand remained solid in Government but weaker in Financial Services and TMT. Profitability was down in the second half (compared to the first half) with contractor margins and recruitment down in Victoria and New South Wales.

Contract wins of \$121 million were slightly up on the prior year with growth in Government offsetting a slow-down in TMT and Energy, Resources and Infrastructure.

<sup>1</sup> EBITDA excludes significant items and unallocated corporate costs. The prior period has been restated to include occupancy costs.  
<sup>2</sup> Excludes interdivisional revenue of \$22.5m

## OPERATING AND FINANCIAL REVIEW (continued)

### Revenue by Industry - M&T Resources



(Prior financial year)

### Other

SMS continues to focus on cost management initiatives. Corporate costs (prior to financing costs, depreciation and amortisation expense and significant items) reduced from \$15.5 million in the prior year to \$13.5 million in FY17 as a result of cost reductions in IT and support functions.

### Cash position

	2017 \$m	2016 \$m
<b>EBITDA</b>	<b>(37.9)</b>	<b>15.7</b>
Change in working capital and provisions	(1.2)	9.2
Non-cash and other items	46.5	(0.4)
Tax paid	(3.9)	(6.2)
<b>Net operating cash flow</b>	<b>3.5</b>	<b>18.3</b>
Net cash used in investing activities	(0.2)	(20.9)
Net cash used in financing activities	(3.5)	(5.5)
<b>Net cash flow</b>	<b>(0.2)</b>	<b>(8.1)</b>

The working capital increase of \$1.2 million was mainly due to an increase in work in progress, primarily due to timing issues with fixed price invoice milestones. Operating cashflows were \$3.5 million for the year after payments for tax. Financing outflows predominantly related to dividends paid to shareholders of \$3.1 million.

### Financial position

	2017 \$m	2016 \$m
Cash	4.4	4.7
Trade receivables and work in progress (WIP)	52.1	51.1
Intangible assets	64.8	112.0
Loans and borrowings	13.5	12.0
Trade and other payables	15.0	16.2
Finance lease liabilities	2.2	1.1
Debtor days	35	37
Lock-up days (WIP plus debtor days)	58	53

## OPERATING AND FINANCIAL REVIEW (continued)

The Statement of Financial Position predominantly consists of cash, working capital (receivables, WIP and payables), intangible assets (from previous acquisitions) and borrowings.

The balance sheet remains strong with net debt of \$9.1 million (cash less loans and borrowings) as at 30 June 2017. Trade receivables and WIP were steady at 30 June 2017 compared to the prior year. Trade and other payables reduced by \$1.2 million at 30 June 2017 primarily due to reduced trade payables and sales commissions.

Intangible assets consists predominantly of goodwill, which was written down by \$46.7 million as a result of an impairment charge recognised in December 2016.

Finance lease liabilities of \$2.2 million relate to equipment to support multi-year Managed Services contracts, with a new contract entered into during this financial year.

### Dividends and Capital Management

The Company paid a fully franked interim dividend of 1.5 cents per share. The ASG SIA precludes the Board from paying a final dividend. However, the Board has retained the discretion to pay a special dividend of up to a maximum of 10.2 cents per ordinary share as part of the ASG Scheme. The Board intends to consider whether it will pay a special dividend following the Scheme meeting convened for 1 September 2017.

### Market Demand Drivers

The IT services market has undergone significant structural changes over recent years and is expected to continue to evolve over time.

Emerging technology trends, client buying patterns and intense competition continue to change the market landscape. Increasingly, our clients are operating in industries that are either IT dependent or have a growing reliance on their digital presence and IT services to drive growth, enhance customer experience, lift operational efficiencies and, at the same time, manage more regulatory requirements. Clients are continuing to differentiate and gain a competitive advantage through the application of new technologies.

The increasing adoption of Cloud and 'as-a-service' has seen client buying patterns continue to shift from capital to operational expenditure, decision making move from IT departments to line of business executives and traditional implementation timeframes reduced through agile and other innovative approaches. Managed Services have become an attractive option for clients to reduce their cost base and enhance operational efficiencies.

This digital transformation trend has resulted in three broad demand areas:

- Customer experience;
- Analytics and insights; and
- Digital automation.

In light of the changing IT services landscape, SMS has evolved a strategy aimed at improving its depth, scale and agility in order to compete in today's market and add value to our clients through the provision of end-to-end service offerings.

### Capabilities

SMS has focused its service offerings under the SMS Consulting brand into Advisory, Solutions and Managed Services, with its Recruitment services offered under the M&T Resources brand.

SMS's advisory capabilities provide business solutions including digital business strategy, design thinking and customer experience, agile transformation, enterprise and technical architecture, change and program implementation and information strategy.

SMS's technology solutions capabilities in part leverage the Company's partnerships with technology vendors to deliver client engagements including web and mobile application solutions, data provisioning and business analytics, customer solutions, process and productivity improvements and cloud migration and enablement. Some of the technology vendors which SMS has partnerships with include Microsoft, Salesforce, Amazon Web Services and Pega.

SMS's managed services capabilities utilise service delivery frameworks to provide managed services including service desk through to management of cloud, application, infrastructure and network environments.

SMS Consulting's service offerings are underpinned by project and change management and business analysis capabilities.

## OPERATING AND FINANCIAL REVIEW (continued)

M&T Resources' key capabilities consist of contract recruitment, permanent recruitment, talent acquisition, retained search and candidate services.

SMS considers its people are its single biggest differentiator in the market. SMS's workforce strategy revolves around attracting, developing and retaining people with the skills and knowledge to deliver on its business strategies. SMS empowers its people to succeed in order to build on its employee value proposition. A key 2018 objective will be to continue to strengthen the engagement of SMS's leadership with its consultants and to drive SMS to be an employer of choice to ensure it can attract and retain the best people in the industry.

### Material Business Risks

The Board and management continue to monitor, evaluate and take actions to mitigate business risks which could have an adverse effect on the performance of SMS.

The material business risks are outlined below.

#### People

- Staff turnover may occur due to a range of factors including salary pressure, the performance of SMS and the availability of career progression opportunities.
- Failure to retain staff may impair client relationships and the ability to deliver specialised advice may be impacted by the loss of expert staff with unique skill-sets.

#### Loss of key clients and / or key projects

- Pipeline and contract wins may decline if SMS fails to move with the market or the SMS sales force fails to successfully identify and win new work.
- The risk of poor project delivery against contract requirements could lead to the potential loss of a contract or client, financial penalties and associated reputational damage.

#### Cyber security

- Failure to adequately protect either SMS or client data, or any breach of data privacy, could result in reputational damage, the loss of clients and/or potential regulatory intervention and penalties.

#### Economic downturn

- Global or localised weak economic conditions or business sentiment may lead to clients suspending, deferring or terminating contracts.

#### Competitive Environment

SMS operates in a highly competitive and dynamic industry. Competition exposes SMS to a number of risks relating to its market position and pursuing its growth strategy. These risks include:

- there being a material adverse effect on SMS's business and financial performance as a result of certain pricing, service or marketing decisions made by SMS as a strategic response to structural changes in the competitive environment;
- other parties developing products or services that compete with SMS or supersede or replace products or services of SMS, or are more competitively priced than SMS's products or services; and
- there being unexpected changes in customer demands or expectations for SMS's products or services and SMS being unable to meet any changes to service requirements or value expectations.

#### Delivery Excellence

SMS has developed an enviable reputation for delivery excellence. As a trusted advisor we expect no less than the highest standard of service delivery for our clients.

In pursuit of delivery excellence, SMS has:

- continued to invest in people, tools, methodologies, processes and systems to improve the quality of client engagement governance and outcomes;
- invested in a cost-effective and flexible cost model; and
- leveraged our graduate recruitment program.

SMS continues to seek improved operational leverage in the delivery of projects as well as the development of new ideas in emerging service solutions.

#### Operational Focus

Noting the slight improvement in second half performance, SMS will continue to focus on:

- restoring growth in the Advisory & Solutions part of its SMS Consulting business through focusing on enhancing its sales capabilities and improving the sales pipeline and contract conversions;
- improved operational efficiency through sustained levels of billable utilisation; and
- reducing overheads and discretionary expenditure.

## EVENTS SUBSEQUENT TO REPORTING DATE

There have been no significant events since the end of the financial year that would impact on the financial position of the Group as at 30 June 2017 or the results and cash flows of the Group for the year ended on that date.

## DIVIDENDS

### Declared and paid during the year

The following dividends were declared and paid by the Company during the year:

Type	Cents per share	Amount \$'000	Franked/ unfranked	Date of payment
Final 2016 ordinary	3.0	2,056	Franked	4 November 2016
Interim 2017 ordinary	1.5	1,028	Franked	4 April 2017

All dividends declared and paid during the year were fully franked at the tax rate of 30%.

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company's Constitution allows the Company to indemnify current and former Directors and Secretaries to the full extent permitted by law against all liabilities incurred as an officer of the Group. Further, the Company's Constitution permits the Company to maintain and pay insurance premiums for Directors and Officers insurance, to the extent permitted by law.

Consistent with (and in addition to) the provisions in the Company's Constitution outlined above, the Company has also entered into deeds of access, indemnity and insurance with Directors of the Company and the Company Secretaries which provide indemnities against losses incurred in their role as Directors or Company Secretary, subject to certain exclusions, including to the extent that such indemnity is prohibited by the Corporations Act or any other applicable law.

During the financial year, the Group paid a premium to insure officers of the Company and its related bodies corporate. The officers of the Company covered by the insurance policy at 30 June 2017 included the past and present Directors, CFO and Company Secretaries. The liabilities insured include costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses' insurance contracts, as disclosure is prohibited under the terms of the contract.

No insurance premiums are paid by the Group in regard to insurance cover provided to the auditor of the Group, Deloitte Touche Tohmatsu (Deloitte). The auditor is not indemnified and no insurance cover is provided to the auditor by the Company.

## 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.

No proceedings have been brought or intervened in on behalf of the Company with the leave of the court under section 237 of the Corporations Act.

## ENVIRONMENTAL REGULATION

The operations of the Group are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its States or Territories.

## NON-AUDIT SERVICES

During the year, Deloitte, the Group's external auditor, performed other services in addition to its audit and review of the financial statements.

The Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.



## NON-AUDIT SERVICES (continued)

The Directors are of the opinion that the non-audit services provided by the auditor during the year do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:

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

Details of the amounts paid or payable to the auditor of the Group, Deloitte and its related practices, for audit and non-audit services provided during the year are set out below.

\$	2017	2016
<b>Audit services</b>		
Auditors of the Group		
Audit and review of financial reports	188,000	185,000
<b>Services other than statutory audit</b>		
Accounting advisory services	65,000	13,774
Tax services	-	3,801
<b>Total</b>	<b>253,000</b>	<b>202,575</b>

All numbers reported in the above table are exclusive of GST

## REMUNERATION REPORT - AUDITED

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of the Company and the Group's Key Management Personnel (KMP) for the financial year ended 30 June 2017.

The term KMP refers to those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Group.

### Key Management Personnel

The Directors and other KMP of the Group during or since the end of the financial year were:

#### Non-Executive Directors

D Young	Non-Executive Chairman
B Thompson	Non-Executive Director
N Birrell	Non-Executive Director
J Milne	Non-Executive Director
D Radford	Non-Executive Director, retired 14 Nov 2016

#### Executive Directors

R Rostolis	Chief Executive Officer and Managing Director
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#### Executives

P Sherar	Chief Financial Officer
C Sandham	Managing Director, M&T Resources, Acting Director People & Culture
C Lennard	Managing Director, Advisory & Solutions, resigned 19 Jun 2017
D Moodie	Managing Director, Capability Development
N Kiosoglou	Managing Director, Managed Services, previously Managing Director, Delivery, resigned 2 Sep 2016

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

## REMUNERATION REPORT (continued)

### Remuneration policies

Remuneration levels for Directors and Executives of the Group are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. The Remuneration and Nominations Committee obtains independent information on the appropriateness of remuneration levels of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and deliver the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- capability and experience of the Directors and Executives;
- Directors' and Executives' ability to control the relevant business units' performance; and
- Group performance including:
  - Group earnings; and
  - growth in the share price and in shareholder wealth.

Remuneration for Executives includes a mix of fixed and variable remuneration and short-term and long-term performance-based incentives.

#### Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits) and employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Remuneration and Nominations Committee through a process that considers individual, business unit and overall performance of the Group. In addition, the Committee considers external data to ensure the Directors' and Executives' remuneration is competitive in the marketplace. Remuneration is also reviewed by the CEO on promotion.

#### Performance linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward the CEO and Executives for meeting or exceeding their financial and personal objectives.

The Short-Term Incentive (STI) is an at risk bonus provided in the form of cash. The Long-Term Incentive (LTI) is an at risk component provided as performance rights over the ordinary shares of the Company under the rules of the 2013 Executive Performance Rights Plan (2013 Plan), 2014 Executive Performance Rights Plan (2014 Plan), 2015 Executive Performance Rights Plan (2015 Plan) and 2016 Executive Performance Rights Plan (2016 Plan).

- **Short-Term Incentive (STI)**

Each year, the Remuneration and Nominations Committee sets the Key Performance Indicators (KPIs) for the CEO and has input into the KPIs for the Executives. The KPIs generally include measures relating to the Group, business units and the individual. The KPIs include financial, people, client, strategy, growth and risk measures. The measurements are chosen so as to directly align the individual's reward to the Group's strategy and performance.

The main financial performance objective is actual EBITDA performance, compared to budget. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes and meeting leadership expectations.

At the end of the financial year, the Remuneration and Nominations Committee assesses the actual performance of the Group, business unit and the individual against the KPIs as set at the beginning of the financial year. A percentage of the pre-determined maximum amount may be awarded depending on the results.

This method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. The Committee resolves the quantum of the STI to be paid to the relevant individuals.



## REMUNERATION REPORT - AUDITED (continued)

### Remuneration policies (continued)

- **Long-Term Incentive (LTI)**

The Board considers the issue of performance rights based on the achievement of specific total shareholder return and earnings per share measures that align the performance of key employees with the interest and objectives of shareholders.

Performance rights are issued to eligible Executives in the form of a grant of rights over ordinary shares, for nil consideration. Each performance right entitles the holder to one ordinary share if the performance right vests.

#### (1) Executive Performance Rights: 2015 - 2016 Plans

The performance rights are exercisable subject to a three-year performance period measured against the following performance criteria:

- 50% of the total performance rights are based on the relative total shareholder return (TSR) of the Company against the TSR of companies forming the XSI: S&P/ASX Small Industrials Accumulation Index. TSR takes into account share price appreciation plus reinvested dividends, expressed as a percentage of investment and adjusted for changes in the Company's capital structure.
- 50% of the total performance rights are based on the absolute average earnings per share compound annual growth rate (EPS CAGR) of the Company.

The Group has a restriction under the performance rights plan that prohibits those who are granted performance rights as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases.

The performance rights will vest in accordance with the following scale:

If SMS's TSR is ranked:	Vesting percentages of performance rights
Below the 51 <sup>st</sup> percentile	Nil vesting
Equal to the 51 <sup>st</sup> percentile	50% vesting
Higher than the 51 <sup>st</sup> percentile but below the 75 <sup>th</sup> percentile	On a straight line basis, between 50% vesting and 100% vesting
75 <sup>th</sup> percentile or higher	100% vesting

If SMS's EPS CAGR is ranked:	Vesting percentages of performance rights
Below 5%	Nil vesting
5% EPS CAGR	50% vesting
Between 5% EPS CAGR and 12% EPS CAGR	On a straight line basis, between 50% vesting and 100% vesting
12% EPS CAGR and above	100% vesting

#### Executive Performance Rights: 2013 – 2014 Plans

The performance rights are exercisable subject to a three-year performance period measured against 15 comparator companies (the Comparator Group) against the following performance criteria:

- 50% of total performance rights are based on a relative TSR performance hurdle.
- 50% of total performance rights are based on a relative EPS performance hurdle.

The Group has a restriction under the performance rights plan that prohibits those who are granted performance rights as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases.

## REMUNERATION REPORT - AUDITED (continued)

### Remuneration policies (continued)

The performance rights will vest in accordance with the following scale:

If SMS's TSR is ranked:	Vesting percentages of performance rights
Below the 50th percentile	Nil vesting
Equal to the 50th percentile	50% vesting
Higher than the 50th percentile but below the 75th percentile	50% vesting plus 2% for each additional percentile above the 50 <sup>th</sup> percentile
75th percentile or higher	100% vesting

If SMS's EPS is ranked:	Vesting percentages of performance rights
Below the 50th percentile	Nil vesting
Equal to the 50th percentile	50% vesting
Higher than the 50th percentile but below the 75th percentile	50% vesting plus 2% for each additional percentile above the 50 <sup>th</sup> percentile
75th percentile or higher	100% vesting

A list of the 15 companies that make up the Comparator Group for the 2013 and 2014 Plans is outlined in the table below:

No.	Company Name	ASX Code
1	Oakton Limited <sup>(1)</sup>	OKN
2	UXC Limited <sup>(2)</sup>	UXC
3	ASG Group Limited <sup>(3)</sup>	ASZ
4	Melbourne IT Limited	MLB
5	Computershare Limited	CPU
6	Data#3 Limited	DTL
7	Programmed Maintenance Services Limited	PRG
8	Service Stream Limited	SSM
9	DWS Limited	DWS
10	WorleyParsons Limited	WOR
11	Clarius Group Limited	CND
12	Skilled Group Limited <sup>(4)</sup>	SKE
13	Technology One Limited	TNE
14	IRESS Limited	IRE
15	Carsales.com Limited	CAR

(1) Oakton Limited was acquired by Dimension Data Australia Pty Ltd and was delisted from the ASX on 26 November 2014.

(2) UXC was acquired by CSC and was delisted from the ASX on 29 February 2016.

(3) ASG Group Limited was acquired by Nomura Research Institute, Ltd and was delisted from the ASX on 23 December 2016.

(4) Skilled Group Limited was acquired by Programmed Maintenance Services Limited and was delisted from the ASX on 19 October 2015.

(5) Companies that have been acquired are removed from the Comparator Group ranking unless they were part of the Comparator Group for more than 1 year.

#### 2013 Plan

The TSR performance rights and the EPS performance rights granted under the 2013 Plan were forfeited during the year. The performance hurdles of TSR and EPS growth were not satisfied.

## REMUNERATION REPORT - AUDITED (continued)

### Remuneration policies (continued)

#### Consequences of performance on shareholders' wealth

In considering the Group's performance and consequences of its performance on shareholders' wealth, the Remuneration and Nominations Committee has regard to the following measures in respect of the current financial year and the previous four financial years:

Measure	2017	2016	2015	2014	2013
EBITDA pre-significant items	\$10.9m	\$15.7m	\$28.7m	\$20.9m	\$29.5m
Net profit after tax for the year	(\$42.1m)	\$9.7m	\$17.0m	\$12.7m	\$21.1m
Dividends declared (fully franked)	1.5c	9.5c	17.0c	12.5c	25.5c
Change in share price	(\$0.17)	(\$1.83)	(\$0.08)	(\$1.01)	(\$0.59)
Basic earnings per share	(61.4c)	14.1c	24.5c	18.1c	30.6c

EBITDA is considered in setting and assessing the STI. Performance of TSR and EPS is considered in setting and assessing the LTI. The overall level of remuneration for Executives takes into account performance over a number of years. The remuneration structure for Executives is designed to ensure focus on maximising both short-term operating performance and long-term strategic growth.

During 2017, no STI financial performance criteria were met for any member of the KMP and therefore no STIs were payable to any KMP. The LTIs for the 2013 Plan were forfeited as the performance criteria were not met.

#### Other performance related benefits

There are no other benefits received by the Directors or Executives of the Group that relate to performance.

#### Service agreements and contract details

It is the Group's policy that contracts of employment for the CEO and Executives be unlimited in term.

##### *Chief Executive Officer and Managing Director*

The CEO's remuneration consists of the following components:

- Fixed salary of \$600,000 per annum, including any statutory superannuation contribution.
- Cash STI of \$200,000 to be paid at the discretion of the Board dependent on the performance of the Group and the CEO's KPIs.
- LTI of \$200,000, subject to the terms of the relevant Executive performance rights plan and shareholder approval.

The termination provision for the CEO is six months' notice by the CEO or by the Company. After the CEO or the Company has given notice, the termination of employment may be brought forward at any time by the Company paying the CEO an amount equivalent to the remuneration which the CEO would have earned during the balance of the notice period.

If there is a fundamental change to the Executive's position as CEO, the Executive may notify the Board of this change and the Board has 21 days to rectify the Executive's grievance in this regard. If the Board fails to rectify this grievance, the Executive can resign with immediate effect and the Board must pay the Executive in lieu of the notice period plus an extra payment of six months' base salary.

In the event of a Change of Control, the Company's LTI Plan rules allow the Board discretion to review the CEO's unvested performance rights. The Board has assessed that if a Change of Control is triggered under the ASG Scheme, no consideration will be paid for unvested performance rights.

##### *Executives*

The termination provision for each of the KMP, is three months' notice but the Group retains the right to terminate the contract immediately, by making payment equal to three months' pay in lieu of notice.

#### Non-Executive Directors

Total remuneration for all Non-Executive Directors, last voted on at a general meeting of the Company on 23 October 2012, is not to exceed \$750,000 per annum. Non-Executive Directors' total remuneration remains unchanged at \$84,500 per annum following a Directors' resolution passed on 21 June 2017. The Chairman's remuneration also remains unchanged at \$169,000 per annum. Non-Executive Directors do not receive performance-related remuneration.

## REMUNERATION REPORT - AUDITED (continued)

### Directors' and Executives' remuneration

The nature and amount of each major element of remuneration of each Director of the Company, and other Key Management Personnel (collectively the KMP) of the Group are:

		Short-term remuneration			Post-employment	Other long-term		Equity remuneration	Total (iii)	Proportion of remuneration performance related	Value of equity remuneration as proportion of remuneration (iv)
		Base remuneration	STI (i)	Leave entitlements	Superannuation contribution	Leave entitlements	Termination benefits	Value of performance rights (ii)			
<b>Non-Executive Directors</b>	Year	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Derek Young</b>	<b>2017</b>	<b>154,338</b>	-	-	<b>14,662</b>	-	-	-	<b>169,000</b>	-	-
Chairman	2016	154,338	-	-	14,662	-	-	-	169,000	-	-
<b>Bruce Thompson</b>	<b>2017</b>	<b>77,169</b>	-	-	<b>7,331</b>	-	-	-	<b>84,500</b>	-	-
Non-Executive Director	2016	77,169	-	-	7,331	-	-	-	84,500	-	-
<b>Nicole Birrell</b>	<b>2017</b>	<b>77,169</b>	-	-	<b>7,331</b>	-	-	-	<b>84,500</b>	-	-
Non-Executive Director	2016	77,169	-	-	7,331	-	-	-	84,500	-	-
<b>Deb Radford</b>	<b>2017</b>	<b>32,154</b>	-	-	<b>3,055</b>	-	-	-	<b>35,209</b>	-	-
Non-Executive Director (Retired 14 Nov 2016)	2016	77,169	-	-	7,331	-	-	-	84,500	-	-
<b>Justin Milne</b>	<b>2017</b>	<b>77,169</b>	-	-	<b>7,331</b>	-	-	-	<b>84,500</b>	-	-
Non-Executive Director	2016	77,169	-	-	7,331	-	-	-	84,500	-	-
<b>Executive Directors</b>											
<b>Rick Rostolis</b>	<b>2017</b>	<b>567,200</b>	-	<b>(4,354)</b>	<b>34,000</b>	<b>18,159</b>	-	<b>(2,175)</b>	<b>612,830</b>	<b>(0.4)%</b>	<b>(0.4)%</b>
CEO (Appointed 2 May 16) and Managing Director (Appointed 18 May 16), previously CFO	2016	388,867	-	13,655	33,167	13,382	-	41,130	490,201	8.4%	8.4%
<b>Jacqueline Korhonen</b>	<b>2017</b>	-	-	-	-	-	-	-	-	-	-
CEO (Appointed 2 Feb 15, Resigned 2 May 16)	2016	573,468	-	9,864	29,167	-	540,000	(49,465)	1,103,034	(4.5)%	(4.5)%
<b>Total all Directors</b>	<b>2017</b>	<b>985,199</b>	-	<b>(4,354)</b>	<b>73,710</b>	<b>18,159</b>	-	<b>(2,175)</b>	<b>1,070,539</b>		
	2016	1,425,349	-	23,519	106,320	13,382	540,000	(8,335)	2,100,235		
<b>Executives</b>											
<b>Peter Sherar (vi)</b>	<b>2017</b>	<b>247,475</b>	-	<b>3,351</b>	<b>23,425</b>	<b>17,324</b>	-	<b>(364)</b>	<b>291,211</b>	<b>(0.1)%</b>	<b>(0.1)%</b>
CFO (Appointed 18 May 16)	2016	29,997	-	4,825	2,839	5,024	-	-	42,658	-	-
<b>Chris Sandham (v)</b>	<b>2017</b>	<b>371,274</b>	-	<b>6,129</b>	<b>35,157</b>	<b>4,370</b>	-	<b>(7,664)</b>	<b>409,266</b>	<b>(1.9)%</b>	<b>(1.9)%</b>
Managing Director, M&T Resources	2016	334,699	170,000	(6,533)	31,682	4,103	-	41,130	575,081	36.7%	7.2%
<b>Craig Lennard (vi)</b>	<b>2017</b>	<b>343,666</b>	-	<b>(6,585)</b>	<b>35,788</b>	-	-	<b>(50,066)</b>	<b>322,803</b>	<b>(15.5)%</b>	<b>(15.5)%</b>
Managing Director, Advisory & Solutions (Appointed 1 Jun 16, Resigned 19 Jun 17)	2016	28,639	-	5,999	2,711	1,905	-	-	39,254	-	-
<b>David Moodie (vi)</b>	<b>2017</b>	<b>298,004</b>	-	<b>(12,558)</b>	<b>30,799</b>	<b>8,212</b>	-	<b>(9,116)</b>	<b>315,341</b>	<b>(2.9)%</b>	<b>(2.9)%</b>
Managing Director, Capability Development (Appointed 1 Jun 16)	2016	24,834	-	4,550	2,350	7,341	-	-	39,075	-	-

REMUNERATION REPORT - AUDITED (continued)

Directors' and Executives' remuneration (continued)

Directors and Executives Remuneration (continued)												
		Short-term remuneration			Post-employment		Other long-term		Equity remuneration			
		Base remuneration	STI (i)	Leave entitlements	Superannuation contribution	Leave entitlements	Termination benefits	Value of performance rights (ii)	Total (iii)	Proportion of remuneration performance related	Value of equity remuneration as proportion of remuneration (iv)	
Executives	Year	\$	\$	\$	\$	\$	\$	\$	\$	%	%	
Nick Kiossoglou	2017	57,748	-	-	12,731	-	82,500	(6,748)	146,231	(4.6)%	(4.6)%	
Managing Director, Managed Services (Resigned 2 Sep 16)	2016	333,748	-	6,541	30,231	-	-	19,670	390,189	5.1%	5.1%	
Merlin Allan	2017	-	-	-	-	-	-	-	-	-	-	
Managing Director, Managed Services and Director, Business Development and Strategy (Resigned 8 Apr 16)	2016	183,562	-	3,926	23,078	11,895	114,155	(105,551)	231,066	(45.7%)	(45.7%)	
Philip Heggie	2017	-	-	-	-	-	-	-	-	-	-	
Managing Director, Sales (Appointed 16 Jun 15, Resigned 3 May 16)	2016	311,179	111,000	6,988	32,083	-	101,250	-	562,500	19.7%	-	
Total all named Executives	2017	1,318,167	-	(9,663)	137,900	29,906	82,500	(73,958)	1,484,852			
	2016	1,246,658	281,000	26,296	124,974	30,268	215,405	(44,751)	1,879,850			
Total remuneration	2017	2,303,366	-	(14,017)	211,610	48,065	82,500	(76,133)	2,555,391			
	2016	2,672,007	281,000	49,815	231,294	43,650	755,405	(53,086)	3,980,085			

Notes in relation to the table of Directors' and Executives' remuneration

- (i) Performance related STI's using the criteria set out on page 12.
- (ii) The fair value of performance rights granted under the 2013 Plan, the 2014 Plan, the 2015 Plan and the 2016 Plan with a TSR performance hurdle was calculated at the date of grant using a Monte Carlo Simulation. The fair value of performance rights granted under the 2013 Plan, the 2014 Plan, the 2015 Plan and the 2016 Plan with an EPS performance hurdle was calculated at the date of grant using a closed form Black Scholes valuation model. The fair values are allocated to each reporting period on a straight-line basis over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the performance rights expensed in this reporting period. In valuing performance rights at grant date, market conditions have been taken into account. Remuneration includes negative amounts for non-market based performance rights which did not vest and were forfeited during the year.
- (iii) Directors' and officers' insurance premiums are not included within total remuneration in this table, as disclosure of premiums paid is prohibited under the terms of the insurance contract.
- (iv) The percentages disclosed reflect the value of remuneration consisting of share rights, based on the value of share-based payments expensed during the year. Rights issued and expensed in previous financial years have failed to vest in 2017 and, as a result, the previously recognised expense relating to non-market criteria has been credited in the 2017 financial year.
- (v) Acting in the role of Director, People and Culture since 12 June 2015, and as such base remuneration includes a higher duty allowance.
- (vi) Pro-rated remuneration for KMP appointed during the 2016 year.

## REMUNERATION REPORT - AUDITED (continued)

### STI cash bonus

#### Analysis of STI included in remuneration

All STIs were forfeited in the 2017 financial year for each KMP as the financial performance criteria were not met. Non-Executive Directors do not participate in the STI scheme.

### Equity remuneration

#### Determination of fair value

The following factors were used in determining the fair value of performance rights on the grant date:

Grant date	Fair value per performance right	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
1 Jul 14 (i)	\$1.98	\$3.54	35%	2.88%	5.30%
1 Jul 14 (ii)	\$3.02	\$3.54	35%	2.88%	5.30%
1 Jul 15 (i)	\$1.98	\$3.48	35%	2.05%	4.17%
1 Jul 15 (ii)	\$3.08	\$3.48	35%	2.05%	4.17%
1 Jul 16 (i)	\$0.94	\$1.64	40%	1.55%	5.50%
1 Jul 16 (ii)	\$1.39	\$1.64	40%	1.55%	5.50%

- (i) Grant with TSR performance hurdle.  
(ii) Grant with EPS performance hurdle.

Each performance right entitles the holder to acquire one ordinary share in the Company. All share plans are subject to specified performance criteria of at least the 50<sup>th</sup> percentile (and reaching the 75<sup>th</sup> percentile to fully vest) for each of the two separate TSR and EPS grants, as well as a performance period of three years ending on 1 July 2017, 1 July 2018 and 1 July 2019 respectively, unless vested earlier at the Board's discretion. All performance rights expire on the termination of the individual's employment.

#### Performance rights over equity instruments and analysis of share-based payments granted as remuneration

Details of performance rights over ordinary shares in the Company that were granted as remuneration and vested to each KMP during the reporting period are set out in the following table. The performance rights were provided at no cost to the recipients and have a nil exercise price. Details of the performance criteria are included in the LTI section on pages 13 to 14 of this report. There have been no modifications to the terms of equity-settled share-based payment transactions during the financial year.

KMP	Year of Grant	Grant date	Expiry and Vesting date	Number granted during the year	Fair value per performance right at grant date	Vested during the year %	Forfeited during the year %
<b>Executive Directors</b>							
Rick Rostolis	2017	1 Jul 16	1 Jul 19	72,160	\$0.94	-	-
	2017	1 Jul 16	1 Jul 19	72,160	\$1.39	-	-
	2016	1 Jul 15	1 Jul 18	17,493	\$1.98	-	-
	2016	1 Jul 15	1 Jul 18	17,493	\$3.08	-	-
	2015	1 Jul 14	1 Jul 17	17,442	\$1.98	-	-
	2015	1 Jul 14	1 Jul 17	17,442	\$3.02	-	-
	2014	1 Jul 13	1 Jul 16	11,287	\$2.55	-	100%
	2014	1 Jul 13	1 Jul 16	11,287	\$3.91	-	100%

## REMUNERATION REPORT - AUDITED (continued)

### Equity remuneration (continued)

KMP	Year of Grant	Grant date	Expiry and Vesting date	Number granted during the year (i)	Fair value per performance right at grant date	Vested during the year %	Forfeited during the year %
<b>Executives</b>							
Chris Sandham	2017	1 Jul 16	1 Jul 19	37,198	\$0.94	-	-
	2017	1 Jul 16	1 Jul 19	37,198	\$1.39	-	-
	2016	1 Jul 15	1 Jul 18	17,493	\$1.98	-	-
	2016	1 Jul 15	1 Jul 18	17,493	\$3.08	-	-
	2015	1 Jul 14	1 Jul 17	17,442	\$1.98	-	-
	2015	1 Jul 14	1 Jul 17	17,442	\$3.02	-	-
	2014	1 Jul 13	1 Jul 16	11,287	\$2.55	-	100%
	2014	1 Jul 13	1 Jul 16	11,287	\$3.91	-	100%
Peter Sherar	2017	1 Jul 16	1 Jul 19	15,500	\$0.94	-	-
	2017	1 Jul 16	1 Jul 19	15,500	\$1.39	-	-
Craig Lennard	2017	1 Jul 16	1 Jul 19	37,198	\$0.94	-	100%
(Resigned 19 Jun 17)	2017	1 Jul 16	1 Jul 19	37,198	\$1.39	-	100%
David Moodie	2017	1 Jul 16	1 Jul 19	30,999	\$0.94	-	-
	2017	1 Jul 16	1 Jul 19	30,999	\$1.39	-	-
Nick Kiossoglou	2016	1 Jul 15	1 Jul 18	11,662	\$1.98	-	100%
(Resigned 2 Sep 16)	2016	1 Jul 15	1 Jul 18	11,662	\$3.08	-	100%

(i) The table above only includes performance rights granted whilst they were KMP

### Analysis of movements in performance rights

The movement during the reporting period, by value, of performance rights over ordinary shares in the Company held by each KMP of the Company is detailed below:

KMP	Value of performance rights Granted in year (i) \$	Vested and exercised in year (ii) \$
<b>Executive Directors</b>		
Rick Rostolis	168,133	-
<b>Executives</b>		
Chris Sandham	86,671	-
Peter Sherar	36,115	-
Craig Lennard (Resigned 19 Jun 17)	72,228	-
David Moodie	86,671	-

(i) The value of performance rights granted in the year is their fair value at grant date.

(ii) The TSR performance rights and the EPS performance rights granted under the 2013 Plan were forfeited during the year. The performance hurdles of TSR and EPS growth were not satisfied.

### Rights over equity instruments

The movement during the reporting period in the number of performance rights over ordinary shares in the Company held directly, indirectly or beneficially by each KMP, including their related parties, is as follows:

KMP	Held at 1 July 2016	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2017	Vested and exercisable or unexercisable at 30 June 2017
<b>Non-Executive Directors</b>						
Derek Young	-	-	-	-	-	-
Bruce Thompson	-	-	-	-	-	-
Nicole Birrell	-	-	-	-	-	-
Justin Milne	-	-	-	-	-	-
Deb Radford (Retired 14 Nov 16)	-	-	-	-	-	-



## REMUNERATION REPORT - AUDITED (continued)

### Equity remuneration (continued)

KMP	Held at 1 July 2016	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2017	Vested and exercisable or unexercisable at 30 June 2017
<b>Executive Directors</b>						
Rick Rostolis	92,444	144,320	-	(22,574)	214,190	-
<b>Executives</b>						
Peter Sherar <sup>(i)</sup>	16,162	31,000	-	(4,516)	42,646	-
Chris Sandham	92,444	74,396	-	(22,574)	144,266	-
Craig Lennard <sup>(i)</sup> (Resigned 19 Jun 17)	96,960	74,396	-	(171,356)	-	-
David Moodie <sup>(i)</sup>	80,800	61,998	-	(22,574)	120,224	-
Nick Kiossoglou (Resigned 2 Sep 16)	23,324	-	-	(23,324)	-	-

(i) Performance rights held at 1 July 2016 include rights granted prior to becoming KMP

### Shareholdings of KMP

The following table shows the respective shareholdings of KMP (directly and indirectly) and any movements during the year ended 30 June 2017.

KMP	Held at 1 July 2016	Received on exercise of performance rights	Purchases	Sales	Held at 30 June 2017
<b>Non-Executive Directors</b>					
Derek Young	50,000	-	-	-	50,000
Bruce Thompson	70,499	-	-	-	70,499
Nicole Birrell	9,681	-	-	-	9,681
Deb Radford (Retired 14 Nov 16) <sup>(i)</sup>	10,000	-	-	-	10,000
Justin Milne	-	-	-	-	-
<b>Executive Directors</b>					
Rick Rostolis	30,644	-	-	-	30,644
<b>Executives</b>					
Peter Sherar	16,000	-	-	-	16,000
Chris Sandham	12,220	-	-	-	12,200
Craig Lennard (Resigned 19 Jun 17)	-	-	-	-	-
David Moodie	-	-	-	-	-
Nick Kiossoglou (Resigned 2 Sep 16)	-	-	-	-	-

(i) Held at date of Retirement

### AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 22 and forms part of the Directors' Report for the year ended 30 June 2017.



## ROUNDING OFF

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and financial statements are rounded to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Directors.



Derek Young  
Chairman



Rick Rostolis  
Chief Executive Officer and Managing Director

Signed at Melbourne on this 22<sup>nd</sup> day of August 2017



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The Board of Directors  
SMS Management & Technology Limited  
Level 41, 140 William Street  
Melbourne VIC 3000

22 August 2017

Dear Board Members

**SMS Management & Technology Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of SMS Management & Technology Limited.

As lead audit partner for the audit of the financial statements of SMS Management & Technology Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

A handwritten signature in black ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Stephen Roche".

Stephen Roche  
Partner  
Chartered Accountants

SMS MANAGEMENT & TECHNOLOGY LIMITED AND ITS CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017

\$'000	Notes	2017	2016
Revenue from operating activities	2	304,464	328,683
Employee benefits expense		(254,568)	(274,139)
Project expenses		(21,283)	(17,897)
Depreciation and amortisation expense		(1,503)	(1,373)
Administrative expenses		(8,218)	(9,075)
Occupancy expenses		(4,885)	(5,409)
Contingent consideration expense		-	(79)
Impairment charge		(46,700)	-
Other expenses		(6,747)	(6,426)
<b>Results from operating activities</b>		<b>(39,440)</b>	<b>14,285</b>
Finance income		254	178
Finance costs		(897)	(926)
Net finance costs		(643)	(748)
<b>(Loss)/profit before income tax</b>		<b>(40,083)</b>	<b>13,537</b>
Income tax expense	4	(1,963)	(3,851)
<b>(Loss)/profit after income tax</b>		<b>(42,046)</b>	<b>9,686</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss: Foreign currency translation differences - foreign operations		(238)	61
<b>Total comprehensive income for the year attributable to the ordinary equity holders of the company</b>		<b>(42,284)</b>	<b>9,747</b>
<b>Earnings per share:</b>			
Basic earnings per share	3	(61.4) cents	14.1 cents
Diluted earnings per share	3	(61.4) cents	14.0 cents

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes to the consolidated financial statements.

SMS MANAGEMENT & TECHNOLOGY LIMITED AND ITS CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017

\$'000	Notes	2017	2016
<b>Current assets</b>			
Cash and cash equivalents	7	4,429	4,733
Trade and other receivables	6	52,146	51,119
Current tax assets		1,800	-
Other current assets	19	2,481	2,442
<b>Total current assets</b>		<b>60,856</b>	<b>58,294</b>
<b>Non-current assets</b>			
Plant and equipment	16	2,827	3,723
Intangible assets	17	64,823	111,980
Deferred tax assets	18	381	1,898
Other non-current assets	19	1,625	595
<b>Total non-current assets</b>		<b>69,656</b>	<b>118,196</b>
<b>Total assets</b>		<b>130,512</b>	<b>176,490</b>
<b>Current liabilities</b>			
Trade and other payables	6	15,052	16,209
Loans and borrowings	7	14,540	12,567
Employee benefits	11	9,997	10,393
Current tax liabilities		-	2,454
Prepaid revenue and other current liabilities		2,394	2,592
<b>Total current liabilities</b>		<b>41,983</b>	<b>44,215</b>
<b>Non-current liabilities</b>			
Loans and borrowings	7	1,200	518
Deferred tax liabilities	18	1,009	-
Employee benefits	11	1,224	1,337
Accrued rent		1,488	1,046
<b>Total non-current liabilities</b>		<b>4,921</b>	<b>2,901</b>
<b>Total liabilities</b>		<b>46,904</b>	<b>47,116</b>
<b>Net assets</b>		<b>83,608</b>	<b>129,374</b>
<b>Equity</b>			
Issued capital		63,402	63,402
Reserves		10,048	10,684
Retained earnings		10,158	55,288
<b>Total equity</b>		<b>83,608</b>	<b>129,374</b>

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes to the consolidated financial statements.

SMS MANAGEMENT & TECHNOLOGY LIMITED AND ITS CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017

\$'000	Notes	Issued capital	Foreign currency translation reserve	Equity compensation reserve	Retained earnings	Total
Balance at 1 July 2015		64,350	313	10,536	56,966	132,165
<b>Total comprehensive income for the year</b>						
Profit after income tax		-	-	-	9,686	9,686
Other comprehensive income		-	61	-	-	61
<b>Total comprehensive income</b>		-	61	-	9,686	9,747
<b>Transactions with shareholders, recorded directly in equity</b>						
On-market share buy-back	10	(948)	-	-	-	(948)
Equity-settled share-based payment transactions		-	-	(226)	-	(226)
Dividends to shareholders	9	-	-	-	(11,364)	(11,364)
<b>Balance at 30 June 2016</b>		<b>63,402</b>	<b>374</b>	<b>10,310</b>	<b>55,288</b>	<b>129,374</b>
Balance at 1 July 2016		63,402	374	10,310	55,288	129,374
<b>Total comprehensive income for the year</b>						
Profit after income tax		-	-	-	(42,046)	(42,046)
Other comprehensive income		-	(238)	-	-	(238)
<b>Total comprehensive income</b>		-	(238)	-	(42,046)	(42,284)
<b>Transactions with shareholders, recorded directly in equity</b>						
Equity-settled share-based payment transactions		-	-	(398)	-	(398)
Dividends to shareholders	9	-	-	-	(3,084)	(3,084)
<b>Balance at 30 June 2017</b>		<b>63,402</b>	<b>136</b>	<b>9,912</b>	<b>10,158</b>	<b>83,608</b>

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the consolidated financial statements.

SMS MANAGEMENT & TECHNOLOGY LIMITED AND ITS CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2017

\$'000	Notes	2017	2016
<b>Cash flows from operating activities</b>			
(Loss)/profit after income tax		(42,046)	9,686
<i>Adjustments for:</i>			
Depreciation and amortisation		1,503	1,373
Contingent consideration expense		-	79
Equity-settled share-based payment transactions		(277)	(67)
Finance costs		897	926
Impairment charge		46,700	-
Income tax expense		1,963	3,851
		8,740	15,848
(Increase)/decrease in trade and other receivables		(415)	13,911
Decrease/(increase) in other assets		555	1,320
(Decrease)/increase in trade payables, prepaid revenue, other current liabilities and provisions		(1,539)	(6,629)
Income taxes paid		(3,871)	(6,183)
<b>Net cash from operating activities</b>		<b>3,470</b>	<b>18,267</b>
<b>Cash flows from investing activities</b>			
Payments of contingent consideration related to previous business combinations		-	(19,375)
Acquisition of plant and equipment	16	(253)	(1,519)
Proceeds from disposal of plant and equipment	16	103	-
<b>Net cash used in investing activities</b>		<b>(150)</b>	<b>(20,894)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders	9	(3,084)	(11,364)
On-market share buy-back		-	(948)
Proceeds from borrowings		1,500	12,000
Repayment of borrowings		(1,061)	(4,307)
Borrowing costs paid		(899)	(854)
<b>Net cash used in financing activities</b>		<b>(3,544)</b>	<b>(5,473)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(224)</b>	<b>(8,100)</b>
Cash and cash equivalents at 1 July		4,733	12,908
Effect of exchange rate fluctuations on cash held		(80)	(75)
<b>Cash and cash equivalents at 30 June</b>	7	<b>4,429</b>	<b>4,733</b>

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the consolidated financial statements.

## Basis of Preparation

### 1. Basis of preparation

These consolidated financial statements:

- are for SMS Management & Technology Limited (the Company) and its controlled entities (collectively the Group) as at, and for the financial year ended 30 June 2017.
- are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.
- comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).
- have been prepared on the historical cost basis, with the exception of contingent consideration assumed in a business combination which is measured at fair value at each reporting date and share based payments.
- are presented in Australian dollars with all values rounded to the nearest thousand dollars, unless otherwise stated, in accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016.
- have eliminated all intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions.
- have a number of financial assets and liabilities within the Statement of Financial Position. For these assets and liabilities, their fair values are materially the same as the carrying amounts shown in the Statement of Financial Position.
- were authorised for issue by the Board of Directors on 22 August 2017.

#### New accounting standards and interpretations

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 July 2016, but have not been applied in preparing this financial report:

- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.
- AASB 16 *Leases* will require the recognition of all leases for a lessee on-balance sheet, with limited exceptions for short-term and low value leases, thereby removing the off-balance sheet treatment currently applied to operating leases. In addition, operating lease expenses will be recognised as depreciation and interest expense, and will result in the front-loading of expense recognition compared to the current straight-line method. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.
- AASB 9 *Financial Instruments* replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. Whilst the impact of these standards has yet to be quantified, these changes are not expected to result in material changes to the financial performance or financial position of the Group.

## Our Performance

This section highlights the performance of the Group for the year, including results by operating segment, earnings per share, details of income tax expense and related balances, and our annual impairment assessment.

### 2. Segment reporting and revenue

The Group has the following two reportable segments, which offer different services and are managed separately because they require different resources and marketing strategies.



The results for the year ending 30 June for each segment are as follows:

\$'000	SMS Consulting	M&T Resources	Unallocated	Total
<b>At 30 June 2017</b>				
External revenue	211,623	92,841	-	304,464
Inter-segment revenue	-	22,549	-	22,549
<b>Segment EBITDA* prior to significant items</b>	<b>18,871</b>	<b>5,462</b>	<b>(13,476)</b>	<b>10,857</b>
Impairment charge	(46,700)	-	-	(46,700)
Termination costs	(889)	-	-	(889)
Transaction costs	-	-	(1,205)	(1,205)
<b>Segment EBITDA after significant items</b>	<b>(28,718)</b>	<b>5,462</b>	<b>(14,681)</b>	<b>(37,937)</b>
Net finance costs	-	-	(643)	(643)
Depreciation and amortisation	(457)	-	(1,046)	(1,503)
<b>Profit before income tax</b>	<b>(29,175)</b>	<b>5,462</b>	<b>(16,370)</b>	<b>(40,083)</b>
Income tax expense	-	-	(1,963)	(1,963)
<b>Profit after income tax</b>	<b>(29,175)</b>	<b>5,462</b>	<b>(18,333)</b>	<b>(42,046)</b>
<b>Reportable segment assets</b>	<b>104,720</b>	<b>12,248</b>	<b>13,544</b>	<b>130,512</b>
<b>At 30 June 2016</b>				
External revenue	234,395	94,288	-	328,683
Inter-segment revenue	-	28,552	-	28,552
<b>Segment EBITDA prior to significant items</b>	<b>25,074</b>	<b>6,136</b>	<b>(15,473)</b>	<b>15,737</b>
Contingent consideration expense	(79)	-	-	(79)
<b>Segment EBITDA after significant items</b>	<b>24,995</b>	<b>6,136</b>	<b>(15,473)</b>	<b>15,658</b>
Net finance costs	-	-	(748)	(748)
Depreciation and amortisation	(457)	-	(916)	(1,373)
<b>Profit before income tax</b>	<b>24,538</b>	<b>6,136</b>	<b>(17,137)</b>	<b>13,537</b>
Income tax expense	-	-	(3,851)	(3,851)
<b>Profit after income tax</b>	<b>24,538</b>	<b>6,136</b>	<b>(20,988)</b>	<b>9,686</b>
<b>Reportable segment assets</b>	<b>150,548</b>	<b>12,551</b>	<b>13,391</b>	<b>176,490</b>

\* EBITDA is defined as earnings before interest, tax, depreciation and amortisation. EBITDA is non-IFRS financial information.



## Our Performance (continued)

### 2. Segment reporting and revenue (continued)

#### Determination and presentation of operating segments

An operating segment's operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and to assess its performance. For each of the operating segments, the CEO reviews internal management reports on a monthly basis.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, corporate expenses and income tax liabilities.

The Group operates predominantly within Australia, with operations in Hong Kong and Singapore. Foreign operations are not material for segment reporting.

#### Major customers

Revenue from one customer of the Group's two segments represents approximately 12.4% (2016: 12.4%) of the Group's total revenue. There is significant diversity of revenue from this customer in terms of geographic location, range of services provided and operating divisions.

#### Revenue recognition accounting policy

The method of revenue recognition depends on the nature of the services performed:

Revenue streams	Method of revenue recognition
Time and materials contracts	Recognised at contracted rates as the services are provided.
Fixed price contracts	Recognised using the percentage of completion method. This method applies the percentage of estimated total contract costs incurred to date to the total contract revenue in order to determine the amount of revenue to be recognised. Where the estimated total contract cost is expected to exceed the total contract revenue, the total expected contract loss is recognised immediately.
Multi-component contracts	Where the contract contains multiple components which are not separately identifiable, the related revenue is recognised on a straight-line basis over the term of the contract. Where the contract contains multiple components which are separately identifiable (e.g. transition/deployment services, hardware sale or infrastructure design services), such revenue is recognised when the risks of ownership have been transferred to the customer, and the services-related revenue will be recognised using the percentage of completion method or on a straight-line basis over the term of the contract.

Key  
estimate  
and  
judgement

Management judgement is applied in determining the percentage of completion of fixed price contracts and these are reviewed on a monthly basis. Multi-year contracts containing multiple components also require judgement in determining when performance obligations have been fulfilled under the contract terms.

## Our Performance (continued)

### 3. Earnings per share

The Group's earnings per share (EPS), as shown on the Statement of Profit or Loss and Other Comprehensive Income, are calculated using the following inputs:

	2017	2016
<b>Basic earnings per share (EPS)</b>	<b>(61.4) cents</b>	14.1 cents
<b>Diluted earnings per share (EPS) <sup>1</sup></b>	<b>(61.4) cents</b>	14.0 cents
<b>Earnings used in calculating EPS</b>		
(Loss)/profit for the year used in the calculating the basic and diluted EPS (\$'000's)	<b>(42,046)</b>	9,686
<b>Weighted average number of shares outstanding during the year used for basic EPS</b> (number in 000's)	<b>68,536</b>	68,875
Adjustments for calculation of dilutive EPS:		
Shares to be issued in relation to Performance Rights Plans	-	505
<b>Weighted average number of shares outstanding during the year used for diluted EPS</b> (number in 000's)	<b>68,536</b>	69,380

(1) Diluted EPS for 30 June 2017 does not assume conversion of the shares which could be issued in relation to Performance Rights Plans. Should such performance rights vest, this would have a dilutive effect on EPS

#### Additional Information:

Earnings per share based on profit for the period excluding significant items

	2017	2016
<b>Basic earnings per share (EPS)</b>	<b>8.9 cents</b>	14.1 cents
<b>Diluted earnings per share (EPS)</b>	<b>8.9 cents</b>	14.0 cents
<b>Earnings used in calculating EPS based on profit for the period excluding significant items</b>	<b>\$'000</b>	<b>\$'000</b>
(Loss)/profit for the year	<b>(42,046)</b>	9,686
Add: Impairment charge (net of tax)	<b>46,700</b>	-
Add: Termination costs (net of tax)	<b>622</b>	-
Add: Transaction costs (net of tax)	<b>844</b>	-
<b>Profit for the year excluding significant items</b>	<b>6,120</b>	9,686

#### Earnings per share accounting policy

Basic and diluted EPS are calculated as follows:

Basic EPS = 
$$\frac{\text{Profit or loss attributable to ordinary shareholders of the Company}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

Diluted EPS = 
$$\frac{\text{Profit or loss attributable to ordinary shareholders of the Company}}{\text{Weighted average number of ordinary shares outstanding during the period adjusted for the effects of all dilutive potential ordinary shares such as performance rights granted to employees}}$$

## Our Performance (continued)

### 4. Taxation

\$'000	2017	2016
<b>Profit before income tax</b>	<b>(40,083)</b>	13,537
<b>Income tax using the domestic tax rate of 30% (2016: 30%)</b>	<b>(12,025)</b>	4,061
<b>Adjustments in tax expense due to:</b>		
Non-deductible impairment charge expense	<b>14,010</b>	24
Other adjustments	<b>276</b>	(47)
Partial derecognition of foreign tax losses	<b>655</b>	-
Adjustments for prior years in relation to R&D	<b>(953)</b>	(187)
<b>Total income tax expense</b>	<b>1,963</b>	3,851
<b>Comprising of</b>		
Current tax expense	<b>(443)</b>	6,614
Deferred tax expense	<b>2,406</b>	(2,763)

#### Taxation accounting policy

Income tax expense comprises:

- > Current tax – the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years; and
- > Deferred tax – deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is:

- > not recognised for the following temporary differences: initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.
- > measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. Refer to Note 14 for further discussion on the impact on the Company's individual financial statements due to being the head entity of this tax consolidated group.

### 5. Impairment assessment

The Group has a Goodwill balance of \$64.3m (2016: \$111.0m), as a result of historical acquisitions, recognised on the statement of financial position at 30 June, disclosed within Intangible assets (refer to Note 17).

For impairment testing purposes the Group identifies its cash generating units (CGUs), which is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or other group of assets. For impairment testing the Group's CGUs are the same as its reportable segments as set out in Note 2.

The Group's goodwill has been fully allocated to the SMS Consulting CGU. There are no other CGUs that have goodwill or intangibles assets with indefinite useful lives.

At 31 December 2016, following a decline in financial performance in the first half of the year and a significant decrease in the Company's share price, the Group's impairment testing identified an impairment charge of \$46.7m that was recognised against goodwill relating to the SMS Consulting CGU. The recoverable amount of the SMS Consulting CGU was determined based on a value in use (VIU) method which used cash flow projections based on:

- Earnings (i.e. EBITDA) forecasts prepared by management and endorsed by the Board of Directors covering a five-year period;
- Discount rate of 11.0% per annum (30 June 2016: 11.0% per annum); and
- Long-term growth rate of 2.5%.

## Our Performance (continued)

### 5. Impairment assessment (continued)

The discount rate represents the post-tax weighted average cost of capital (WACC) applied to the cash flow projections and reflects the specific risks relating to the CGU. The long-term growth rate is based on the Group's expectation of the CGU's long-term performance in its market.

The values assigned to the key assumptions represent management's assessment of future performance in the CGU based on historical experience, and internal and external sources of information and analysis. The estimated recoverable amounts are highly sensitive to key assumptions. Therefore, any adverse movements in key assumptions could lead to further impairment charges.

Since December 2016, there have been two takeover offers for the entire Company which has established a reliable fair market value for the Company. The estimated recoverable amount of the SMS Consulting CGU exceeds the carrying amount, based on the fair value method. Two calculations were completed based on the share price as at 30 June 2017 (\$1.79) and the purchase price (\$1.80) of the ASG offer. No impairment was identified for either calculation.

Key  
estimate  
and  
judgement

#### Determining CGUs and their recoverable amount using value in use

Management judgement is applied to identify the CGUs and determine their recoverable amounts using a "value in use" calculation. These judgements include establishing forecasts of future financial performance, as well as the assessment of earnings, growth rates, discount rates and terminal rates based on past experience and the Group's expectations for the future. The Group's cash flow projections are based on a maximum five-year management-approved forecasts. The forecasts use management estimates to determine income, expenses, capital expenditure and associated cash flows for each CGU.

#### Goodwill and Impairment of non-current assets accounting policy

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## Our Capital and Risk Management

This section sets out the policies and procedures applied to manage our capital structure and the financial risks we are exposed to. Our total capital is defined as equity and net debt. We manage our capital structure in order to maximise shareholder return, maintain optimal cost of capital and provide flexibility for strategic investments.

### 6. Working capital

Management of the Group's working capital is critical to support the operating liquidity of our business.

Key performance indicators used by the Group to manage short-term liquidity include debtor days and total lockup days (work in progress (WIP) days plus debtor days).

The breakdown of the components of the Group's working capital balance at 30 June include:

\$'000	2017	2016
Trade receivables	33,315	36,953
Less: Impairment losses	(335)	(360)
Other receivables	177	310
	33,157	36,903
Work in progress	18,989	14,216
<b>Total trade and other receivables</b>	<b>52,146</b>	<b>51,119</b>
Trade and other payables	9,291	9,978
Accrued expenses	5,761	6,231
<b>Total trade and other payables</b>	<b>15,052</b>	<b>16,209</b>
<b>Working capital <sup>(1)</sup></b>	<b>37,094</b>	<b>34,910</b>

(1) Working capital = Trade and other receivables plus WIP less trade and other payables and accrued expenses.

#### Working capital accounting policy

##### Trade and other receivables

Trade receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment (i.e. provision for doubtful debts).

Collectability of receivables is reviewed on an ongoing basis and individually assessed for impairment. Impairment of receivables is not recognised until there is objective evidence that they are impaired. A receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Receivables due in twelve months or less are not discounted. An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. Refer to Note 8 – credit risk management section for further discussion.

##### Work in progress

WIP represents unbilled revenue which is recognised at the expected recoverable amount as the services are performed, based on the Group's revenue recognition policy as described in Note 2.

##### Trade, other payables and accrued expenses

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days.

## Our Capital and Risk Management (continued)

### 7. Net debt

The Board's policy is to maintain a strong capital base so as to preserve shareholder, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital employed, which the Group defines as profit before tax divided by average capital employed. The Board also monitors the level of dividends to shareholders.

The Board monitors the net cash/debt position as a key objective in ensuring an efficient capital structure, maintaining a prudent level of gearing and having sufficient balance sheet flexibility to continue pursuing growth initiatives.

\$'000	2017	2016
Total cash and cash equivalents	4,429	4,733
Less: unsecured working capital facility	(13,500)	(12,000)
Net debt <sup>(1)</sup>	(9,071)	(7,267)

(1) Net debt excludes finance lease liabilities and bank guarantees.

The Group has a three-year multi-option working capital facility of \$30.0 million. The facility is non-amortising and unsecured with \$13.5 million drawn down at 30 June 2017 (2016: \$12.0 million).

The position of finance facilities at 30 June was as follows:

\$'000	Total facilities available <sup>(1)</sup>		Facilities used at balance date <sup>(1)</sup>		Facilities not used at balance date <sup>(1)</sup>	
	2017	2016	2017	2016	2017	2016
Unsecured working capital facility	30,000	30,000	13,500	12,000	16,500	18,000
Bank indemnity/guarantee facility	4,653	4,653	2,557	2,656	2,096	1,997
	34,653	34,653	16,057	14,656	18,596	19,997

(1) Represents face value of the facilities.

### Loans and borrowings

\$'000	2017	2016
<b>Current</b>		
Unsecured working capital facility	13,500	12,000
Secured finance lease liabilities <sup>(1)</sup> (refer Note 20)	1,040	567
	14,540	12,567
<b>Non-current</b>		
Secured finance lease liabilities <sup>(1)</sup> (refer Note 20)	1,200	518

(1) Includes a component of back-to-back lease arrangements relating to equipment associated with certain managed service contracts amounting to \$2.2 million.

#### Loans and borrowings accounting policy

Loans and borrowings are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the liabilities on an effective interest basis.

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in profit or loss in the event that the liabilities are derecognised.

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Interest expense on loans and borrowings is recognised using the amortised cost method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## Our Capital and Risk Management (continued)

### 8. Financial risk management

Due to the nature of the Group's operations and its capital structure, the Group is exposed to a number of financial risks, principally:

Nature of Risk	Definition
Credit risk	The risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash held with financial institutions. Exposure to credit risk arises in the normal course of the Group's business.
Liquidity risk	The risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Board through the Audit, Risk and Compliance Committee has overall responsibility for the establishment and oversight of the risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group is also exposed to the risk of financial loss due to adverse interest rate and/or foreign currency rate movements. However, as the Group has low levels of drawn debt and the majority of its business is in Australia, these risks are not considered material at 30 June 2017.

#### Credit risk management

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group minimises concentrations of credit risk by undertaking transactions with a large number of reputable customers in various industries, performing due diligence procedures on major new customers and closely monitoring past due payments. The Group's trade receivables over 90 days past due at the reporting date that were not impaired were \$0.5 million (2016: \$0.1 million).

The Group held cash and cash equivalents of \$4.4 million at 30 June 2017 (2016: \$4.7 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, with a minimum rating of AA-, based on Standard & Poor's agency ratings.

#### Liquidity risk management

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below details the contractual maturities of financial liabilities. The cash flow amounts are gross and undiscounted, and include estimated interest payments.



## Our Capital and Risk Management (continued)

### 8. Financial risk management (continued)

\$'000	Carrying amount	Total	Contractual cash flows			
			6 months or less	6-12 months	1-2 years	2-5 years
<b>At 30 June 2017</b>						
Trade and other payables	15,052	15,052	15,052	-	-	-
Unsecured working capital facility	13,500	13,502	13,502	-	-	-
Finance lease liabilities	2,240	2,504	613	573	659	659
	30,792	31,058	29,167	573	659	659
<b>At 30 June 2016</b>						
Trade and other payables	16,209	16,209	16,209	-	-	-
Unsecured working capital facility	12,000	12,006	12,006	-	-	-
Finance lease liabilities	1,085	1,179	329	309	541	-
	29,294	29,394	28,544	309	541	-

The Group has a \$30.0 million (2016: \$30.0 million) working capital facility that is unsecured with \$13.5 million drawn down at 30 June 2017 (2016: \$12 million). Interest is payable on the drawn balance of this facility at the bank bill swap rate plus 0.5%, reduced from 1.2% in the prior year. The total facility has a line fee of 1.2%.

### 9. Dividends

The following dividends were paid by the Group during the year ended 30 June:

	Cents per share	Total amount \$'000	Franked/unfranked <sup>(1)</sup>	Date of payment
<b>2017</b>				
Final 2016 ordinary	3.0	2,056	Franked	4 Nov 2016
Interim 2017 ordinary	1.5	1,028	Franked	4 Apr 2017
Total	4.5	3,084		
<b>2016</b>				
Final 2015 ordinary	10.0	6,887	Franked	6 Nov 2015
Interim 2016 ordinary	6.5	4,477	Franked	8 Apr 2016
Total	16.5	11,364		

(1) Franked dividends paid during the year were franked at the tax rate of 30%.

At 30 June 2017, the Group has \$36.7 million (2016: \$34.2 million) franking credits available to shareholders of the Company for subsequent financial years.



## Our Capital and Risk Management (continued)

### 10. Equity and reserves

#### Issued capital

Number '000	2017	2016
On issue at 1 July	68,536	68,988
Shares cancelled under share buy-back during the financial year	-	(452)
On issue at 30 June - fully paid	68,536	68,536

The holders of ordinary shares are entitled to receive dividends, as determined from time to time and on a poll are entitled to one vote per share held at meetings of the Company. Ordinary shares have no par value. The Company has also issued performance rights that may be converted into ordinary shares subject to the terms of the related Plans.

#### Shares cancelled under buy-back

There were no shares bought back under the on-market share buy-back during the year (2016: 451,961 (\$0.9 million)).

#### Reserves

The Group has the following reserves recorded within Equity:

Nature of reserve	Description
Foreign currency translation reserve	Comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, where their functional currency is different to the presentation currency of the Group.
Equity compensation reserve	This represents the cumulative accounting value of performance rights issued as employee benefits for services rendered, net of tax.

## Our People

This section provides information about our employee benefit obligations, including annual leave, long service leave and post-employment benefits. It also includes details about our employee share plans and compensation paid to key management personnel.

### 11. Employee benefits provisions and expenses

\$'000	2017	2016
<b>Current</b>		
Liability for annual leave	6,129	6,823
Liability for long service leave	3,868	3,570
	9,997	10,393
<b>Non-current</b>		
Liability for long service leave	1,224	1,337

#### Superannuation

All Directors and employees of the Group are members of accumulation funds of their choice and there are no Directors or employees who are members of defined benefit superannuation schemes. Total superannuation expense in profit or loss for the year was \$15.2 million (2016: \$17.7 million).

## Our People (continued)

### 11. Employee benefits provisions and expenses (continued)

#### Employee benefits accounting policy

Employee benefit related liabilities are recorded for:

- > Annual leave – accrued based on statutory and contractual requirements including related on-costs. They are measured using the rates expected to be paid when the obligations are settled.
- > Long service leave – accrued at the present value of expected future payments to be made resulting from services provided by employees.
- > Bonuses – provided based on the achievement of predetermined KPIs and the benefit calculations are formally documented and determined before signing the financial report.
- > Contributions to a defined contribution superannuation plan – accrued and expensed in the year they are paid or become payable.
- > Restructuring and employee termination benefits recognised when a detailed plan has been approved and restructuring and/or termination has either commenced or been publicly announced or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

### 12. Share-based payments

The Group has an annual Executive performance rights plan in place as part of its employee remuneration structure. This supports the alignment of remuneration with performance of the Group.

During the year ended 30 June 2017, the following plans were within their three-year vesting period:

	2016 Plan		2015 Plan		2014 Plan	
Grant date	1-Jul-16		1-Jul-15		1-Jul-14	
Expected volatility <sup>(1)</sup>	40%		35%		35%	
Expected dividend yield p.a. <sup>(2)</sup>	5.50%		4.17%		5.30%	
Risk free interest rate p.a. <sup>(3)</sup>	1.55%		2.05%		2.88%	
Performance measures	EPS	TSR	EPS	TSR	EPS	TSR
Share price at grant date	\$1.64	\$1.64	\$3.48	\$3.48	\$3.54	\$3.54
Fair value at measurement date <sup>(4)</sup>	\$1.39	\$0.94	\$3.08	\$1.98	\$3.02	\$1.98

(1) Expected volatility based on historical daily share price for the three-year period preceding the grant date.

(2) Expected dividend yield is based on historic yield and expected future yield at grant date.

(3) Risk free interest rate is based on the three-year Australian Bank Bill Swap Rate.

(4) To allow for the TSR hurdle, a Monto Carlo simulation was used to value the performance rights. To allow for the EPS hurdle, a closed form Black Scholes model was used to value the performance rights.

## Our People (continued)

### 12. Share-based payments (continued)

Movements in all plans during the year ended 30 June 2017 are as follows:

Number of performance rights	2016 Plan	2015 Plan	2014 Plan <sup>(1)</sup>	2014 Plan	2013 Plan	2012 Plan	Total
Grant date	1-Jul-16	1-Jul-15	6-Feb-15	1-Jul-14	1-Jul-13	1-Jul-12	
<b>Year ended 30 June 2017</b>							
Granted and not lapsed at 1 July (opening balance)	-	373,196	-	508,814	313,954	-	1,195,964
Granted during the year	987,498						987,498
Lapsed during the year	(229,392)	(104,960)	-	(189,028)	(313,954)	-	(837,334)
<b>Unvested performance rights</b>	<b>758,106</b>	<b>268,236</b>	<b>-</b>	<b>319,786</b>	<b>-</b>	<b>-</b>	<b>1,346,128</b>
<b>Year ended 30 June 2016</b>							
Granted and not lapsed at 1 July (opening balance)	-	-	58,194	721,036	477,638	363,849	1,620,717
Granted during the year	-	626,846	-	-	-	-	626,846
Lapsed during the year	-	(253,650)	(58,194)	(212,222)	(163,684)	(363,849)	(1,051,599)
<b>Unvested performance rights</b>	<b>-</b>	<b>373,196</b>	<b>-</b>	<b>508,814</b>	<b>313,954</b>	<b>-</b>	<b>1,195,964</b>

(1) Grant date of 6 February 2015 related to the rights in the 2014 plan issued to previous CEO which were forfeited upon her resignation on 2 May 2016.

The performance rights granted on 1 July 2013 lapsed on 1 July 2016, being the end of the three-year vesting period, with nil vesting into ordinary shares.

Under each plan:

- certain Executives are eligible to participate.
- performance rights are granted subject to a three-year vesting period commencing at grant date.
- each performance right is based on the achievement of specific total shareholder return and earnings per share measures that align the performance of key employees with the interests and objectives of shareholders. Refer to page 13 for further details on the relevant LTI performance measures.
- unvested performance rights lapse on the employee's termination, subject to Board discretion.
- performance rights have a nil consideration, with each performance right converting to one share subject to satisfaction of the performance criteria. There are voting and dividend rights attached to the shares that are converted, but not to the performance rights.
- performance rights are non-transferable and unquoted.
- the share based payments are considered to be equity-settled, with respect to the accounting requirements in AASB 2 Share based payments. The total share based payment expense recognised within employee benefits expense for the year ended 30 June 2017 amounted to (\$276,834) (2016: (\$66,771)).

#### Share based payments accounting policy

The fair value of performance rights granted under each performance rights plan is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the performance rights at the end of the performance period. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest into shares, except where market conditions are not achieved.

## Our People (continued)

### 13. Key management personnel

The Key Management Personnel (KMP) remuneration included in 'employee benefits expense' is as follows:

\$'000	2017	2016
Short-term employee benefits <sup>(1)</sup>	2,289	3,003
Post-employment benefits	211	231
Other long-term benefits	48	44
Termination benefits	83	755
Equity remuneration benefits	(76)	(53)
	<b>2,555</b>	<b>3,980</b>

(1) Includes salaries and non-cash benefits.

#### Key management personnel accounting policy

Key management personnel of the Group, as disclosed in the Remuneration Report, are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Group.

Amounts are only included in the key management remuneration disclosures for an individual for the period within which they meet the criteria of a key management personnel.

## Group Structure

The following section provides information on our structure and how this impacts the results of the Group as a whole, including parent entity information and details of controlled entities.

### 14. Parent entity information

SMS Management & Technology Limited is the ultimate parent entity of the Group. It is a for-profit company domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX Code: SMX) and has an Australian dollar functional currency.

A summary of the comprehensive income and financial position of the parent entity is detailed below:

\$'000	2017	2016
<b>Summary of comprehensive income:</b>		
(Loss)/profit for the year of the Parent entity	(1,633)	11,364
Total (loss)/profit and other comprehensive income for the year	(1,633)	11,364
<b>Summary of financial position:</b>		
Current assets	1,819	10,811
Non-current assets	88,508	82,398
Total assets	90,327	93,209
Current liabilities	4,670	2,438
Total liabilities	4,670	2,438
<b>Net assets</b>	<b>85,657</b>	<b>90,771</b>
Issued capital	63,402	63,402
Reserves	9,913	10,310
Retained earnings	12,342	17,059
<b>Total equity</b>	<b>85,657</b>	<b>90,771</b>

## Group Structure (continued)

### 14. Parent entity information (continued)

SMS Management & Technology Limited is guarantor for:

- GST liabilities of other entities within the GST Group. At 30 June 2017 \$3.9 million (2016: \$2.8 million) has been recognised as a liability in the Consolidated Statement of Financial Position.
- Income tax liabilities of other entities outside the tax consolidated Group. At 30 June 2017 \$18,754 (2016: \$17,123) has been recognised as a liability in the Consolidated Statement of Financial Position.
- the debts in respect to certain controlled entities that are party to the Deed of Cross Guarantee (refer to Notes 15 and 21 for details of the entities party to the Deed of Cross Guarantee).

Under the tax consolidated group (refer Note 15) as head entity of the tax consolidated group, the Company recognises:

- current tax liabilities and assets, deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group.
- any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed from its controlled entities in the tax consolidated group as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution to, or distribution from, the controlled entity.
- deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

SMS Management & Technology Limited is also the head entity for the:

- tax funding arrangements – requiring payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss related deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.
- tax sharing agreements – provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

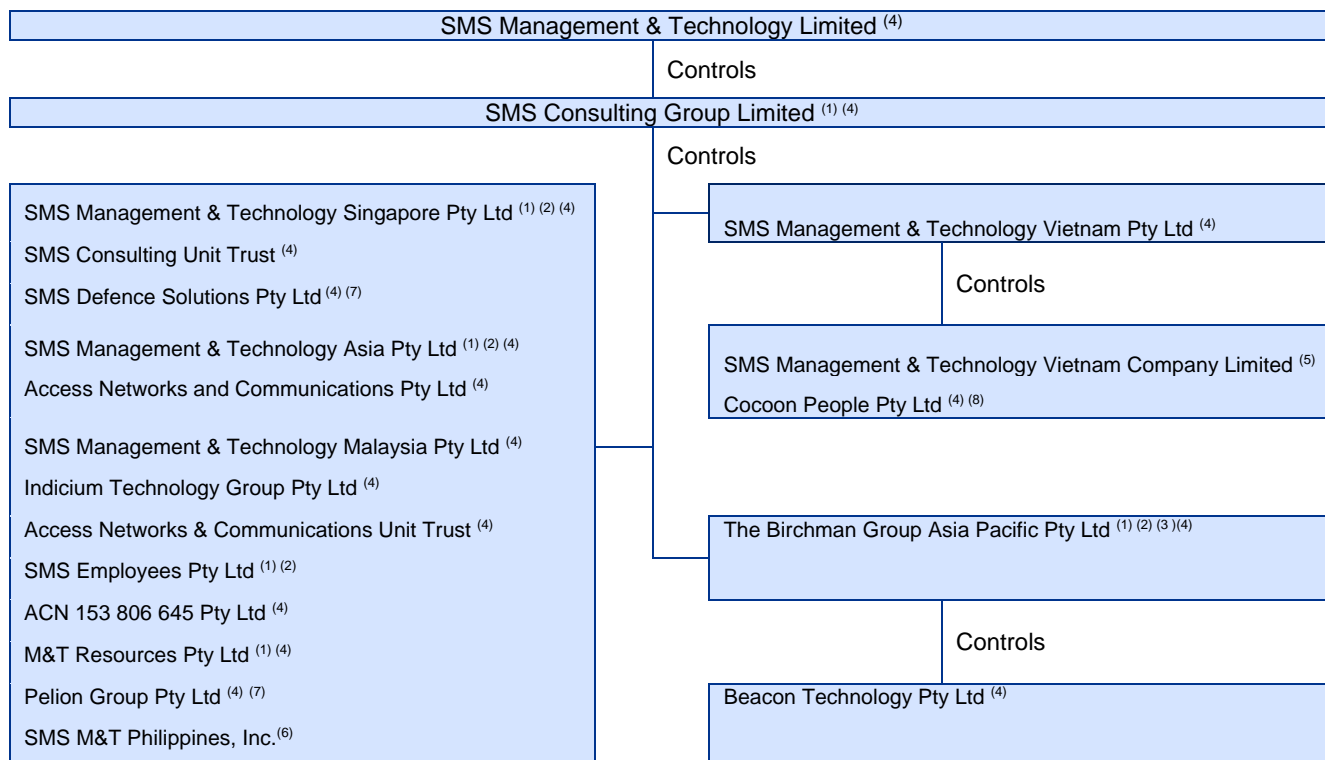
#### Accounting policies applied to the Parent entity financial statements

The same accounting policies are applied to the Company as applied in the Group financial statements with the exception that investments in controlled entities are carried at cost less impairment losses in the Company's separate financial statements.

## Group Structure (continued)

### 15. Controlled entities

The Group's controlled entities, which are all wholly owned and incorporated in Australia unless otherwise stated, are:



- (1) These companies in the wholly-owned group are party to a Deed of Cross Guarantee with SMS Management & Technology Limited as Holding Entity and Trustee pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (Refer Note 21).
- (2) These companies are party to the Deed of Cross Guarantee, however they are small proprietary companies as defined under the Corporations Act 2001 and as such do not require relief under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
- (3) The Birchman Group Asia Pacific Pty Ltd joined as a party to the Deed of Cross Guarantee on 19 August 2014 effective for the financial years ending on or after 30 June 2015.
- (4) Part of the Australian tax consolidated group, SMS Management & Technology Limited is the head company.
- (5) SMS Management & Technology Vietnam Company Limited was incorporated in Vietnam.
- (6) SMS M&T Philippines, Inc. was incorporated in the Philippines.
- (7) These entities are in the process of being wound up through a voluntary liquidation.
- (8) This company was deregistered on 21 July 2017.

All transactions within the wholly-owned group are on normal terms and conditions. These transactions consisted of amounts advanced by and repaid to the Company and the Group for the provision of services on normal commercial terms and conditions and at market rates. There are no fixed terms for the repayment of inter-entity loans advanced by and to the Company and the Group.

#### Consolidation accounting policy

Entities that are controlled by the Company are referred to as controlled entities. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of controlled entities have been changed when necessary to align them with the policies adopted by the Group.

## Other balance sheet items and related disclosures

This section includes other balance sheet and related disclosures not included in the other sections, for example our fixed assets, intangible assets, deferred tax balances and leases.

### 16. Plant and equipment

\$'000	Useful life	2017	2016
Plant and equipment	1 - 15 years	2,761	3,621
Leasehold improvements	3 - 10 years	66	102
Net book value		2,827	3,723

During the year, there were additions of \$0.25 million (2016: \$1.52 million) in plant and equipment, disposals of \$0.10 million (2016: nil) and no further material acquisitions, disposals or impairment of any plant and equipment items.

Depreciation charged for the year was \$1.0 million (2016: \$0.9 million).

#### Depreciation accounting policy

Depreciation is charged to profit or loss on a straight line basis over the estimated useful life of each component of an item of plant and equipment. The residual value, useful life and the depreciation method applied to an asset are reassessed at least annually.

### 17. Intangible assets

\$'000	Useful life	Notes	2017	2016
Goodwill <sup>(1)</sup>	indefinite	5	64,344	111,044
Customer contracts and relationships	4 - 6 years		458	915
Other	various		21	21
Net book value			64,823	111,980

(1) Net book value represents \$444.2 million at historical cost less \$379.9 million of accumulated impairment losses.

During the year, there was a \$46.7 million impairment write down of goodwill, see Note 5 for more details.

During the year, there were no material acquisitions or disposals of intangible items.

Amortisation charged for the year was \$0.5 million (2016: \$0.5 million).

#### Amortisation accounting policy

Except for goodwill, intangible assets are amortised over their estimated useful lives, based on the anticipated relationship with customers and the timing of projected cash flows of the contracts. Where the estimated useful life varies, the amortisation rate applicable to the customer relationship or contract is reassessed.

### 18. Deferred tax balances

\$'000	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Trade and other receivables	101	108	(5,398)	(4,008)	(5,297)	(3,900)
Trade and other payables	978	1,093	-	-	978	1,093
Employee benefits	2,962	3,483	-	-	2,962	3,483
Tax losses	337	1,041	-	-	337	1,041
Sundry items	530	456	(138)	(275)	392	181
Tax assets / (liabilities)	4,908	6,181	(5,536)	(4,283)	(628)	1,898
Set off of tax	(4,527)	(4,283)	4,527	4,283	0	-
Net tax assets / (liabilities)	381	1,898	(1,009)	-	(628)	1,898



## Other balance sheet items and related disclosures (continued)

### 18. Deferred tax balances (continued)

#### Taxation accounting policy

A deferred tax asset is:

- > offset against a deferred tax liability if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
- > recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.
- > reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 19. Other assets

\$'000	2017	2016
<b>Current</b>		
Prepayments	969	1,598
Finance lease receivables <sup>(1)</sup>	1,193	597
Other current assets	319	247
	<b>2,481</b>	<b>2,442</b>
<b>Non-current</b>		
Finance lease receivables <sup>(1)</sup>	1,625	595
	<b>1,625</b>	<b>595</b>

(1) Finance lease receivables are a component of back-to-back lease arrangements relating to equipment associated with certain managed services contracts.

### 20. Leases

#### Operating leases

The Group has non-cancellable operating lease rentals that are payable at 30 June as follows:

\$'000	2017	2016
Within one year	5,064	4,237
One year or later and no later than five years	9,307	12,398
Later than five years	826	1,588
	<b>15,197</b>	<b>18,223</b>

Total operating lease expense in profit or loss for the year was \$4.5 million (2016: \$5.0 million). Operating leases payable predominantly relate to property leases.

#### Accounting policies applied for Leases

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

## Other balance sheet items and related disclosures (continued)

### 20. Leases (continued)

#### Finance leases

The Group has financed equipment to support multi-year managed services contracts. Finance lease liabilities are payable as follows:

\$'000	Future minimum lease payments		Interest		Present value of minimum lease payments <sup>(1)</sup>	
	2017	2016	2017	2016	2017	2016
Within one year	1,185	638	145	71	1,040	567
One year or later and no later than five years	1,319	541	119	23	1,200	518
	2,504	1,179	264	94	2,240	1,085

(1) Recorded within loans and borrowings in the Statement of Financial Position and secured by leased assets.

#### Accounting policies applied for Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated Statement of Financial Position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss. Subsequent to the initial recognition, finance leased assets are depreciated over their estimated useful life.

### Other disclosures

This section includes other information and disclosures not included in the other sections of this Financial Report.

### 21. Contingencies

Details of contingent liabilities are as follows:

#### Bank guarantees

Bank guarantees of \$2.6 million (2016: \$2.7 million) have been provided as security for performance of property rental covenants.

#### Closed group

Certain entities in the wholly-owned group have entered into a Deed of Cross Guarantee. The Deed of Cross Guarantee was executed between the Company and some of its wholly owned entities (refer Note 15) on 22 November 2011 (Deed). On 19 August 2014 the Company entered into a Deed of Assumption with The Birchman Group Asia Pacific Pty Ltd pursuant to which it became a party to the Deed. On 19 April 2016 the Company entered into a Deed of Revocation with SMS Defence Solutions Pty Ltd pursuant to which it was removed from the Deed. Under the Deed, each company guarantees the debts of the other companies that are party to the Deed in the event of the winding up of any of the companies party to the Deed in the circumstances contained in the Deed. Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, for those entities that are party to the Deed relief has been granted from the Corporations Act 2001 requirements to prepare and lodge audited financial statements, where required.

The table below presents the summarised Consolidated Statement of Comprehensive Income for the Company and controlled entities which are party to the Deed of Cross Guarantee (referred to as the Closed Group).

\$'000	2017	2016
Revenue	302,052	316,886
Finance costs	(882)	(799)
Income tax expense	(1,670)	(3,690)
Profit for the year	(27,260)	7,928

## Other disclosures (continued)

### 21. Contingencies (continued)

The table below presents the Consolidated Statement of Financial Position for the Closed Group.

\$'000	2017	2016
<b>Current assets</b>		
Cash and cash equivalents	4,330	3,550
Trade and other receivables	52,558	49,675
Current tax asset	1,819	-
Amounts receivable from controlled entities	-	-
Other	2,436	2,088
<b>Total current assets</b>	<b>61,143</b>	<b>55,313</b>
<b>Non-current assets</b>		
Plant and equipment	2,002	2,640
Deferred tax assets	1,131	2,465
Intangible assets	43,766	75,729
Investments in controlled entities	37,536	37,536
Other	1,625	443
<b>Total non-current assets</b>	<b>86,060</b>	<b>118,813</b>
<b>Total assets</b>	<b>147,203</b>	<b>174,126</b>
<b>Current liabilities</b>		
Trade and other payables	15,424	14,573
Loans and borrowings	14,499	12,406
Current tax liabilities	-	2,438
Employee benefits	9,988	10,133
Amounts payable to controlled entities	4,307	2,848
Other	2,394	2,330
<b>Total current liabilities</b>	<b>46,612</b>	<b>44,728</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	1,009	-
Loans and borrowings	1,200	443
Employee benefits	1,224	1,303
Other	1,488	1,024
<b>Total non-current liabilities</b>	<b>4,921</b>	<b>2,770</b>
<b>Total liabilities</b>	<b>51,533</b>	<b>47,498</b>
<b>Net assets</b>	<b>95,670</b>	<b>126,628</b>
<b>Equity</b>		
Issued capital	63,402	63,402
Reserves	9,993	10,607
Retained earnings	22,275	52,619
<b>Total equity</b>	<b>95,670</b>	<b>126,628</b>

The effects of transactions between entities to the Deed of Cross Guarantee are eliminated in full in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position. Dividends paid during the year were \$3.1 million (2016: \$11.4 million).

## Other disclosures (continued)

### 22. Auditors' remuneration

During the year, the following fees were paid or payable for services provided by the auditor of the Company, and its related practices:

\$	2017	2016
<b>Audit services</b>		
Auditors of the Group		
Audit and review of financial reports	<b>188,000</b>	185,000
<b>Services other than statutory audit</b>		
Accounting advisory services	<b>65,000</b>	13,774
Tax services	-	3,801
<b>Total</b>	<b>253,000</b>	<b>202,575</b>

*All numbers reported in the above table are exclusive of GST*

### 23. Subsequent events

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

The Company entered into a scheme implementation agreement with ASG on 20 June 2017. Refer to page 4 under Likely Developments for more information.

SMS MANAGEMENT & TECHNOLOGY LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' DECLARATION

1. In the opinion of the Directors of SMS Management & Technology Limited (the Company):
  - a) the consolidated financial statements and notes that are set out on pages 23 to 47 and the Remuneration Report on pages 11 to 20 in the Directors' Report are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
  - 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.
2. As at the date of this declaration, there are reasonable grounds to believe that members of the Closed Group identified in Note 15 will be able to meet any liabilities to which they are, or may become, subject because of the Deed of Cross Guarantee described in Note 21.
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.
4. The Directors draw attention to Note 1 to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

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



Derek Young  
Chairman



Rick Rostolis  
Chief Executive Officer and Managing Director

Signed at Melbourne this 22<sup>nd</sup> day of August 2017.



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## **Independent Auditor's Report to the Members of SMS Management & Technology Limited**

### **Report on the Audit of the Financial Report**

#### *Opinion*

We have audited the financial report of SMS Management & Technology Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### *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. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key Audit Matter	How the Key Audit Matter was addressed in the audit
<p><b>Intangible assets – assessment of impairment</b></p> <p><i>Refer to Note 5 - Impairment assessment.</i></p> <p>As at 30 June 2017, the Group's goodwill totals \$64.3 million which is entirely allocated to the SMS Consulting Cash Generating Unit (SMS Consulting CGU). Goodwill is required to be assessed for impairment on an annual basis or when any indicators of impairment exist.</p> <p>As at 30 June 2017 management concluded that the recoverable amount of the SMS Consulting CGU was higher than its carrying value, based on a fair value less costs to sell calculation, following receipt of a binding arms-length offer from ASG Group Limited to acquire SMS Management &amp; Technology Limited.</p> <p>The evaluation of the recoverable amount of the intangible assets requires significant judgement including:</p> <ul style="list-style-type: none"> <li>determination of key assumptions supporting the expected future cash flows, including the growth rates, and discount rate under management's Value in Use model.</li> <li>allocation of the binding offer received from ASG Group in order to determine the fair value of the SMS Consulting CGU and estimated costs to sell</li> </ul>	<p>In conjunction with our valuation specialists our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>assessing the impairment charge of \$46.7 million recorded against goodwill at the half year, which also included assessing the forecasted future cash flows, growth rates and discount rate used in management's Value in Use model;</li> <li>assessing management's allocation of the fair value of the SMS Consulting CGU based on the arms-length binding offer from ASG Group, as well as management's estimate of costs to sell;</li> <li>recalculating the mathematical accuracy of the fair value less costs to sell model used by management;</li> <li>assessing the accuracy of management's calculation against the binding offer received; and</li> <li>assessing the appropriateness of the disclosures in note 5 of the financial statements.</li> </ul>

#### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's financial report for the year ended 30 June 2017.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### 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 Company 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 Company or to cease operations, or has no realistic alternative but to do so.

#### *Auditor's Responsibilities for the Audit of the Financial Report*

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit

matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on the Remuneration Report**

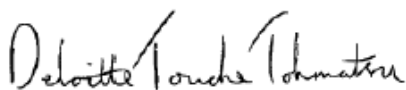
#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 11 to 20 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of SMS Management & Technology Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

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



DELOITTE TOUCHE TOHMATSU



Stephen Roche  
Partner  
Chartered Accountants  
Melbourne, 22 August 2017