



citadel group

MANAGING COMPLEXITY

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2020 Annual Report

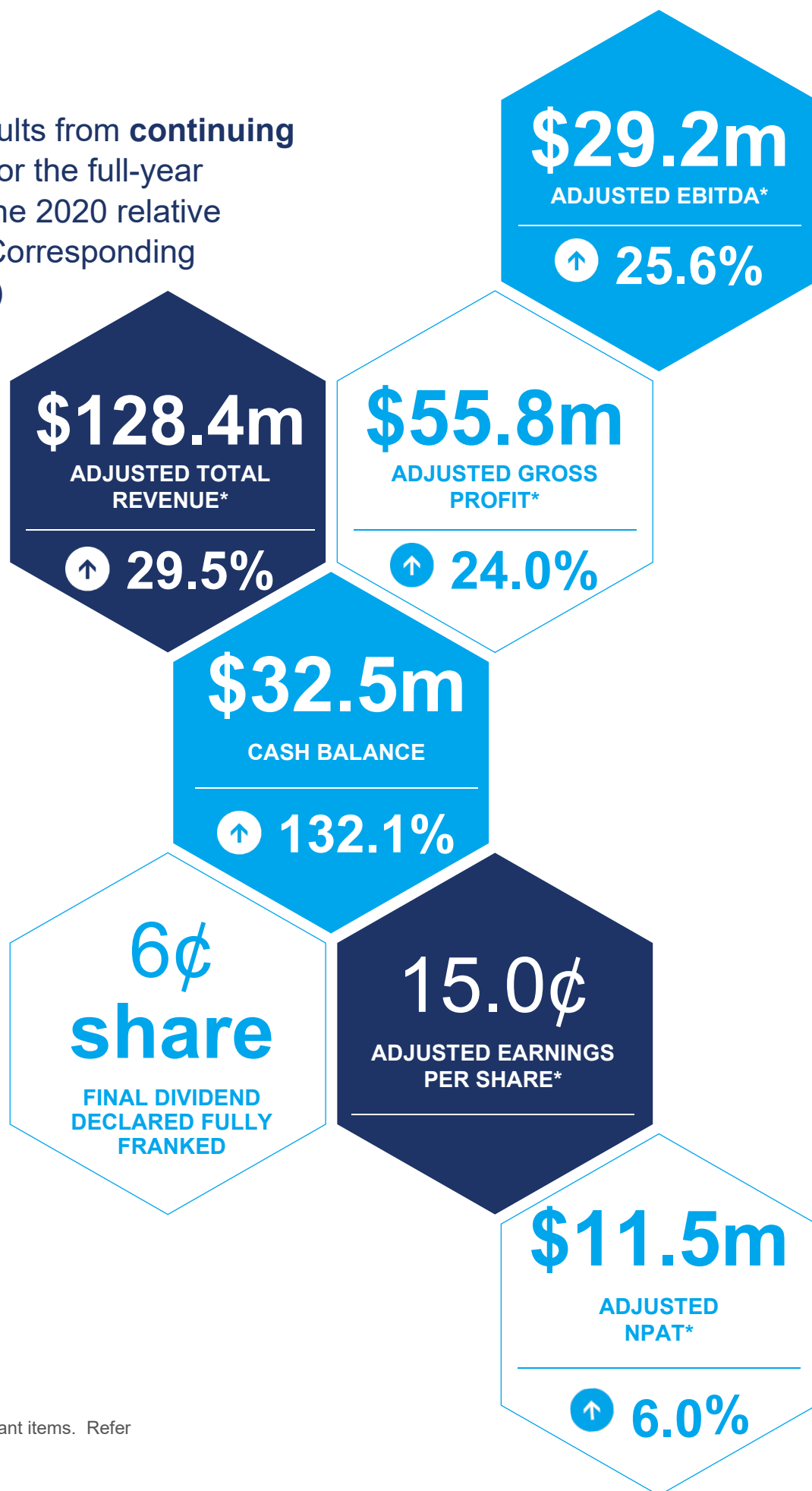
| Year ended
30 June 2020

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Citadel

Specialist software and services
company that manages information
in complex environments

Financial results from **continuing operations** for the full-year ended 30 June 2020 relative to Previous Corresponding Period (PCP)



* Adjusted for significant items. Refer Page 10 for details.

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Contents

Chairman's report.....	5
Operating and financial review	8
Board of Directors	13
Key management personnel	16
Directors' report.....	18
Citadel Group Letter of Introduction to Citadel Remuneration Report	21
Remuneration report (audited)	22
Directors' declaration	42
Auditor's independence declaration	43
Corporate directory	44
Financial report	46
Contents.....	47
Consolidated statement of profit or loss and other comprehensive income	49
Consolidated statement of financial position	51
Consolidated statement of changes in equity	52
Consolidated statement of cash flows	53
Notes to the financial report	54
Directors' declaration	107
Auditor's report.....	108
Shareholder information	114

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Chairman's report

Dear Shareholder,

On behalf of the Board of Directors, I am pleased to present The Citadel Group Limited's ('Citadel' or 'the Group') Annual Report for the 2020 Financial Year (FY20).

It has been a challenging but significant year for the Group with a transformational acquisition, the impact of COVID-19 coronavirus pandemic and changes to our Management and Board composition. Through all of this, Citadel has delivered a solid financial result for our shareholders, with total adjusted revenue of \$128.4 million (up 29.5% on FY19), adjusted EBITDA of \$29.2 million (up 25.6% on FY19) and a strong cash position of \$32.5 million at 30 June 2020 (FY19: \$14.0 million).

Operating Highlights

We were pleased with how the FY20 started with a number of the delayed contracts from FY19 being signed in the second quarter which increased the revenue run rate in Q2 by 19% compared to Q1, particularly from Defence and National Security clients. Work delayed from the University sector also started strongly in Q1, with total revenue for the Technology segment of \$18.2 million for the first half, up from \$17.4 million in FY19.

In February 2020, Citadel announced the £103.1 million (\$204.9 million) acquisition of Wellbeing Software Group Holdings Limited (Wellbeing), a market leading provider of radiology and maternity workflow solutions in the UK, with a market share of 59% and 22% of the respective NHS acute trusts in England. The acquisition was funded by a mixture of debt, equity and existing cash in Citadel with the acquisition completing in April 2020. The acquisition was instrumental in transforming the Group into a global enterprise software business. The acquisition was in line with the long-term strategy articulated to shareholders to grow recurring revenue streams in software, particularly in the Health and Enterprise space.

Wellbeing has a high-value, diversified client mix with over 150+ clients in the UK and no single client representing more than 4% of total revenue. Wellbeing has embedded clients, an average annual retention rate of 99% in the last 3 years and an average contract tenure of 12+ years across the top 10 customers. Wellbeing delivers recurring revenue of circa 70% of their total revenue, and impressive EBITDA margins of circa 40%. The acquisition is complementary to Citadel's existing Health segment, combining Citadel's existing market leading pathology and oncology software with Wellbeing's radiology and maternity software. The Group sees significant cross sell opportunities in both the Australian and UK health markets and is currently responding to multiple public tenders.

We are pleased to report that the synergies program, announced upon acquisition, was completed by 30 June 2020, with all of the targeted synergies being achieved (circa \$1.5 million). Wellbeing delivered total statutory revenue of \$7.4 million and EBITDA after adding back significant expense items of \$3.0 million for the 3-month period from acquisition to 30 June 2020, which was in line with expectations.

As part of the acquisition of Wellbeing, the Group undertook a two stage capital raise at \$4.65 per share, with the first capital raise for institutional investors under the existing placement capacity for \$34.4 million on 24 February 2020, and the second capital raise on 2 April 2020 for \$93.0 million under the conditional placement, which was subject to a shareholder vote at the Extraordinary General Meeting held on 30 March 2020.

In addition to the capital raise, the Group restructured its existing debt facility of \$19.6m into an equivalent \$90.0 million debt facility, with half in Australian dollars and half in British pounds. This equated to an initial leverage ratio of around 2 times last twelve months EBITDA for the 100% owned Group, which has reduced below this level at 30 June 2020 as a result of prudent cash management. The Group took out a foreign currency hedge in respect of the acquisition, which resulted in a \$6.3 million foreign currency gain. The Group has implemented hedge accounting and the majority of the gain on the hedge (and the cost of the hedge) is reflected in the cost of the acquisition of the business.

Since February 2020, the Group has been proactively managing its response in relation to COVID-19. The Group has a pandemic plan in place to reduce exposure to employees, to manage potential cases of COVID-19 within the business (should they arise) and to address operational changes required to maintain business continuity. We are pleased to report that all parts of our business have been effectively working from home since March 2020, with no impact to client Service Level Agreements. We have not seen any cancellation of material contracts, although we have started to see some delays in project implementations particularly in the UK and a lengthening of procurement cycles. Despite this, the pipeline of opportunities in software in Australia and the UK is building strongly.

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Citadel's customer base predominantly comprises Health and Government clients on generally long-term contracts supporting business critical software applications. We have seen no material impact on Health, Enterprise or Professional Services segments. We have seen a reduction in the University sector spend in our Technology segment which we expect to see continue into FY21. However, the Technology segment won a \$9.7 million new building contract in May 2020 that commenced in June 2020 and will be completed in the first half of FY21.

Citadel's FY20 financial performance was as follows:

- Statutory total revenues from continuing operations were \$122.1 million compared with \$99.2 million in FY19;
- Profit before income tax from continuing operations decreased to \$2.5 million compared to \$14.3 million in FY19;
- Net Profit After Tax (NPAT) from continuing operations was \$0.9 million compared to \$10.9 million in FY19;
- Net Loss After Tax from operations attributable to owners was \$2.1 million (FY19: \$7.9 million profit) and NPAT from minority interests was \$2.9 million (FY19: \$3.0 million);
- Cash and cash equivalents of 30 June 2020 were \$32.5 million, up from \$14.0 million as at 30 June 2019; and
- Net assets at 30 June 2020 were \$191.0 million compared to \$86.3 million at 30 June 2019.

The statutory result was impacted by a number of significant items as outlined on page 10. This included \$7.5 million of acquisition and integration costs for Wellbeing and restructure costs across both Citadel and Wellbeing. Significant items also include \$5.7 million reversal of a contract asset (income accrual) under AASB 15 that was originally recognised in FY17 and FY18 (of which up to \$5 million is expected to be recovered in FY21), and the reversal of an over accrual in respect of a sub-contract of \$1.4 million (refer to Note 2 and Note 10 for further information).

Dividends

The Directors of Citadel declared a final dividend of 6 cents per share, fully franked, with a declaration date of 27 August 2020, record date of 3 September 2020 and payment date of 1 October 2020. This brings the total FY20 dividend to 10.8 cents per share, fully franked.

Citadel continues to evaluate opportunities to execute and accelerate the long-term growth strategy. This may include increased investment, complementary acquisitions, or other initiatives. The Board will continue to review capital management initiatives, including dividend policy, considering the capital requirements for such growth opportunities as and when they arise.

Board and Management

A number of Management and Board changes occurred over the course of the FY20 to facilitate the next stage of the Group's growth strategy to become a global enterprise software company.

Mr Sam Weiss did not stand for re-election at the 2019 Annual General Meeting and therefore resigned as Non-executive Director effective 31 October 2019.

On 12 November 2019, Mr Kevin McCann AM announced he was stepping down from his role as Director and Chairman after five years in the role, handing over to myself - I have been a Non-executive Director since 2014. The Board thanks Mr McCann for his significant contribution to Citadel, particularly for the strong leadership and guidance he has shown to the Board and Management.

Mr McCann's departure coincided with the resignation of the CEO Mr Darren Stanley, who led the Group for the previous three years and was instrumental in driving growth and acquisition in the software space. Mr Mark McConnell, co-founder and Non-executive Director was appointed to the role of Chief Executive Officer and Managing Director effective 12 November 2019.

The Board welcomed Mr Robert (Bob) Alexander to the Board in December 2019, with key skill sets in finance, mergers and acquisition and governance. After the acquisition of Wellbeing in April 2020, further changes to the Board occurred with Ms Anne Templeman-Jones resigning in May 2020, and Ms Jayne Shaw joining the Board in June 2020. Ms Templeman-Jones had held the roles of Audit, Risk and Compliance Committee Chair and Nomination and Remuneration Committee Chair, and the Board thanks Ms Templeman-Jones for her significant contribution. Ms Shaw has significant experience in healthcare management and a clinical background in nursing, and was a co-founder of Vision Group, a business that was successfully listed on the ASX. Her appointment is in line with the Board's assessment of its desired skills matrix as the Group diversifies into global enterprise software.

Further Board appointments will be considered in FY21 to compliment the current Board in the areas of healthcare, software and global experience.

I would like to thank the Chief Executive Officer and Managing Director, Mr Mark McConnell, his executive and all of the team members of Citadel, for their commitment to the effort and focus required to achieve the FY20 result amidst the uncertainty and challenges of dealing with COVID-19 whilst successfully integrating the Wellbeing business and to welcome the Wellbeing staff into the Citadel Group.

Outlook

We are committed to 'keeping people and information safe' and continuing the investments required to create long term value for our shareholders. We are successfully delivering on our strategy to transform Citadel into a global enterprise software business with a defensive, recurring revenue model across a diverse client base.

Citadel is an industry leader in its chosen markets, with number one market share positions in pathology and oncology software in Australia and radiology and maternity software in the UK. We continue to pursue organic and strategic growth initiatives primarily in the Health and Enterprise segments and we look forward to providing you with further updates on our progress during the next financial year.

Finally, thank you to our shareholders for their support during the year.

Yours sincerely,



Peter Leahy AC
Lt Gen (Retd)
Chairman
27 August 2020

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Operating and financial review

I am pleased to present the full year Operating and Financial Review for Citadel for the 12 months ended 30 June 2020 (FY20).

OVERVIEW OF THE BUSINESS

Citadel is a specialist software and services company that manages information in complex environments. Citadel provides software platforms, digital services and managed services solutions that integrate know-how, systems and people to provide information on an anywhere-anytime basis. Our purpose is to keep people and information safe and we do this through:

- Improving patient healthcare outcomes;
- Securely managing system critical data;
- Supporting enterprise clients to deliver critical IT projects and services; and
- Enabling anytime anywhere communication and collaboration.

The key industry verticals of the business are eHealth, Defence and National Security, all levels of Government and the Tertiary Education sector.

The majority of Citadel's revenues are derived from long term managed services, software and services, product sales and installation, and specialist consulting and professional services.

During the course of the past 12 months Citadel has continued its transition to be recognised as an emerging global software company, with the acquisition of Wellbeing in April 2020 being the culmination of a two year strategy to transform the business into a highly scalable global software company with a focus on health software and enterprise software. The acquisition of Wellbeing has enabled us to diversify our recurring revenue base and secure a higher percentage of recurring revenue. It has also provided a direct channel into global markets that will allow us to continue our growth strategy. Citadel now owns the number one market leading products in public pathology and oncology in Australia and radiology and maternity in the UK. Our focus over the coming financial year will be to capitalise on the significant cross sell opportunities that we see between the two jurisdictions.

Whilst we see substantial growth opportunities in the global software space, we continue to invest in and grow our existing specialist managed services, consulting and professional services, and communication and collaboration businesses.

We undertook a strategic review of the structure of the business in December 2019 and January 2020 which led to a restructure and consolidation of the business into five distinct areas in February 2020. This led to the creation of a leadership structure with four General Managers heading up a segment (Health, Enterprise, Technology, Professional Services) and all Shared Services coming under the responsibility of the Chief Financial Officer. This restructure has resulted in clearer lines of accountability and a drive towards improving operating margins across each of the segments. With the acquisition of Wellbeing, this has created a fifth segment which is now led by the General Manager of Health.

We are pleased that the Group has been able to respond with agility to the COVID-19 pandemic, with most staff successfully working from home with little to no impact to client delivery or Service Level Agreements. We have not seen any cancellation of contracts and only minor impacts across most of the business from a revenue and earnings perspective. The Group has not accessed any JobKeeper payments to date. The most impacted segment was Technology, with a reduced spend witnessed in Q4 from their University sector clients. Despite this, the segment has continued to win work from new opportunities, securing a large-scale building/installation project in May 2020 worth \$9.7 million to be delivered over the next 6 months.

Our underlying (adjusted) financial performance in FY20 has been in line with market expectations after taking into account the impact of COVID-19 and we are pleased with the results. Our team have continued to provide high-quality services and support to all of our customers throughout FY20 despite the challenges that COVID-19 has presented. We expect to see growth momentum in FY21 across all areas of the business.

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OPERATIONAL HIGHLIGHTS

FY20 has been a year of change for Citadel as we continue our transition to a software and services provider and invest for long term stability and growth. Key operational highlights included:

- Acquisition of Wellbeing, the UK market leading provider of radiology and maternity software solutions that manages patient workflow and data. The acquisition delivers on Citadel's strategy of growing a high quality, recurring revenue base;
- Acquisition of the business assets of Linked Training which has provided the in-house training capability for Content Manager and the Kapish suite of products;
- Department of Defence pre-emptively signed 2 x 6 month contract extensions to the DRMS contract (Objective Application Sustainment) to July 2021;
- Retention of the Queensland Health contract and extension until 2029 to continue to provide Auslab™ and the upgrade to Auslab Evolution™;
- Development and Launch of goTRIMPro™, an advanced mobile Content Manager interface;
- Development and launch of AVAssist™, an application that leverages cloud-based technology and connects users to experienced AV/VC technicians via high quality video;
- Now working with three of the Group of Eight (G8) universities after securing a 3 year managed service contract for AV/VC support with the University of Melbourne;
- Ongoing success of partnership with Lean-IX with a number of new contracts signed during FY20;
- Campbelltown City Council and Victoria University have signed on to Citadel-IX, featuring Micro Focus Content Manager;
- Contract signed with Melbourne Genomics Health Alliance for hosting and managed services for the clinical genomics platform;
- Contract signed with multinational construction firm for a construction project for \$9.7 million;
- Citadel was awarded Micro Focus' 'Reseller of the Year' Award for the second year in a row, in recognition of the work Citadel has done in Cloud Innovation for Micro Focus products;
- Successful integration of Noventus into the Professional Services segment with performance exceeding expectations;
- Commenced large program of work for business intelligence and analytics across the Austender platform for Government procurement;
- Increase in international expansion opportunities leveraging Citadel's strong Australian intellectual property ('IP') and leading products, directly and through channel partnerships;
- Our Research and Development program creating and enhancing a number of products including Kapish COTS products, CHARM™ and Auslab™;
- Providing a COVID-19 crisis Concierge support service to Melbourne City Council, Lord Mayor and key stakeholders for all AV/VC requirements; and
- Successfully maintaining productivity, and high level of customer service across all our segments during the COVID-19 crisis.

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RESULTS**Statutory Group Results from Continuing Operations Summary**

Citadel achieved total revenues of \$122.1 million for FY20, up from \$99.2 million in FY19 and EBITDA of \$16.9 million, compared to \$23.3 million in FY19.

Statutory	2020 (\$m)	2019 (\$m)	Variance (\$m)	Variance (%)
Total revenue and other income	122.1	99.2	22.9	23.1
Gross Profit on the sale of goods and rendering of services	50.9	45.0	5.9	13.1
EBITDA	16.9	23.3	(6.4)	(27.5)
Depreciation and amortisation	(12.3)	(8.0)	(4.3)	53.8
Finance costs	(2.1)	(1.0)	(1.1)	110.0
Tax expense	(1.5)	(3.4)	1.9	(55.9)
NPAT	1.0	10.9	(9.9)	(90.8)
Non-controlling interests	(2.9)	(3.0)	0.1	(3.3)
Net (loss) from the year from discontinued operations	(0.1)	-	(0.1)	(100.0)
NPAT attributable to owners of the parent entity	(2.1)	7.9	(10.0)	(126.6)

Adjusted Group Results from Continuing Operations Summary

The adjusted results reflect the underlying trading of the business and is what the Board is using to track the Group's performance against its financial targets.

Adjusted	Revenue (\$m)	Gross Profit (\$m)	EBITDA (\$m)	NPAT (\$m)
Statutory results	122.1	50.9	16.9	1.0
Significant item – contract adjustment ¹	5.7	4.3	4.3	3.0
Significant item – expenses ²	-	-	7.5	7.1
Deferred revenue – fair value adjustment under Purchase Price Accounting ³	0.6	0.6	0.5	0.4
Adjusted results	128.4	55.8	29.2	11.5

¹Reversal of a contract asset (income accrual) under AASB 15 that was originally recognised in FY17 and FY18 (of which up to \$5 million is expected to be recognised in FY21), and reversal of an over accrual in respect of a sub-contract of \$1.4 million (see Note 2(i)).

²Acquisition and integration costs for Wellbeing, and restructure costs across both Citadel and Wellbeing (see Note 4).

³Fair value adjustment to deferred revenue (contract liability) for Wellbeing on acquisition.

Cash Flows

Cash and cash equivalents for cash flow purposes increased by \$18.5 million during FY20 to \$32.5 million, predominantly due to cash flows generated from operating activities. The cash flows generated from operations of \$22.9 million reflect solid customer collections and have been invested in growth assets like internally developed software that can be scaled.

	(\$'000)
Net cash inflow from operating activities	22,889
Net cash (outflow) from investing activities	(204,634)
Net cash inflow from financing activities	201,561
Net increase in cash and cash equivalents	19,816
Cash flows from discontinued operations	38
Effects of exchange rate changes on cash and cash equivalents	(1,329)
Cash and cash equivalents at the beginning of the year	14,021
Cash and cash equivalents at the end of the year for cash flow purposes	32,546

BUSINESS STRATEGY AND PROSPECTS

Citadel's purpose is to 'keep people and information safe'. Citadel will continue to develop and deliver leading secure enterprise information management products and services in our key growth vectors of eHealth, National Security and Defence, all levels of Government and Tertiary Education where information security and trust is paramount.

The Group will continue to increase investments in cloud-enabled software such that we are able to deploy our solutions to Australian and international markets more rapidly than previously possible. Growth will be underpinned by new contract wins and scalable cloud-enabled software sales.

Citadel will continue to solve complex information management problems for our clients, manage these systems over a multi-year period, and expand these offerings to a broader client base within Australia and internationally with a focus on the private sector as we look to diversify our client base. We will execute this strategy through a mix of organic growth and acquisition opportunities.

The pipeline of work for Citadel will increasingly be developed around cloud-based software information management solutions that are not geographically constrained. However, the Group will continue to provide high level technology advisory, integration and on premise or hybrid solutions to our domestic clients where required.

RISK MANAGEMENT

In accordance with Board policies, Citadel manages risk at the Group level. The major risk events, together with possible reasons for their occurrence, are identified and recorded in risk registers in accordance with AS/NZS ISO31000:2009. Those rated as unacceptable, in addition to a range of mitigation strategies, are reported to the Board on a regular basis. Principle 7 of The Corporate Governance Statement (available on the Citadel website) outlines the process of managing risk and the engagement of the Audit, Risk and Compliance Committee.

As required by Section 299A(1) of the Corporations Act 2001, and in accordance with ASIC Regulatory Guide 247 Effective Disclosure in an Operating and Financial Review (RG 247) issued in March 2013, material business risks that could adversely affect financial performance include:

- Loss of key contracts or failure to win new contracts;
- Claims for indemnities or damages which may arise in connection with Citadel's key contracts;
- Failure to commercialise R&D expenditure;
- Cyber security attacks which result in a data breach and/or loss of business critical systems;
- Disruption through technological advances or product failures; and
- Loss of key personnel and management and/or an inability to attract new talent in line with the increase in operational scale.

REGULATORY AND ENVIRONMENTAL MATTERS

Citadel is required to carry out its activities in accordance with applicable regulations in each of the jurisdictions in which it undertakes business. Citadel is not aware of any matter that requires disclosure with respect to any significant regulations in respect of its operating activities, and there were no issues of non-compliance during the period.

Citadel's operations are subject to a range of environmental regulations under the laws of the Commonwealth of Australia and its States and Territories. Citadel has not incurred any liabilities under any environmental legislation.

CONCLUSION

I am very pleased with the way our team has responded to the significant challenges that FY20 has presented. Our ongoing transformational program is resulting in a clear shift in the earnings mix to high quality recurrent income. Our dedicated executive team are driving this change strategy and subject to ongoing execution will deliver a business with a high percentage of recurring software-based services revenue across a diverse client base that over the medium term will drive increased margins.

In closing, I would like to recognise the ongoing support of our shareholders and give our thanks and gratitude to Citadel's Board of Directors, and all of Citadel's loyal staff, partners and clients who have significantly contributed to our business in the past 12 months, including our new Wellbeing team.

Yours sincerely,



Mr Mark McConnell
Chief Executive Officer and Managing Director
27 August 2020

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Board of Directors

The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance.

DIRECTOR AND POSITION

EXPERIENCE



Lt Gen Peter Leahy AC
Independent Non-executive
Director and Chairman

Appointed 12 November 2019 as Chairman

Most recently elected by shareholders: 31 October 2019

Board Committees: Chairman of Board of Directors, Member of Audit, Risk and Compliance Committee, Member of Nomination and Remuneration Committee

Lt Gen Peter Leahy AC retired from the Australian Army in July 2008, after a 37-year career. He retired as a Lieutenant General in the position of Chief of Army, a position he held for 6 years. In this appointment he was directly accountable for Army's \$6 billion annual budget and his responsibilities included the detailed management of personnel, operating and capital cost centres and the direct responsibility to raise, train and sustain the Army. He was the principal adviser to the Chief of the Defence Force on strategic matters related to the deployment of the Army on global combat operations. He is now a Professor and Foundation Director of the National Security Institute at the University of Canberra.

He is a director of ASX listed companies; Codan Limited, Electro Optic Systems Holdings Limited, and is a technical adviser to the board of WarpForge Limited.

In work related to charities he is the Chairman of Soldier On, Salvation Army Red Shield Appeal Committee in the ACT and the Australian Student Veterans Association.

Lt Gen Peter Leahy's qualifications include BA (Military Studies) UNSW, MMAS USACGS (Master of Military Arts and Science) and Fellow, Australian Centre for Defence and Strategic Studies.

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Mr Mark McConnell
Chief Executive Officer and
Managing Director

Appointed 12 November 2019 as CEO and Managing Director

Most recently elected by shareholders: 30 October 2018

Board Committees: Board of Directors

Mark is a successful business developer whose skills cover areas of business strategy, investor relations, capital raising and innovation. After serving as an officer in the Royal Australian Air Force for 8 years, Mark moved into the corporate world in 1997 and has worked across various executive roles in the fields of aviation, technology and investment banking.

Mark has been a Director of Citadel since its formation in 2007 and was appointed Chief Executive Officer and Managing Director in November 2019. Mark has founded several private companies and has been recognised with a number of entrepreneurial awards. In 2007, he founded and ran New Territories Investments, a private equity fund that has assisted the growth strategies of multiple technology businesses in Australia, including Citadel.

Mark has a Bachelor of Science, a Graduate Diploma of Employment Relations, a Graduate Diploma of Logistics Management, and a Masters of Business Administration. He is also a Fellow of the Australian Institute of Company Directors (FAICD). Mark was awarded the ACT Young Entrepreneur of the Year in 2003 and 2006.

Mark is as a director on ASX listed companies Viva Leisure Limited and Adveritas Limited. He is also director and deputy Chair of Cricket ACT (Inc), a board adviser to HOF Capital and a committee member of the Red Shield Appeal.



Mr Robert (Bob) Alexander
Independent Non-executive
Director

Appointed 19 December 2019

Most recently elected by shareholders: to be re-elected at 2020 AGM

Board Committees: Board of Directors, Chair of Audit, Risk and Compliance Committee, Member of Nomination and Remuneration Committee

Bob is an experienced senior executive and director with over 30 years' experience working in the commercial sector, primarily in sectors undergoing significant digital and technology transformation. Bob has worked in global organisations in industries such as media, entertainment, professional services, intellectual property and the print industry.

He has considerable experience in corporate governance, mergers and acquisitions, and has successfully led numerous transactions and the integration of acquired businesses.

Bob is an Executive board and committee member of the Cambodian Children's Fund (Hong Kong) and Cambodian Children's Fund Australia Inc. He sits on the advisory board of Tablo.io, a digital platform connecting authors and readers. Bob is a leader in corporate social responsibility and is an Executive Board Member of the Cambodian Children's Fund, overseeing global strategy, organisational development, IT infrastructure and systems with global responsibility for fundraising and operations.

He was previously a Non-executive Director of QMS Media Ltd and a Non-executive Director and Chairman of the Audit and Risk Committee of Xenith IP Group Ltd.

Bob is a Chartered Accountant with a BCOMM (UNSW).

Appointed 4 June 2020

Most recently elected by shareholders: to be re-elected at 2020 AGM

Board Committees: Board of Directors, Member of Audit, Risk and Compliance Committee, Chair of Nomination and Remuneration Committee



Ms Jayne Shaw

**Independent Non-executive
Director**

Jayne brings to the Board not only her significant experience in healthcare management, but also an experienced clinical background in nursing. Jayne has acted in senior management roles in two Australian private hospitals and established an Australian and international consulting business which was sold to Healthsouth, a large US Healthcare company. After this, Jayne became the co-founder of Vision Group, a business that was successfully listed on the ASX.

Jayne has been a member of a number of private healthcare boards involved with specialist consolidation including cardiology, cancer care, orthopaedics, and women's health and has continued to work with private equity firms on local and international healthcare transactions.

Jayne also holds positions on the boards of Mable Technologies, the Woolcock Research Institute, and The Hareda Foundation, and as Chairman of BCAL Diagnostics.

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Key management personnel

NAME AND POSITION	EXPERIENCE
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Mr Mark McConnell
Chief Executive Officer and
Managing Director

Please refer to profile under the Board of Directors Section.



Mrs Jennifer Martin
Chief Financial Officer and
Head of Shared Services

Jenny is an experienced senior executive with a diverse career focussed on working in dynamic, complex and growing organisations.

Jenny has over 20 years' experience working in finance, particularly in senior finance roles in listed public environments. Jenny held the position of Chief Financial Officer and Acting Chief Executive Officer at Barristers' Chambers Limited, Chief Financial Officer at Money3 Limited and Group Financial Controller at both Southern Cross Media Group Limited and SMS Management & Technology Limited.

Jenny commenced with Citadel in August 2018, bringing significant experience in financial management of technology and professional services organisations, with a focus on performance improvement, treasury management, mergers and acquisitions, and corporate governance.

Jenny is a Chartered Accountant, MAICD and holds a Bachelor of Accounting Degree.

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DIRECTORS' REPORT

Directors' report

The Directors present their report on the consolidated entity ('Citadel' or 'the Group') consisting of The Citadel Group Limited and the entities it controlled at the end of, or during the year ended 30 June 2020.

Consolidated results and review of the operations

Citadel delivered total revenue from continuing operations of \$122.1 million (FY19: \$99.2 million) and net profit before income tax from continuing operations of \$2.5 million (FY19: \$14.3 million). The statutory result was impacted by a number of significant items as outlined on page 10. This included \$7.5 million of acquisition and integration costs for Wellbeing, and restructure costs across both Citadel and Wellbeing. Significant items also include \$5.7 million reversal of a contract asset (income accrual) under AASB 15 that was originally recognised in FY17 and FY18 (of which up to \$5 million is expected to be recovered in FY21), and the reversal of an over accrual in respect of a sub-contract of \$1.4 million (refer Note 2 and Note 10 for further information).

The Group has been able to respond with agility to the COVID-19 pandemic, with little to no impact to client delivery or Service Level Agreements. There has not been any cancellation of contracts and only minor impacts across most of the business from a revenue and earnings perspective. There has been no material impact on Health, Enterprise or Professional Services segments. The one segment that did incur an impact was Technology, with a reduced spend from university sector clients. Despite this, the segment has continued to win work from new opportunities, securing a large scale building/installation project in May 2020 worth \$9.7m to be delivered in the first half of FY21. The Group has not accessed any JobKeeper payments to date.

A review of the operations of the consolidated entity and its principle businesses during the financial period, and the results of the operations are set out in the Chairman's Report and the Operational and Financial Review by the Chief Executive Officer and Managing Director from pages 5 to 12 inclusive.

Dividends

The amounts set out below have been paid by Citadel during the financial period, or have been declared by the Directors of Citadel, by way of the dividend, but not paid during the financial period up to the date of this report. All dividends were fully franked at the tax rate indicated:

	Franking tax rate %	Dividend cents per share	Total paid / payable \$m
Final FY19 dividend paid 27 September 2019 (100% franked)	30	6.0	3.0
Interim FY20 dividend paid 27 March 2020 (100% franked)	30	4.8	2.7
Final FY20 dividend declared 27 August 2020 (100% franked)	30	6.0	4.7

Principal activities

During the year the principal continuing activities of Citadel consisted of provision of software and services, product sales and installation, and consulting and professional services in the technology sector throughout Australia and the United Kingdom.

Directors

The following persons were directors of Citadel during the whole of the financial year and up to the date of this report unless noted:

- Mr Kevin McCann, AM (resigned 12 November 2019);
- Lt Gen Peter Leahy AC (Retd);
- Mr Mark McConnell;
- Ms Anne Templeman-Jones (resigned 28 May 2020);
- Mr Samuel Weiss (resigned 31 October 2019);
- Mr Robert (Bob) Alexander (appointed 19 December 2019); and
- Ms Jayne Shaw (appointed 4 June 2020).

Directors' meetings

The number of directors' meetings of Citadel, and of meetings of the Board committees held, and the number of those meetings attended by each of the directors of the company during the financial year were:

Director	Board meetings ¹		Audit, Risk and Compliance Committee		Nominations and Remuneration Committee	
	A	B	A	B	A	B
Lt Gen P Leahy AC	20	20	5	5	4	4
Mr M McConnell	20	20	-	-	-	-
Ms A Templeman-Jones ²	18	18	5	5	4	4
Mr Robert Alexander ³	11	11	3	3	3	3
Mr K McCann AM ⁴	6	7	2	2	1	1
Mr S Weiss ⁵	7	7	-	-	-	-
Ms Jayne Shaw ⁶	1	1	-	-	-	-

A – Number of meetings attended B – Number of meetings eligible to attend

¹ This count includes a significant number of unscheduled Board meetings, the vast majority of which related to the acquisition of Wellbeing Software Group Holdings Limited, which was announced to the ASX on 18 February 2020.

² Ms Templeman-Jones resigned from the Board and its Committees on 28 May 2020.

³ Mr Alexander was appointed to the Board of Directors on 19 December 2019.

⁴ Mr McCann resigned from the Board and its Committees on 12 November 2019.

⁵ Mr Weiss was appointed to the Board of Directors effective 15 May 2019 and did not stand for re-election at the 2019 AGM.

⁶ Ms Shaw was appointed to the Board on 4 June 2020.

Significant changes in the state of affairs

Share capital increased by \$132.5 million (from \$58.7 million to \$191.2 million) as a result of the acquisition of Wellbeing, including share capital issued as part of the consideration (see Note 30) and two capital raises for institutional investors for both existing placement capacity and conditional placement. There was also a share rights issue and shares issued as part of an employee share scheme during the period. Details of the changes in share capital are disclosed in Note 22 to the financial statements. The net cash received from the increase in share capital was used principally to finance the acquisition of Wellbeing (see Note 30).

In addition to the capital raise, the Group restructured its existing debt facility of \$19.6 million into an equivalent \$90.0 million debt facility, with half in Australian dollars and half in British pounds.

Matters subsequent to the end of the financial year

Since 30 June 2020, Citadel has signed a Share Purchase Agreement to acquire 100% of the issued shares in eQstats Pty Ltd, a software development company, for cash consideration of \$1.1 million and contingent consideration of \$0.9 million (see Note 38). The acquisition is expected to complete in late August or early September 2020.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Compliance with regulations and Environmental Matters

Given its client base and sensitive information under management, compliance with legislative and regulatory matters is critical for Citadel and is managed closely. As noted in the Operational and Financial Review by the Chief Executive Officer and Managing Director from pages 8 to 12 inclusive, Citadel is not aware of any matter that requires disclosure with respect to its operating activities and there have been no issues of non-compliance during the period.

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Directors' and officers' indemnity/insurance

The Constitution of the Company provides that the Company may indemnify (to the maximum extent permitted by law) in favour of each Director of the Company, the Company Secretary, Directors and secretaries of related bodies corporate of the Company, and previous directors and secretaries of the Company and its related bodies corporate (Officers), against any liability to third parties (other than related Citadel Group companies) incurred by such Officers unless the liability arises out of conduct involving a lack of good faith. The indemnity includes costs or expenses incurred by an Officer in successfully defending proceedings or in connection with an application in which the court grants relief to the specified persons under the Corporations Act 2001.

Each Director has entered into a Deed of Indemnity and Access that provides for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The Deed also entitles the Director to access Company documents and records, subject to undertakings as to confidentiality.

During the financial period, the Company paid a premium in respect of a contract of insurance insuring Officers (and any persons who are Officers in the future and employees of the Company or its subsidiaries) against certain liabilities incurred in that capacity. Disclosure of the total amount of the premiums and the nature of the liabilities in respect of such insurance is prohibited by the contract of insurance.

Company Secretary

Mrs Jennifer Martin is Joint Company Secretary, Chief Financial Officer and Head of Shared Services.

Mr Spencer Chipperfield is Joint Company Secretary and General Counsel. Mr Chipperfield has practised law for over 20 years both in England and in Australia and has acted as company secretary in a number of organisations. He holds a Masters in Law from the University of Melbourne and is a certified Governance Professional with Governance Institute.

Non-audit services

Citadel may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the subsidiary companies and/or Citadel are important and there is no conflict of interest. Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers (PwC), for audit services provided during the year are set out in Note 35 in the financial statements.

If non-audit services by the auditor are required, the Chair of the Audit, Risk and Compliance Committee considers the position and ensures they are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. During the financial year ended 30 June 2020 Citadel did engage other PwC staff (separate to those of the PwC audit team) to provide non-audit services, including the provision of taxation advice. The Directors are satisfied that the provision of these non-audit services by PwC did not compromise the auditor independence requirements of the Corporations Act 2001 based on the following:

- All non-audit services were reviewed by the Audit, Risk and Compliance Committee to ensure they did not impact the impartiality and objectivity of the auditor in accordance with APES 110 Code of Ethics for Professional Accountants); 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.

Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 43.

Corporate governance statement

Citadel and the Board are committed to achieving and demonstrating the highest standards of corporate governance. Citadel has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The Corporate Governance Statement reflects the corporate governance practices in place throughout FY20. The current version of the Corporate Governance Statement was approved by the Board on 27 August 2020. A description of Citadel's current corporate governance practices is set out in Citadel's corporate governance statement which can be viewed at <http://investors.citadelgroup.com.au/investors/?page=Corporate-Governance>.

Citadel Group Letter of Introduction to Citadel Remuneration Report

from the

Chair of the Nomination and Remuneration Committee, Ms Jayne Shaw

The 2020 financial year has seen a number of changes at Board level and in the leadership of the organisation, together with the acquisition of the UK-based Wellbeing Software group.

Our former Chief Executive Officer - Darren Stanley - resigned in November 2019 following our Director Sam Weiss's retirement as a Director in October. Our Chairman Kevin McCann AM also retired in November 2019 after leading the Board for five years and Anne Templeman-Jones retired in May this year.

Lt General Peter Leahy AC assumed the role of Chairman, and Mark McConnell took up the role of Chief Executive Officer and Managing Director in November last year, with Robert Alexander and I appointed as new Directors during the 2020 financial year.

In 2018 Jenny Martin assumed the role of Chief Financial Officer and Joint Company Secretary following the retirement of Andrew Burns, who had held that role for the previous five years.

Prior to the acquisition of Wellbeing, the Company had sought advice on remuneration levels for the organisation's leadership team, and in May 2020 the Board also received from EY a comprehensive overview of the current terms of remuneration and the incentive structure applicable to the organisation's leadership team. More recently, we appointed Egan Associates to assist the current Nomination and Remuneration Committee (NRC or Committee) to review the decisions of the prior Committee and the recommendations of the Managing Director.

On the basis of the recent advice, the Board has confirmed the earlier authorisation of the prior Committee on fixed remuneration for a select group of the leadership team including the Chief Executive Officer and Managing Director and the Chief Financial Officer.

Both advisors, on the basis of their independent research, endorsed the recommendations.

Your Board and the Company's leadership team, while aware of the challenges of COVID-19, have been in a position to retain the vast majority of our staff through the 2020 financial year and have not applied for any JobKeeper benefits for any member of our team. We are mindful of the challenges ahead and the uncertainty, though are working with the leadership team in pursuing innovation and growth opportunities in the UK and ANZ, drawing upon everyone's energy and expertise through continuous communication and positive engagement.

Arising from an expansion of the leadership team and the hitherto traditional approach to incentives (both short and long-term), your Committee is currently reviewing the advice of its consultants, and the thorough review of the terms under both plans prepared at the end of the 2019 financial year by KPMG.

Discussions have taken place with the Chief Executive Officer and Managing Director in relation to contemporary perspectives having regard to the status of the Company on the ASX, its expected growth and the reflection of those changes including the Wellbeing acquisition and other initiatives under consideration which will affect both the organisation's revenue and enterprise value.

Your Committee has also sought guidance from Egan Associates in relation to the level of Non-Executive Directors' fees, and we anticipate that guidance will be available before the Annual General Meeting. Should any increase in the fee pool authorised by shareholders at the company's 2016 Annual General Meeting be sought, a resolution will be put at the 2020 AGM. The current fee pool stands at \$500,000.

Yours sincerely,



Ms Jayne Shaw
Chair of Nomination and Remuneration Committee
27 August 2020

Remuneration report (audited)

The Directors present Citadel's 2020 remuneration report outlining key aspects of the remuneration policy and framework, and remuneration awarded for the 2020 financial year.

During the financial year the Nomination and Remuneration Committee (NRC) benchmarked the remuneration policy and incentive plans of comparator companies to ensure alignment of the Key Management Personnel (KMP) remuneration packages. The KMP remuneration packages are developed to link directly with the performance of the company and the interests of the shareholders.

The report is structured as follows:

- a) KMP covered in this report
- b) Remuneration policy and link to performance
- c) Elements of remuneration
- d) Link between remuneration and performance
- e) Remuneration expenses for non-executive and executive KMP
- f) Contractual arrangements for executive KMP
- g) Non-executive director arrangements
- h) Other statutory information

a) KMP covered in this report

Name	Position
Non-executive Directors	
H K McCann AM	Chairman (until 12 November 2019)
P F Leahy AC LtGen (Retd)	Non-executive Director (until 12 November 2019) Chairman (appointed 12 November 2019)
A Templeman-Jones	Non-executive Director (until 28 May 2020)
M McConnell	Non-executive Director (until 12 November 2019)
S Weiss	Non-executive Director (until 31 October 2019)
R Alexander	Non-executive Director (from 19 December 2019)
J Shaw	Non-executive Director (from 4 June 2020)
Executive Directors	
M McConnell	Chief Executive Officer and Managing Director (CEO and MD) (appointed as CEO and MD 12 November 2019)
Other key management personnel	
D Stanley	Chief Executive Officer (CEO) (until 12 November 2019)
J Martin	Chief Financial Officer (CFO) and Head of Shared Services/Joint Company Secretary

Changes since the end of the reporting period

There have been no changes to KMP since the end of the reporting period.

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b) Remuneration policy and link to performance

Citadel's executive remuneration philosophy is to align executive remuneration with shareholder interests by:

- Providing levels of Fixed Remuneration (FR) and incentive awards sufficient to attract and retain individuals with the skills and experience required to build on and execute Citadel's business strategy;
- Focusing executives on what is important by ensuring that incentive reward is contingent on outcomes that grow and/or protect shareholder value;
- Balancing the mix of Short-Term Incentives (STI) and Long-Term Incentives (LTI) to ensure any focus on annual results does not offset the need to invest and nurture the business for longer term success as a sustainable and growing business;
- Managing risk by deferring a proportion of incentive payments and reserving the right to exercise discretion in the event that excessive risk taking or inappropriate outcomes are discovered after performance has initially been assessed;
- Aligning the interests of executives and shareholders by ensuring a suitable proportion of remuneration is received as a share-based award; and
- Combining performance targets that balance the goals of achieving both sustainable growth and yield.

Citadel's NRC consists solely of independent non-executive directors. The NRC reviews and makes recommendations to the Board on remuneration packages and policies related to the directors, KMP and senior executives, to ensure that the remuneration policies and practices are consistent with Citadel's strategic goals and human resources objectives. Based on Citadel's philosophy and benchmarking with competitor companies, the remuneration program for KMP is practically applied as follows:

Fixed Remuneration – not at risk

Fixed remuneration provides competitive market remuneration including superannuation and non-monetary benefits.

Performance Metrics No performance metrics apply.

FY20 value Positioned indicatively around the median for similar listed entities.

As a founder of the business and a major shareholder, Mark McConnell requested upon his appointment as CEO and MD that his fixed remuneration commence in line with the CFO, rather than the previous CEO, pending his strategic review of the business. Accordingly, the commencing fixed remuneration was positioned lower than the median.

FY21 changes

After the transformational acquisition of Wellbeing, the NRC reviewed the remuneration of the CEO and MD and CFO to benchmark FR compared to market comparators in the broad market and specifically in the software/technology sector. The NRC considered the complexity and nature of the accountabilities held by Citadel's KMP, as well as individual performance during the year. The review was also considered in the context of retaining management to deliver on the company's medium to long term strategy.

As a result of the review, the Board has increased the fixed remuneration of the CEO and MD to \$550,000 and the CFO to \$450,000 effective 1 July 2020. The Board believes this is appropriate based on the strategy of Citadel, the performance of the executives and the demands of the roles that they perform as follows:

- Both KMP are considered superior (top) performers and are key to delivering on the long term strategy;
- The accountabilities of the KMP have increased with the management demands of a significant overseas subsidiary; and
- The CFO assumed the additional role of Head of Shared Services with stewardship of Enterprise IT, People and Culture and Security Operations during the year.

STI - all at risk: FY20

STIs reward executives for financial year performance and promotes retention via 50% deferral of STI

Performance Metrics CEO and MD:

- 40% Budgeted Group EBITDA

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- 40% Budgeted Revenue Growth
 - 20% Employee Satisfaction
- CEO (former):
- 40% Budgeted Group EBITDA
 - 40% Budgeted Revenue Growth
 - 20% Employee Satisfaction
- CFO:
- 40% Budgeted Group EBITDA
 - 20% Budgeted Revenue Growth
 - 20% High Level Operational Improvements
 - 20% Employee Satisfaction

Awards are subject to a gateway of 90% of Budgeted EBITDA being achieved before any STI is payable.

FY20 potential value	CEO and MD: target of 60% of FR (max of 80%)
	CEO: target of 60% of FR (max of 80%)
	CFO: target of 45% of FR (max of 60%)

FY21 changes	Retention of the Financial Performance metrics for the KMP to be focussed on achieving EBITDA and Revenue Growth, as these are key drivers of financial performance for the company. Non-financial performance metrics to be set annually for strategic initiatives, innovation, operational improvements, product and service development and market expansion and employee satisfaction for both KMP.
	CEO and MD: <ul style="list-style-type: none"> • 30% Budgeted Group EBITDA • 30% Budgeted Revenue Growth • 40% Strategic Initiatives/High Level Operational Improvements
	CFO: <ul style="list-style-type: none"> • 30% Budgeted Group EBITDA • 30% Budgeted Revenue Growth • 40% Strategic Initiatives/High Level Operational Improvements

The NRC has determined for FY21 to remove the deferral component of the STI and the gateway of 90% of budgeted EBITDA being achieved before any STI is payable for the FY21 due to the significant uncertainty surrounding the ongoing impact of COVID-19.

The Financial Performance metrics retain a threshold of 90% achievement of the budget prior to the STI being paid for the metric, commencing at 50% of the STI becoming available once the threshold performance criteria have been met.

LTI - all at risk: FY20

Aligns executives with long-term shareholder value creation

Performance Metrics	<ul style="list-style-type: none"> • 50% Revenue and EBITDA Growth Matrix over 3 years • 50% EPS over 3 years
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All share rights vest at the end of the 3 year vesting period at which time they convert to ordinary shares.

FY20 potential value	CEO and MD: target of 45% of FR (max of 60%)
	CEO (former): target of 45% of FR (max of 60%)
	CFO: target of 30% of FR (max of 40%)

FY21 changes

The NRC is conducting a review of Citadel's remuneration structure and policy to provide alignment with the Group's strategic and business objectives. Upon completion of this review, any proposed changes to the remuneration structure will be presented for shareholder approval. Once approved, the revised remuneration structure will be effective from FY21.

Change in the proportion of LTI to FR or to performance metrics in FY21:

CEO and MD: target of 55% of FR (Max of 70%)

CFO: target of 40% of FR (Max of 50%)

Note the performance measures are described in more detail on page 26-34.

Changes in split of remuneration at risk in FY21

The table below sets out the target and maximum awards for FY20 and FY21 in order to highlight the change in the apportionment of reward opportunity between the annual incentive and the equity-based long-term incentive.

KMP	Year	STI		LTI	
		Target Award	Maximum Award	Target Award	Maximum Award
CEO and MD	FY20	60%	80%	45%	60%
	FY21	60%	80%	55%	70%
CFO	FY20	45%	60%	30%	40%
	FY21	45%	60%	40%	50%

Balancing short-term and long-term performance

For FY21, the Board has approved an increase in FR, and changes to the target and maximum STI and target and maximum LTI for the CEO and MD and CFO as outlined above.

Both STI and LTI plans incorporate vesting periods to align KMP interests with shareholder interests and to retain talented employees.

Target remuneration mix for FY20

KMP	Fixed Remuneration	STI Cash	STI Deferred	LTI
CEO and MD	49%	15%	15%	21%
CEO (former)	49%	15%	15%	21%
CFO	57%	13%	13%	17%

Target remuneration mix for FY21

KMP	Fixed Remuneration	STI Cash	LTI
CEO and MD	47%	28%	25%
CFO	54%	25%	21%

Assessing performance and claw-back of remuneration

The NRC is responsible for assessing performance against KPIs and determining the STI and LTI to be paid. To assist in this assessment, the NRC receives detailed reports on performance from Management which are based on independently verifiable data such as financial measures and results from employee satisfaction surveys.

In the event of serious misconduct or a material misstatement in the company's financial statements, the Board can cancel or defer performance-based remuneration and may also claw back deferred performance-based remuneration yet to be paid in respect of the previous financial year.

Maintaining sustainable performance – future approach for FY21

With the acquisition of Wellbeing, the Board and the Executive is focussed on transforming the business into a global enterprise software company. The business is focussed on top line revenue growth along with bottom line EBITDA growth. The business is focussed on delivering on high level strategic initiatives, including acquisitions, efficiency programs, research and development, international expansion, delivery of new financial systems and optimising capital management. The Board has reweighted the performance metrics between achievement of the revenue budget, EBITDA budget and strategic initiatives. The new STI performance criteria focus the KMP on delivering the strategic objectives that the Board have set for FY21 and beyond.

c) Elements of remuneration

(i) Fixed annual remuneration (FR)

Executives may receive their FR as cash, or cash with non-monetary benefits. FR is reviewed annually, or on promotion. It is benchmarked against market data for comparable roles in companies both in a similar industry sector and with a similar market capitalisation. This ensures that executives are appropriately remunerated while taking into account their experience and performance. Superannuation is included in FR.

In FY20, there were no changes to the FR of the executive KMP.

(ii) Short-term incentives (STI)

Structure of the STI plan for FY20

Feature	Description	
Target Opportunity	CEO and MD	60% of fixed remuneration
	CEO (former)	60% of fixed remuneration
	CFO	45% of fixed remuneration
Maximum Opportunity	CEO and MD	80% of fixed remuneration
	CEO (former)	80% of fixed remuneration
	CFO	60% of fixed remuneration

Performance Metrics The STI metrics are aligned with our strategic priorities of sustained growth, consistent shareholder returns and attracting and retaining high calibre executives.

The STI Plan provides for financial and non-financial components of the incentive.

Metric	Target	Weighting – CEO and CEO/MD	Weighting - CFO	Reason for selection
Budgeted Group EBITDA	100% of FY20 Budget	40%	40%	Focus on financial result for the Group.
Budgeted Revenue Growth	100% of FY20 Budget	40%	20%	Represents growth in revenue to focus on building scale in software and services.

High Level Operational Improvements	Achievement of Agreed Improvements	N/A	20%	High level operational improvements, strategic initiatives etc to deliver improved efficiency and profitability.
Employee Satisfaction	84% Employee Satisfaction	20%	20%	It is a measure of employee engagement and commitment to the business and reflects on the leadership of the executives. Reducing staff turnover will improve EBITDA and provide better customer service.

Payment of STI	<p>The STI award is paid in cash, in two components;</p> <ol style="list-style-type: none"> 1. The immediate component – 50% is paid on or about 1 October. 2. The deferred component – the remaining 50% of the STI award will be deferred by 12 months and paid on or around 1 October. <p>The deferred component is subject to a de minimis threshold of \$30,000; that is the 50% deferral will only apply if the total STI Award payable is greater than \$30,000.</p> <p>The deferred component is subject to a ‘malus’ provision during the deferral period, under which the Board may exercise its discretion to forfeit some or all of the deferred component in the event that there is a misstatement of the financial statements, fraud or wrong doing occurs, performance is not sustained at minimum levels or there is excessive risk taking or a material breach of any duties or obligations during the deferral period.</p> <p>KMP will normally only be eligible to receive the immediate and deferred component if they remain employed with Citadel from the start of the STI Performance Period to the date of payment for the component, subject to the good leaver provision.</p> <p>Individual performance must be at a “meets expectations” level before any STI Award is payable.</p> <p>The statutory measure will be the actual results as shown in the audited financial statements of the Group, or the representative components of the statutory result. The Board has the discretion to adjust the statutory result where it is considered appropriate for linking remuneration reward to company performance.</p> <p>The budget will be the budget as approved by the Board for the financial year. The budget may be adjusted to take into account any material acquisitions or divestments during the period, or for any other reason where it is considered appropriate for linking remuneration reward to company performance.</p>
Good leaver provision	<p>If a KMP ceases employment during the financial year as a consequence of death, disability, redundancy, genuine retirement or in other circumstances approved by the Board (i.e. as a ‘good leaver’), the quantum of the STI will be pro-rated with service completed to the cessation date and the relevant performance conditions and payment timing will continue to apply. If employment ceases as a good leaver during the deferral period the deferred component will be paid in full at the scheduled time.</p>
Gateway	<p>The STI plan was subject to a performance gateway, such that no STI Awards can be paid unless Citadel achieves at least 90% of its budgeted EBITDA for the financial year.</p>
Performance Conditions	<p>If the performance gateway is achieved, the value of the STI award is determined according to the extent to which the STI performance conditions are satisfied. In each case, the entitlements will be calculated on a straight-line basis between the ‘threshold’, ‘target’ and ‘maximum’ levels shown. The performance conditions may be amended by the Board at its absolute discretion, as appropriate.</p>

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Change of Control	In the event of a change of control before the payment date of either the immediate component and/or the deferred component of the STI Award, the STI Award will be pro-rated for service completed and performance until the date of a change of control unless otherwise determined by the Board.
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Performance Criteria The STI plan performance criteria of the CEO is separated into the following segments below:

Performance Criteria	% Total
Citadel Group's EBITDA Performance	40%
Citadel Group's Revenue Growth	40%
Employee Satisfaction	20%

Citadel Group's EBITDA Performance = 40% of Target

	EBITDA	% of Performance Criteria Value	% of total STI that vests
Below Threshold	<90% of FY20 Budget	0%	0%
Threshold	90% of FY20 Budget	50%	20%
Target	100% of FY20 Budget	100%	40%
Maximum	110% of FY20 Budget	133%	53%

Citadel Group's Revenue Growth = 40% of Target

	FY20 Revenue Growth	% of Performance Criteria Value	% of total STI that vests
Below Threshold	<90% of FY20 Budget	0%	0%
Threshold	90% of FY20 Budget	50%	20%
Target	100% of FY20 Budget	100%	40%
Maximum	110% of FY20 Budget	133%	53%

Employee Satisfaction (Employee Engagement & Satisfaction) = 20% of Target

	Employee Satisfaction Rating	% of Performance Criteria Value	% of total STI that vests
Below Threshold	<74% Employee Satisfaction	0%	0%
Threshold	74% Employee Satisfaction	50%	10%
Target	84% Employee Satisfaction	100%	20%
Maximum	94% Employee Satisfaction	133%	27%

Performance Criteria The STI plan performance criteria of the CFO is separated into the following segments below:

Performance Criteria	% Total
Citadel Group's EBITDA Performance	40%
Citadel Group's Revenue Growth	20%

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High Level Operational Improvements	20%
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Employee Satisfaction	20%
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Citadel Group's EBITDA Performance = 40% of Target

	EBITDA	% of Performance Criteria Value	% of total STI that vests
Below Threshold	<90% of FY20 Budget	0%	0%
Threshold	90% of FY20 Budget	50%	20%
Target	100% of FY20 Budget	100%	40%
Maximum	110% of FY20 Budget	133%	53%

Citadel Group's Revenue Growth = 20% of Target

	FY20 Revenue Growth	% of Performance Criteria Value	% of total STI that vests
Below Threshold	<90% of FY20 Budget	0%	0%
Threshold	90% of FY20 Budget	50%	10%
Target	100% of FY20 Budget	100%	20%
Maximum	110% of FY20 Budget	133%	27%

High Level Operational Improvements = 20% of Target

	FY20 Operational Improvements	% of Performance Criteria Value	% of total STI that vests
Below Threshold	Expectations Not Achieved	0%	0%
Threshold	Expectations Mostly Met	50%	10%
Target	Expectations Met	100%	20%
Maximum	Expectations Exceeded	133%	27%

Employee Satisfaction (Employee Engagement & Satisfaction) = 20% of Target

	Employee Satisfaction Rating	% of Performance Criteria Value	% of total STI that vests
Below Threshold	<74% Employee Satisfaction	0%	0%
Threshold	74% Employee Satisfaction	50%	10%
Target	84% Employee Satisfaction	100%	20%
Maximum	94% Employee Satisfaction	133%	27%

Board Discretion The actual value of any STI payment to be awarded will be determined by the Board in its absolute discretion, having regard to the extent to which the STI Performance Conditions are achieved over the STI Performance Period.

Discretionary STI In addition to the STI Award, the Board has the ability to grant discretionary bonuses for special projects or achievements, that are not contemplated in the normal course of business or that

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have a particular strategic impact for the company, for example acquisitions and divestments, refinancing, major capex projects etc.

(iii) Discretionary STI

As permitted under the Group's Senior Executive Remuneration Framework, the Board has the ability to grant discretionary bonuses for special projects or achievements that are not contemplated in the normal course of business or that have a particular strategic impact for the company, for example acquisitions and divestments, refinancing, major capex projects etc.

During the year, the Group made the strategic acquisition of Wellbeing Software, which represented approximately 70% of the Group's market capitalisation. Since acquisition, Wellbeing has been performing in line with expectations, and the Group's CFO and Head of Shared Services has led the Integration Steering Committee. All key objectives have been met in the integration plan including achievement of the synergies ahead of plan. As a result, the Board has exercised its discretion to award the CFO and Head of Shared Services Jenny Martin a discretionary bonus of \$200,000.

(iv) Long-term incentives (LTI)

The LTI consists of a share rights plan provided to key management personnel and eligible senior leadership members with certain vesting conditions attached to the rights. The plan is designed to attract, motivate and retain high calibre employees and to link rewards for senior management to the creation of value for Citadel's shareholders.

Structure of the LTI plan for FY20

Feature	Description	
Target Opportunity	CEO and MD	45% of fixed remuneration
	CEO (former)	45% of fixed remuneration
	CFO	30% of fixed remuneration
Maximum Opportunity	CEO and MD	60% of fixed remuneration
	CEO (former)	60% of fixed remuneration
	CFO	40% of fixed remuneration
Performance Period	1 July 2019 to 30 June 2022	
Vesting Period	Employees must normally remain employed until 30 September 2022 for share rights to vest	

Performance Metrics	The Share Rights are subject to the following Performance Conditions: <ul style="list-style-type: none"> 50% of the total Share Rights granted will be tested based on growth in Citadel's Revenue and EBITDA relative to the 3 years forecast (Growth Matrix Performance Condition); and 50% of the total Share Rights granted will be tested based on growth in Citadel's earnings per share (EPS Performance Condition). 	
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The Growth Matrix Performance Condition and the EPS Performance Condition are independent of each other and are assessed separately.

Each Performance Condition is tested after the end of the relevant Performance Period after audited financial statements are available and reviewed by the Board.

Growth Matrix Performance Condition

50% of the Share Rights in the FY20 LTI grant will be tested against the Revenue and EBITDA Growth Matrix which is directly linked to the objective of sustained profitable growth.

- The Growth Matrix Performance Condition measures Citadel's achievement of mid-term Revenue and EBITDA ensuring the focus of the business is on profitable growth over the period 1 July 2019 to 30 June 2022 (the Growth Matrix Performance Period);
- The Growth Matrix Performance Condition is based on the Board approved three-year forecasts, set at the commencement of each financial year.
- The Revenue and EBITDA Growth Matrix is a measure that is contingent on achieving the two related measures Revenue and EBITDA rather than either one in isolation. The Growth Matrix (shown below) is weighted 50% to Revenue and 50% EBITDA growth reflecting the three-year strategy of profitable revenue growth to take full advantage of potential economies of scale;
- The three-year target for both Revenue and EBITDA is established based on the business strategy, existing growth profiles and expected growth rates;
- The Board in its absolute discretion may adjust down the achieved revenue growth by a maximum of 15% if the Board determines the quality of the revenue is lower than expectations, such that a lower percentage of the achieved revenue growth is met. For example, where there is significant pass through revenue at little or no margin, or when revenue for a particular contract is at a margin significantly under usual trading terms;
- The Board in its absolute discretion may adjust the achieved revenue or EBITDA growth to take into account any significant non-cash items (for example impairment losses), acquisitions and divestments and one-off events/abnormal/non-recurring items where it is considered appropriate; and
- Growth Matrix Share Rights will vest progressively on a straight-line basis between any 2 points of achievement for both the Revenue and EBITDA metrics.

In summary, Growth Matrix Share Rights will vest on the following basis:

	% of Growth Matrix Achieved	Target	% of Growth Matrix Rights that vest	% of total Share Rights in grant that vest
Threshold:	< 90% of the 3 year Revenue or EBITDA Target	Revenue	0%	0%
Threshold:	90% of the 3 year Revenue and EBITDA Target	Revenue	55%	27.5%
Target:	100% of the 3 year Revenue and EBITDA Target	Revenue	75%	37.5%
Maximum:	115% of the 3 year Revenue and EBITDA Target	Revenue	100%	50%

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		3 Year Total EBITDA as a % of Target								
% of LTI Award		90%	95%	100%	105%	110%	115%	120%	125%	130%
3 Year Total Revenue as a % of Target	90%	55%	60%	65%	70%	75%	80%	85%	90%	95%
	95%	60%	65%	70%	75%	80%	85%	90%	95%	100%
	100%	65%	70%	75%	80%	85%	90%	95%	100%	100%
	105%	70%	75%	80%	85%	90%	95%	100%	100%	100%
	110%	75%	80%	85%	90%	95%	100%	100%	100%	100%
	115%	80%	85%	90%	95%	100%	100%	100%	100%	100%
	120%	85%	90%	95%	100%	100%	100%	100%	100%	100%
	125%	90%	95%	100%	100%	100%	100%	100%	100%	100%
	130%	95%	100%	100%	100%	100%	100%	100%	100%	100%

EPS Performance Condition

50% of the Share Rights in the FY20 LTI grant will be tested against the EPS Performance Condition.

- The EPS Performance Condition requires the compound annual growth in Citadel's EPS over the period 1 July 2019 to 30 June 2022 (the EPS Performance Period) to exceed 10% before any of the Share Rights subject to that Condition ('EPS Share Rights') vest.
- All of the EPS Share Rights will vest if the compound annual growth rate in Citadel's underlying EPS is 20% or more over the EPS Performance Period. This is considered appropriate as it is broadly consistent with shareholder expectations and reflects that Citadel is now a more mature business with a mix of mature revenue streams that have a lower growth target, and new revenue streams that have a higher growth target.
- EPS Share Rights will vest progressively on a straight-line basis for compound annual EPS growth between the threshold and maximum levels.
- An additional 1% increase in Citadel's compound annual EPS growth over the threshold will result in the vesting 5% of the EPS Share Rights, up to 20% of compound annual EPS growth.

The 'base point' for measuring the rate of EPS growth is the EPS for the financial year ended 30 June 2019. EPS is defined as basic EPS per Australian Accounting Standards from continuing operations.

The Board in its absolute discretion may adjust EPS where it is considered appropriate, including (but not limited to):

1. Significant non-cash items including:
 - i. tax adjusted amortisation of acquired intangible assets;
 - ii. tax adjusted finance expense relating to deferred consideration;
 - iii. tax adjusted impairment;
2. Acquisitions and divestments; and
3. One-off events/abnormal/non-recurring items where it is considered appropriate.

In summary, EPS Share Rights will vest on the following basis:

	Compound annual growth rate in Citadel's underlying EPS	% of Underlying EPS Share Rights that vest	% of total Share Rights that vest
	Below Threshold:	<10%	0%
	Threshold:	10%	50%
	Target	15%	75%
	Maximum	20%	100%
Share Rights	Upon satisfaction of any performance and vesting conditions, each Share Right will, at the Company's election, convert to a share on a one-for-one basis or entitle the participant to receive cash to the value of a share. Share rights do not carry any voting rights.		
Change of control	If an Event occurs prior to the Share Rights vesting then, unless the Board determines otherwise within 14 days of the relevant Event (or such longer period as the Board may decide), the number of unvested Share Rights held by a Participant will be pro rata according to the proportion of the Period applicable to each of those Share Rights that has elapsed to the date of the Event, and that the pro rata number of Share Rights will vest to the extent the Conditions applicable to each of those Share Rights are satisfied at that time.		
Shares	On vesting, ordinary shares in the Company (Shares) will be allocated to the KMP. All Shares issued will rank equally in all respects with other ordinary shares. The allocation of Shares on vesting of Share Rights is subject to: <ul style="list-style-type: none"> • those Share Rights vesting at the end of the Vesting Period; and • the Share Rights not lapsing before they are converted into Shares. 		
Restrictions	Under the FY20 LTI offer, shares allocated on vesting of share rights will not be subject to any further dealing restrictions. Therefore, participants may immediately deal with shares allocated, subject to complying with the Citadel Share Trading Policy.		
Cessation of employment	In general, if employment with Citadel ceases prior to the end of the Vesting Period, all of the unvested Share Rights will lapse on the date employment ceases. However, where cessation occurs as a result of death, disability, redundancy, genuine retirement or other circumstances approved by the Board ('good leaving'), the number of unvested Share Rights in each current grant at that time will be pro-rated according to the proportion of the relevant Vesting Period completed to the cessation date and tested against the Performance Conditions as normal following the end of the relevant Performance Period, subject to the Board having a discretion to determine a different treatment for any unvested Share Rights.		
Board Discretion	The Board may, at any time, amend the terms and conditions of the offer in accordance with the Plan Rules, provided the amendment does not materially reduce or otherwise prejudicially affect rights under the offer. The Company may, in its absolute discretion, make a cash payment in respect of vested Share Rights instead of delivering Shares.		

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d) Link between remuneration and performance

The table below summaries the remuneration outcomes for STI and LTI during the financial year.

STI			
Metric	Target	Performance	Impact on incentive award
FY20 STI			
Gateway	Achievement of 90% of Budgeted EBITDA	82% - not achieved	No FY20 STI award payable as the gateway of 90% of Budgeted EBITDA was not achieved
EBITDA	Budgeted EBITDA	82% - not achieved	Below target
Revenue growth	Budgeted Revenue	84% - not achieved	Below target
High level operational improvements	Achievement of operational improvements	Threshold - achieved	No FY20 STI award payable as the gateway of 90% of Budgeted EBITDA was not achieved
Employee Satisfaction	84%	84% - achieved	No FY20 STI award payable as the gateway of 90% of Budgeted EBITDA was not achieved

FY19 Deferred STI

No FY19 STI award was payable as the gateway of 90% of Budgeted EBITDA was not achieved.

FY18 Deferred STI

Awarded in full with the deferred component of 50% paid in October 2019.

The Board exercised its discretion to exclude any one off costs associated with the acquisition and integration of Wellbeing, and any redundancy costs as noted in Note 4, and the impact of the contract asset reversal and impact of over accrual of subcontractor costs as noted in Note 2 (as it related to revenue and cost recognised in FY17 and FY18). The Board also exercised its discretion to adjust the FY20 budget to include a budget amount for Wellbeing from the acquisition date to 30 June 2020. Despite the Board exercising its discretion, the gateway of 90% achievement of Budgeted EBITDA was not met, and therefore no STI payments were payable in respect of the FY20 year.

LTI			
Metric	Target	Performance	Impact on incentive award
FY18 LTI			
Revenue and EBITDA Growth Condition ¹	100% of the 3-year Revenue and EBITDA Target	Revenue – 83.6% EBITDA – 67.9%	0% awarded
Underlying EPS Performance Condition ¹	15% compound annual growth rate in Citadel's underlying EPS from the base point	Compound Annual Growth Rate – (11.6%)	0% awarded
FY17 LTI			
Revenue and EBITDA Growth Condition ²	100% of the 3-year Revenue and EBITDA Target	Revenue – 101.8% EBITDA – 107%	85% awarded

Underlying EPS Performance Condition ²	15% compound annual growth rate in Citadel's underlying EPS from the base point	Compound Annual Growth Rate – (4.4%)	0% awarded
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¹For the FY18 LTI, the Board exercised its discretion to exclude any one off costs associated with the acquisition and integration of Wellbeing, and any redundancy costs as noted in Note 4 from the actual achieved EBITDA for the purpose of assessing the Revenue and EBITDA Growth Condition. For the Underlying EPS Performance Condition, the Board also adjusted for the impact of the contract asset reversal as noted in Note 2 (as it related to revenue and cost recognised in FY17 and FY18).

² There was no adjustment to the FY17 LTI assessments.

Statutory performance indicators

Citadel aims to align executive remuneration to its strategic and business objectives and the creation of shareholder wealth. The table below shows measures of Citadel's financial performance over the last five years as required by the Corporations Act 2001. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMP. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Statutory Results (inclusive of Discontinued Operations):

Metric	2020	2019	2018	2017	2016
Revenue (\$'000)	122,122	99,162	106,479	100,862	85,143
Net profit/(loss) attributable to owners (\$'000)	(2,068)	7,872	14,312	8,643	8,230
Dividends paid to owners (\$'000)	5,677	6,764	6,213	4,542	4,949
Basic earnings/(loss) per share (cents)	(3.4)	16.0	32.5	18.2	17.6
Share price as at 30 June	3.17	4.60	6.57	5.09	5.40
KMP STI as a percentage of net profit/(loss) attributable to owners ¹	(10.2%)	2.76%	2.95%	4.17%	4.33%

¹Calculated as a percentage of the KMP STI (cash bonus) paid in the year over the net profit attributable to owners in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The change in the current period is a result of the significant items (see Note 2 and Note 4).

An analysis of the KMP STI using adjusted EBITDA for both the current and prior financial year is as follows:

Metric	2020	2019	2018	2017	2016
Adjusted EBITDA (\$'m)	29.2	23.3	34.0	30.1	21.4
KMP STI as a percentage of adjusted EBITDA	0.7%	0.9%	1.3%	1.2%	1.7%

e) Remuneration expenses for non-executive and executive KMP

The following table details the actual remuneration expense for Citadel's KMP for the current and previous financial year measured in accordance with the requirements of the accounting standards.

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Name	Year	Short-term employee benefits			Post-employment benefits	Long-term employee benefits	Share-based payments ⁵	Total
		Cash salary & fees	Cash bonus	ETP & Other	Super	Long service leave	Options & rights	
Non-executive directors								
K McCann (until 12/11/19)	2020	51,898	-	-	3,286	-	-	55,184
	2019	142,970	-	-	9,030	-	-	152,000
P Leahy	2020	127,910	-	-	-	-	-	127,910
	2019	86,000	-	-	-	-	-	86,000
A Templeman-Jones (until 28/05/20)	2020	74,268	-	-	7,055	-	-	81,323
	2019	78,539	-	-	7,461	-	-	86,000
S Weiss (from 15/5/19 until 31/10/19)	2020	25,093	-	-	2,384	-	-	27,477
	2019	8,809	-	-	837	-	-	9,646
R Alexander (from 19/12/19)	2020	40,513	-	-	3,849	-	-	44,362
	2019	-	-	-	-	-	-	-
J Shaw (from 04/06/20)	2020	5,554	-	-	-	-	-	5,554
	2019	-	-	-	-	-	-	-
Executive directors								
M Jakeman ¹ (until 19/2/19)	2020	-	-	-	-	-	-	-
	2019	233,107	20,929	50,000	-	-	61,175	365,211
M McConnell ⁴	2020	234,430	-	-	17,360	375	12,000	264,165
	2019	68,072	-	-	8,025	-	-	76,097
Other key management personnel								
D Stanley ³ (until 12/11/19)	2020	192,806	11,423	223,768	24,174	(11,052)	3,391	444,510
	2019	432,340	126,072	-	20,606	3,611	(9,514)	573,115
R Burns ² (until 20/8/18)	2020	-	-	-	-	-	-	-
	2019	37,692	72,000	-	3,738	875	(41)	114,264
J Martin (from 20/8/18)	2020	330,736	200,000	-	21,322	1,550	4,800	558,408
	2019	273,939	-	-	18,376	436	3,200	295,951
Total KMP remuneration expended	2020	1,083,208	211,423	223,768	79,430	(9,127)	20,192	1,608,891
	2019	1,361,468	219,001	50,000	68,073	4,922	54,820	1,758,284

¹ Dr Miles Jakeman resigned as a Director of the Company, effective 18 February 2019. The payment included in ETP & Other in the table represents an ex gratia payment of \$50,000 to Dr Jakeman.

² Robert (Andrew) Burns stepped down from his role as CFO on 20 August 2018 on the appointment of Jenny Martin and he ceased to be a KMP from this date. His cash bonus, LSL and rights payments have been disclosed on the basis they relate to services rendered whilst a KMP. As a result of the Good Leaver Provision, Robert Burns was paid \$49,985 in respect of his FY18 deferred vested STI in February 2019. The STI expense for the FY18 STI was therefore accelerated, and recognised in the period. This amount is included in his total of \$72,000 in the Cash Bonus column. Robert Burns also received \$56,211 in ordinary shares in respect of the FY17 LTI that vested on 30 September 2019, based on the fair value at the date of grant. \$2,555 of expenditure was incurred as an expense in FY19 in relation to this amount and has been included in the Share-based payments column.

³ Darren Stanley resigned as CEO with effect from 12 November 2019. The cash bonus included in Darren Stanley's payment relates to the Deferred Component of the FY18 STI that vested in October 2019. He was entitled to 26 weeks payment in lieu of notice as part of the termination package. It was agreed by the Board that on Darren's resignation, the pro-rata of the FY18 and FY19 LTI offers (being 55,543 share rights) were to remain on foot and capable of vesting in accordance with their terms, and the FY20 LTI was to be forfeited in full. The pro rata of the FY20 STI offer also remained on foot. No amount is payable in respect of the FY20 STI as the performance criteria have not been met.

⁴ Mark McConnell, who was a Non-executive director, was appointed as the CEO and MD with effect from 12 November 2019. The remuneration for Mark McConnell includes his Non-executive director fees until 12 November 2019, and his fixed remuneration and employee benefits from 12 November 2019 to 30 June 2020 as CEO and MD.

⁵ Amount expensed in period.

f) Contractual arrangements for executive KMP

All Executive KMP are bound by their employment or contractor agreement as detailed below:

Mr Mark McConnell CEO and MD

Terms of Agreement: Employment agreement commencing 12/11/2019

Base Package: (FR) \$550,000 from 1 July 2020 (increased from \$350,000)

STI: target of 60% of FR (max of 80%) (determined annually)

LTI: target of 55% of FR (max of 70%) (determined annually)

Termination: either party may terminate the agreement by giving six month's written notice.

Mrs Jenny Martin CFO

Terms of Agreement: CFO employment agreement commencing 03/09/2018 (continuing service since 20/08/2018).

Base Package: (FR) \$450,000 from 1 July 2020 (increased from \$350,000)

STI: target of 45% of FR (max of 60%) (determined annually)

LTI: target of 40% of FR (max of 50%) (determined annually)

Termination: either party may terminate the agreement by giving six month's written notice.

Mr Darren Stanley CEO (former)

Terms of Agreement: CEO employment agreement commencing 03/09/2018 (continuing service since 21/09/2015).

Base Package: (FR) \$450,000

STI: target of 60% of FR (max of 80%)

LTI: target of 45% of FR (max of 60%)

Termination: either party may terminate the agreement by giving six month's written notice.

Darren Stanley resigned as CEO with effect from 12 November 2019. Refer to the previous page for details of Darren Stanley's termination entitlements.

g) Non-executive director arrangements

Non-executive directors receive a board fee and fees for chairing board committees, see table below. The chair of the Board does not receive any additional fees for committee responsibilities. The chair of each committee only receives the chair fee (and not a member fee). They do not receive performance-based pay or retirement allowances.

Fees are reviewed annually by the board taking into account comparable roles and market data provided by the board's independent remuneration adviser. The current base fees were reviewed with effect from 1 July 2019.

The maximum annual aggregate non-executive directors' fee pool is \$0.5 million (FY19: \$0.5 million) and was approved by shareholders at the annual general meeting in October 2016.

	From 1 July 2019 to 30 June 2020	From 1 July 2020 to current
	\$	\$
Base fees		
Chair	152,000	152,000
Other Non-executive Directors	76,000	76,000
Additional fees		
Audit, Risk and Compliance Committee - Chair	10,000	10,000
Nomination & Remuneration Committee - Chair	10,000	10,000

All Non-executive directors receive a letter of appointment, which summarises the board policies and terms, including remuneration, relevant to the office of director, which they acknowledge.

h) Other statutory information

The following table shows the relative proportions of actual remuneration earned by Citadel's KMP in the current and prior financial year that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense on page 36:

(i) Relative proportions of fixed vs variable remuneration expense

Name	Fixed remuneration		Remuneration linked to performance	
	2020	2019	2020	2019
Non-executive directors				
K McCann	100%	100%	-	-
A Templeman-Jones	100%	100%	-	-
P Leahy	100%	100%	-	-
S Weiss	100%	100%	-	-
R Alexander	100%	-	-	-
J Shaw	100%	-	-	-
Executive directors				
M Jakeman	-	78%	-	22%
M McConnell	95%	100%	5%	-
Other key management personnel				
D Stanley	97%	80%	3%	20%
R Burns	-	37%	-	63%
J Martin	63%	99%	37%	1%

(ii) Share-based payments granted as incentive compensation

Share rights:

On 4 November 2019 (or 13 November 2019 for Mark McConnell), share rights were granted to the Executive KMP for nil consideration in relation to the FY20 LTI. These share rights have a vesting period of 3 years (1 July 2019 – 30 June 2022).

On 30 September 2019, share rights granted to Darren Stanley on 1 October 2016 (FY17 LTI grant) vested. The shares were issued on 1 October 2019. The consideration paid for the share rights was nil and the market price when the shares were issued was \$3.64 per share.

Shares:

There was no direct issue of shares to KMP in FY20 (FY19 Nil).

(iii) Key management personnel equity holdings

Name ¹		Held at 1 July 2019	Granted or purchased during year	Share rights in lieu of dividends	Vested, exercised, sold and forfeited	Other Changes during the year ²	Held at 30 June 2020
K McCann	Options	-	-	-	-	-	-
	Rights	-	-	-	-	-	-
	Shares	300,000	-	-	-	(300,000)	-
A Templeman-Jones	Options	-	-	-	-	-	-
	Rights	-	-	-	-	-	-
	Shares	4,256	6,833	-	-	(11,089)	-
P Leahy	Options	-	-	-	-	-	-
	Rights	-	-	-	-	-	-
	Shares	56,745	29,830	-	-	-	86,575
S Weiss	Options	-	-	-	-	-	-
	Rights	-	-	-	-	-	-
	Shares	20,000	-	-	-	(20,000)	-
R Alexander	Options	-	-	-	-	-	-
	Rights	-	-	-	-	-	-
	Shares	-	7,500	-	-	-	7,500
J Shaw	Options	-	-	-	-	-	-
	Rights	-	-	-	-	-	-
	Shares	-	100,000	-	-	-	100,000
M McConnell ³	Options	-	-	-	-	-	-
	Rights	-	61,551	-	-	-	61,551
	Shares	6,009,000	299,170	-	-	-	6,308,170
D Stanley ⁴	Options	-	-	-	-	-	-
	Rights	136,958	69,778	-	(51,050)	(155,686)	-
	Shares	88,236	21,697	-	-	(109,933)	-
J Martin	Options	-	-	-	-	-	-
	Rights	19,002	36,182	-	-	-	55,184
	Shares	7,500	21,809	-	-	-	29,309

¹ Figures represented in the table above include shares owned by superannuation funds to which the KMP is a beneficiary.

² A nil balance is disclosed at the end of the year in which a KMP has left the group. The person's holding at the date of termination is reduced to nil and this reduction is classified as an 'other change'

³On 18th February 2020 Citadel entered into a voluntary escrow deed with respect to the 6,060,170 shares held by Mark McConnell as at that date for a period of 24 months which restricts the disposal of these shares for the period.

⁴As a result of his termination and treatment as a 'good leaver', the pro-rata component of the FY18 and FY19 LTI issues of 55,543 share rights remain on foot and capable of vesting in accordance with their agreements.

(iv) Reliance on external remuneration consultants

When required the NRC consult external remuneration advisors. The requirement for external remuneration advisor services is assessed annually in the context of matters the NRC needs to address. Any advice from consultants is used to guide the NRC and the Board but does not serve as a substitute for thorough consideration by Non-executive Directors.

During FY20, the NRC engaged remuneration advisors KPMG and Ernst & Young, and received advice and information in relation to changes to the FY20 STI and LTI Offers, and Executive KMP remuneration benchmarking. The work conducted did not constitute a remuneration recommendation.

Remuneration recommendations were not provided by any remuneration consultants during FY20, as defined by the *Corporations Act 2001*.

(v) Voluntary information (non-statutory): remuneration received during the period

The amounts disclosed in the table below as executive KMP remuneration for FY20 reflect the actual benefits received by each KMP during the reported periods rather than the statutory remuneration expense. The remuneration values disclosed below have been determined as follows:

Fixed remuneration

Fixed remuneration includes base salaries received, payments made to superannuation funds, the taxable value of non-monetary benefits received and any once-off payments such as termination benefits. Fixed remuneration excludes any accruals of annual or long-service leave.

Short-term incentives

The cash bonus payments represent the bonuses that were awarded to each KMP as a result of meeting their performance conditions for FY18. The bonuses, which were paid in October 2020, comprise the remaining 50% of the FY18 vested STI award.

Long-term incentives

The fair value of vested share rights was determined based on grant date of the LTI.

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Name	Year	Fixed Remuneration				STI	LTI	Total
		Cash salary & fees	Super	ETP & Other	Long service leave	Cash Bonus	Options & rights	
Non-executive directors								
K McCann (until 12/11/19)	2020	53,710	3,458	-	-	-	-	57,168
A Templeman-Jones	2020	75,778	7,199	-	-	-	-	82,977
P Leahy	2020	127,801	-	-	-	-	-	127,801
S Weiss (from 15/5/19 until 31/10/19)	2020	25,093	2,384	-	-	-	-	27,477
R Alexander (from 19/12/19)	2020	38,398	3,648	-	-	-	-	42,046
J Shaw (from 4/6/20)	2020	5,466	-	-	-	-	-	5,466
Executive directors								
M McConnell	2020	244,886	16,669	-	-	-	-	261,555
Other key management personnel								
D Stanley ¹ (until 12/11/19)	2020	201,499	25,000	223,768	-	92,123	114,755	657,145
J Martin	2020	327,373	21,003	-	-	-	-	348,376
Total KMP remuneration	2020	1,100,004	79,361	223,768	-	92,123	114,755	1,610,011

¹Darren Stanley was paid \$92,123 in respect of his FY18 deferred vested STI in September 2019. The ETP & Other payment consists of Darren's employment termination payment. Included in the LTI options & rights are the fair value at the date of grant of FY17 LTI share rights that vested in October 2019.

The amounts disclosed in the table above are not the same as the remuneration expensed in relation to each KMP in accordance with the accounting standards (per page 36). The directors believe that the remuneration received is more relevant to users for the following reasons:

- The statutory remuneration expensed is based on historic cost and does not reflect the value of the equity instruments when they are actually received by the KMP.
- The statutory remuneration shows benefits before they are actually received by the KMP.
- Where options or deferred shares do not vest because a market-based performance condition is not satisfied (e.g. an increase in the company's share price), the company must still recognise the full amount of expenses even though the KMP will never receive any benefits.
- Share-based payment awards are treated differently under the accounting standards depending on whether the performance conditions are market conditions (no reversal of expense) or non-market conditions (reversal of expense where shares fail to vest), even though the benefit received by the KMP is the same (nil where equity instruments fail to vest).

The information in this section has been audited together with the rest of the remuneration report.

Directors' declaration

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



Peter Leahy AC
Lt Gen (Retd)
Chairman
27 August 2020

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Auditor's Independence Declaration

As lead auditor for the audit of The Citadel Group Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of The Citadel Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'SW', is written over a light blue horizontal line.

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
27 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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Corporate directory

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SECRETARY	Mrs Jennifer Martin Mr Spencer Chipperfield
PRINCIPAL PLACE OF BUSINESS	11-13 Faulding Street SYMONSTON ACT 2609 AUSTRALIA Telephone: (02) 6124 0800 Fax: (02) 6201 0550
REGISTERED OFFICE	11-13 Faulding Street SYMONSTON ACT 2609 AUSTRALIA Telephone: (02) 6124 0800 Fax: (02) 6201 0550
STOCK EXCHANGE LISTING	Australian Securities Exchange
SHARE REGISTRY	Link Market Services Limited Level 12, 680 George Street SYDNEY NSW 2000 AUSTRALIA Telephone: 1300 554 474
AUDITOR	PricewaterhouseCoopers One International Towers, Watermans Quay BARANGAROO NSW 2000 Australia Telephone: (02) 8266 0000
WEBSITE ADDRESS	www.citadelgroup.com.au

The company is limited by shares, incorporated and domiciled in Australia.

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FINANCIAL REPORT

Year ended 30 June 2020

FINANCIAL REPORT

Financial report

These financial statements are the consolidated financial statements consisting of The Citadel Group Limited and its subsidiaries ('Citadel' or 'the Group').

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

Citadel is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

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A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on page 17, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 27 August 2020. The Directors have the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that corporate reporting is timely, complete, and available globally at minimum cost to Citadel. All press releases and other information are available on Citadel's website: www.citadelgroup.com.au

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FINANCIAL REPORT

Contents

Consolidated statement of profit or loss and other comprehensive income.....	49
Consolidated statement of financial position.....	51
Consolidated statement of changes in equity.....	52
Consolidated statement of cash flows.....	53
Notes to the financial report.....	54
Note 1 – Significant accounting policies.....	54
Note 2 – Revenues.....	58
Note 3 – Operating segments.....	63
Note 4 – Expense items.....	66
Note 5 – Income tax expense.....	67
Note 6 – Earnings per share.....	70
Note 7 – Cash and cash equivalents.....	71
Note 8 – Trade and other receivables.....	71
Note 9 – Inventories.....	72
Note 10 – Other current assets and income accrual.....	72
Note 11 – Plant and equipment.....	73
Note 12 – Intangible assets.....	75
Note 13 – Subsidiaries.....	81
Note 14 – Trade and other payables.....	82
Note 15 – Interest bearing liabilities: Current.....	83
Note 16 – Interest bearing liabilities: Non-current.....	84
Note 17 – Other payables: Non-current.....	84
Note 18 – Leases.....	84
Note 19 – Provisions.....	86
Note 20 – Make good provision and provision for onerous contract.....	87
Note 21 – Other liabilities: current.....	87
Note 22 – Contributed equity.....	88
Note 23 – Reserves (net of income tax).....	88
Note 24 – Retained earnings.....	90
Note 25 – Dividends.....	90
Note 26 – Capital management.....	91
Note 27 – Financial risk management.....	91
Note 28 – Share-based payments.....	96
Note 29 – Related party transactions.....	96
Note 30 – Business combinations.....	97
Note 31 – Discontinued operations.....	101
Note 32 – Reconciliation of the net profit after tax to the net cash flow from continuing operations.....	101
Note 33 – Operating lease arrangements.....	102
Note 34 – Commitments and contingencies.....	102

FINANCIAL REPORT

Note 35 – Remuneration of auditors	102
Note 36 – Parent entity financial information.....	103
Note 37 – Deed of Cross Guarantee.....	104
Note 38 – Events occurring after the balance sheet date.....	106
Directors’ declaration.....	107
Auditor’s report.....	108
Shareholder information.....	113

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FINANCIAL REPORT

Consolidated statement of profit or loss and other comprehensive income

	Notes	2020 \$'000	2019 \$'000
Sale of goods and rendering of services	2(a)	121,285	98,232
Other income	2(b)	837	930
Total revenue		122,122	99,162
Cost of sale of goods and rendering of services		(71,149)	(54,397)
Distribution, sales and marketing ¹		(3,554)	(2,748)
Occupancy		(757)	(1,941)
Administration ¹	4(a)	(42,033)	(24,793)
Finance costs	4(b)	(2,138)	(998)
Profit before income tax		2,491	14,285
Income tax expense	5	(1,520)	(3,420)
Net profit for the year from continuing operations		971	10,865
Net profit/(loss) from the year from discontinued operations	31	(98)	6
Net profit for the year		873	10,871
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit of loss</i>			
Exchange differences on translation of foreign operations	23	(19,829)	-
Fair value gain/(loss) arising on hedging instrument during the period	23	4,308	-
Less: Cumulative (gain)/loss arising on hedging instruments reclassified to profit or loss	23	(238)	-
Total other comprehensive income/(loss)		(15,759)	-
Total comprehensive income/(loss) for the year		(14,886)	10,871
Profit/(loss) attributable to:			
Owners of The Citadel Group Limited		(2,068)	7,872
Non-controlling interests		2,941	2,999
		873	10,871
Total comprehensive income/(loss) attributable to:			
Owners of The Citadel Group Limited		(17,827)	7,872
Non-controlling interests		2,941	2,999
		(14,886)	10,871

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FINANCIAL REPORT

Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company	Notes	Cents	Cents
Basic earnings/(loss) per share	6	(3.4)	16.0
Diluted earnings/(loss) per share	6	(3.4)	15.7

Earnings per share for profit attributable to the ordinary equity holders of the parent entity:	Notes	Cents	Cents
Basic earnings/(loss) per share		(3.6)	16.0
Diluted earnings/(loss) per share		(3.6)	15.7

¹A prior year reclassification adjustment of sales and marketing salary costs has been made to better reflect the nature of the expenditure (refer to Note 4).

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

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FINANCIAL REPORT

Consolidated statement of financial position

	Notes	2020 \$'000	2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	32,546	14,021
Trade and other receivables	8	12,223	21,497
Inventories	9	3,645	2,526
Income accrual	10	10,022	14,859
Other current assets	10	7,593	3,807
Total current assets		66,029	56,710
Non – current assets			
Plant and equipment	11	1,921	2,106
Intangible assets	12	263,690	84,637
Right-of-use assets	18	5,129	-
Other non-current assets		553	168
Total non-current assets		271,293	86,911
TOTAL ASSETS		337,322	143,621
LIABILITIES			
Current liabilities			
Trade and other payables	14	21,253	18,555
Interest bearing liabilities	15	3,586	4,939
Provisions	19	2,652	2,408
Lease liabilities	18	2,488	-
Other current liabilities	21	15,503	14,174
Total current liabilities		45,482	40,076
Non-current liabilities			
Other payables	17	757	117
Lease liabilities	18	3,863	-
Interest bearing liabilities	16	77,049	7,066
Deferred tax liabilities	5(d)	18,169	8,660
Provisions	19	1,038	1,357
Total non-current liabilities		100,876	17,200
TOTAL LIABILITIES		146,358	57,276
NET ASSETS		190,964	86,345
EQUITY			
Contributed equity	22	191,174	58,699
Reserves (net of income tax)	23	(19,780)	272
Retained earnings	24	16,610	24,355
Equity attributable to owners of Citadel Group Limited		188,004	83,326
Non-controlling interests	13(b)	2,960	3,019
TOTAL EQUITY		190,964	86,345

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

FINANCIAL REPORT

Consolidated statement of changes in equity

Attributable to the owners of Citadel						
		Contributed Equity	Reserves (net of income tax)	Retained Earnings	Non- controlling interests	Total Equity
	Notes	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2018		58,172	1,135	23,267	3,770	86,344
Total comprehensive income for the year		-	-	7,872	2,999	10,871
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	25 & 13(b)	-	-	(6,784)	(3,750)	(10,534)
Share based payments	23 & 28(b)	-	(336)	-	-	(336)
Exercise of share rights and options	22 & 23	527	(527)	-	-	-
Balance at 30 June 2019		58,699	272	24,355	3,019	86,345
Profit for the period		-	-	(2,068)	2,941	873
Other comprehensive income/(loss)	23	-	(15,759)	-	-	(15,759)
Total comprehensive income/(loss) for the year		-	(15,759)	(2,068)	2,941	(14,886)
Transfer of cash flow hedging (gains)/losses and cost of hedging to the initial carrying amount of hedged items	23	-	(4,070)	-	-	(4,070)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs	22	132,199	-	-	-	132,199
Dividends provided for or paid	25 & 13(b)	-	-	(5,677)	(3,000)	(8,677)
Share based payments	23 & 28(b)	-	25	-	-	25
Exercise of share rights and options	22 & 23	248	(248)	-	-	-
Employee share scheme	22	28	-	-	-	28
Balance at 30 June 2020		191,174	(19,780)	16,610	2,960	190,964

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

FINANCIAL REPORT

Consolidated statement of cash flows

	Notes	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers		142,245	101,967
Payments to suppliers and employees		(113,507)	(83,208)
Income taxes paid		(2,072)	(3,187)
Interest & borrowing costs paid		(4,218)	(930)
Interest & other income received		441	96
Net cash inflow from operating activities	32	22,889	14,738
Cash flows from investing activities			
Payments for plant & equipment		(545)	(574)
Payments for intangibles		(5,871)	(5,636)
Payment for business combinations, net of cash acquired	30(d)	(198,218)	(2,488)
Net cash (outflow) from investing activities		(204,634)	(8,698)
Cash flows from financing activities			
Proceeds from issuance of shares		132,227	-
Dividends paid		(8,677)	(10,534)
Proceeds from loans		100,339	-
Repayment of loans		(19,600)	(5,024)
Repayment of lease liabilities		(2,728)	(295)
Net cash (outflow) from financing activities		201,561	(15,853)
Net (decrease) in cash and cash equivalents		19,816	(9,813)
Cash flows of discontinued operations	31	38	(85)
Effects of exchange rate changes on cash and cash equivalents		(1,329)	-
Cash and cash equivalents at the beginning of financial year		14,021	23,919
Cash and cash equivalents at the end of the year	7(b)	32,546	14,021

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

Notes to the financial report

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB), and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of The Citadel Group Limited (Citadel). For the purposes of preparing the consolidated financial statements, Citadel is a for-profit entity.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Citadel takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2 *Share-based payments*, leasing transactions that are within the scope of AASB 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 *Inventories* or value in use in AASB 136 *Impairment of Assets*.

Citadel 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 Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The Group has been able to respond with agility to the COVID-19 pandemic, with little to no impact to client delivery or Service Level Agreements. There has not been any cancellation of contracts and only minor impacts across most of the business from a revenue and earnings perspective. There has been no material impact on Health, Enterprise, Professional Services or Wellbeing segments. The one segment that did incur an impact was the Technology segment, with a reduced spend from University sector clients. The effects of COVID-19 have been taken into consideration in the growth and WACC rates of the Technology segment impairment model. Further disclosure has been included in Note 12 of the financial statements. We have also considered the University customers in our Technology segment as part of our expected credit loss assessment (see Note 27(b)) for the results.

The financial statements have been prepared on a going concern basis. The Directors have made this assessment on the basis that despite the downturn in the Technology segment noted above affected by COVID-19, the Group has sufficient liquidity, undrawn borrowing facilities and an active and ongoing capital management strategy which enables it to meet its obligations and pay its debts as and when they fall due. Notwithstanding current assets exceed current liabilities by \$20.5 million as at 30 June 2020.

Note 1 – Significant accounting policies

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which Citadel has control. Citadel controls an entity where Citadel is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Citadel. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by Citadel (refer to Note 1(f)).

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FINANCIAL REPORT

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

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of Citadel's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars (\$), which is Citadel's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each statement profit or loss and statement of comprehensive income are translated at average exchange; and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(c) Goods and services tax (GST)

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

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

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

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FINANCIAL REPORT

(d) New, revised or amending Accounting Standards and Interpretations adopted

Citadel has applied the following standards and amendments for the first time for the reporting period commencing 1 July 2019:

- AASB 16 *Leases*, and the relevant amending standards
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle*

No other amendments have had a material impact on the financial statements.

(i) AASB 16 Leases

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 30 June 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3%. For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date.

	2019 \$'000
Operating lease commitments disclosed as at 30 June 2019	8,127
Discounted using the lessee's incremental borrowing rate at the date of initial application	92
Add: finance lease liabilities recognised as at 30 June 2019	617
Less: low-value leases recognised on a straight-line basis as expense	(231)
Less: adjustments as a result of a different treatment of extension and termination options	(832)
Lease liability recognised as at 1 July 2019	7,773
Of which are:	
Current lease liabilities	2,792
Non-current lease liabilities	4,981
Total lease liability	7,773

The associated right-of-use assets for property leases and other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	2020 \$'000	2019 \$'000
Properties	3,829	4,226
Hardware	1,300	1,894
Total right-of-use-assets	5,129	6,120

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- property, plant and equipment – decrease by \$0.3 million

FINANCIAL REPORT

- right-of-use assets – increase by \$6.1 million
- other current assets – increase by \$1.5 million
- lease liabilities – increase by \$7.8 million

The net impact on retained earnings on 1 July 2019 was \$nil.

(ii) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(e) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of material (AASB 101 and 108)</i>	1 January 2020	30 June 2021
AASB 2018-6 <i>Amendments to Australian Accounting Standards – Definition of a Business (AASB 3)</i>	1 January 2020	30 June 2021

(f) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by Citadel, liabilities incurred by Citadel and the equity instruments issued by Citadel in exchange for control of the acquire. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value, with the exception of deferred tax liabilities which are measured in line with AASB 112 *Income Taxes*.

Goodwill is measured as the excess of the sum 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 interests in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's internal rate of return, being the implied discount rate which equates the present value of projected cash flows in relation to the acquisition with its purchase price, taking into account the time value of money and the relative riskiness of the investment.

FINANCIAL REPORT

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

(g) Critical accounting judgements and key sources of estimation uncertainty

(i) Significant accounting judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying Citadel's accounting policies. The estimates, judgements and assumptions are based on historical experience, adjusted for current market conditions and other factors that are believed to be reasonable under the circumstances and are reviewed on a regular basis. Actual results may differ from these estimates.

The areas that involved a higher degree of judgement or complexity are included in the following notes:

- Note 2 – Revenue
- Note 10 – Other Current Assets and Income Accrual
- Note 12 – Intangible assets
- Note 30 – Business combinations

Note 2 – Revenues

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Software and Services

The Group provides a range of software and services to customers.

Commercial Off The Shelf ('COTS') Software Licences and Third Party Software Licences:

The Group sells a number of COTS and third-party software licences and associated services (such as installation services and support services) to customers. The customer can benefit from the software on its own because it is functional without installation services or support services provided by the Group. The installation services can be provided by other vendors, do not require specialist knowledge and the software is not significantly customised or integrated with other systems. Accordingly, the Group considers licences to be separate performance obligations. COTS software licences and third party software licences are considered a right to use licence as the Group is granting customers use of the software as it exists at the point the licence is issued and there is no expectation of continuous upgrade (without separate contracts/obligations). Revenue is recognised when control of the licence transfers to the customer. This occurs at the point in time when a customer is able to use and benefit from the licence.

Installation, Support and Maintenance Services:

The Group may also provide installation and support and maintenance services with COTS or third-party software licences. The installation services, and support and maintenance are considered distinct performance obligations. For installation services, revenue is recognised over the term of the installation period, generally one to three months. COTS support and maintenance services are seen as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Revenue is recognised in relation to support and maintenance services over time, over the term of the contract, as the service is provided to the customer.

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FINANCIAL REPORT

The Group acts as a reseller for certain third-party software support and maintenance services. However, the Group is considered the principal in the transaction as the Group controls the service that it is provided to the customer. Further, the Group is primarily responsible for fulfilling the promise to provide these services to customers, and the Group has discretion in establishing the prices charged for the services. Therefore, revenue is recognised over time over the term of the contract.

Licences with complex Software Configuration, Implementation Services, Support Services and Managed Hardware Services:

The Group also provides complex health systems, which incorporate complex in house developed software licences and support services. This software within these systems, requires significant configuration, implementation and support services. The Group has determined that the software licence is a right of access license as it provides the customer a right to access the intellectual property ('IP') as it exists throughout the arrangement. This is because the customer is not able to direct the use and obtain substantially all of the remaining benefits of the licence when the licence is initially transferred. Rather the benefit is consumed as the Group provides access to the IP over the licence period. The functionality of the software substantially changes over the period due to the continuous development activities performed by the Group throughout the licence period. The software would lose functionality without these support services and as such, support services are not considered distinct from the licence.

Implementation and configuration services are considered fulfilment activities which do not transfer control to the customer. As such, no revenue is recognised for these services and certain qualifying costs related to these activities may be capitalised as outlined below.

Managed hardware services are considered distinct services from the right to access licence. Managed hardware services are seen as a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. As a result, revenue is recognised in relation to these services over time.

Software as a Service

The Group also provides Software as a Service (SaaS) to customers, which provides customers a right to use hosted software over a defined contract period, without taking possession of the IP, on a subscription basis. Further, customers do not have the option to move the Software in-house or move the software to their own hosted site. Revenue for SaaS is recognised over the contract period, commencing on the date an executed contract exists, and the customer has access to the service.

Product Sales and Installation

The Group provides product sales and installation services to customers. These items are treated as two separate performance obligations as the product sale is capable of being distinct from the installation services and is considered distinct in the context of the contract. Revenue from the supply of product is recognised at the point in time when control passes to the customer. This generally occurs on delivery of the product to the customer - at which time title passes and acceptance occurs. Installation service revenue is recognised over the life of the installation services.

Consulting and Professional Services

The Group provides a range of consulting and professional services to customers. Consulting and professional services may include advisory, design, audit, assessment or consultation services. The delivery of consulting and professional services will include labour, process and delivery of output for the client (including work in progress that the customer controls as the asset is created or enhanced). Revenue from consulting and professional services is recognised over time as the services are delivered to the customer who is gaining the benefit of the service as it occurs.

Managed Services

The Group provides managed services which includes the provision of helpdesk services, and performance monitoring of software, hardware and environments. Contracts for managed services are seen as a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Revenue is recognised in relation to managed services over time as the service is provided to the customer over the contract term.

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FINANCIAL REPORT

Allocation of Consideration in Bundled Contracts

The Group often provides customers with multiple goods and services in a given contract. In this case, the consideration in the contract is allocated across the distinct performance obligations based upon their relative standalone selling price. Stand-alone selling price is determined based upon the price at which the Group would sell a good or service separately to a customer. The price stated in the contract may be (but is not be presumed to be) the stand-alone selling price.

Receivables, Contract Assets and Contract Liabilities

In the case of fixed price contracts, the customer pays the fixed amount either upfront, or based on an agreed payment schedule. Payment is generally due within 30 business days. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the Group recognises a contract asset, excluding any amounts presented as a receivable. A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer. The Group assesses a contract asset for impairment in accordance with AASB 9 *Financial Instruments*. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 27 (b). A receivable is recognised when the right to consideration is unconditional (i.e. only the passage of time is required before payment of that consideration is due). If a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The net position is taken where there is both a contract asset and contract liability for the same contract.

Revenues from Continuing Operations	2020	2019
	\$'000	\$'000
(a) Sale of goods and rendering of services		
Software and services ²	47,072	34,839
Product sales and installation	26,740	28,964
Consulting and professional services ²	23,013	9,500
Managed services	24,460	24,929 ²
	121,285	98,232
(b) Other Income		
Finance revenue	114	94
Gain on fair value re-measurement of financial instruments	-	588
Other income	723	264
Net foreign exchange gain/(loss) ¹	-	(16)
	837	930
Total revenue	122,122	99,162

¹Net foreign exchange in the current year has been reclassified to other expenses (see Note 4).

²A prior year reclassification of \$0.7 million from Managed Services to Software and Services was made for consistency.

³Includes \$5.7 million contract asset reversal. Refer Note 2(i) for further information.

FINANCIAL REPORT

Timing of revenue recognition from contracts with customers

The group derives revenue from the transfer of good and services over time and at a point in time which can be summarised below:

	2020	2019
	\$'000	\$'000
At a point in time	21,872	29,227
Over time	99,413	69,005
Total	121,285	98,232

Further details on the disaggregation of revenue and revenue per geographical location within the reporting segments is available in Note 3.

Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	2020	2019
	\$'000	\$'000
Current accrued income (contract asset)	10,022	14,859
Total contract assets	10,022	14,859
Current deferred revenue (contract liability)	15,503	11,024
Total contract liabilities	15,503	11,024

The Group has not recognised any assets in relation to costs to fulfil a long-term software and services contract as at 30 June 2020 (FY19: \$nil).

(i) Significant changes in contract assets and liabilities

Contract assets have decreased due to the reversal disclosed below. Contract liabilities have increased as at balance date due to the acquired balances within Wellbeing (see Note 30). The increase in contract liabilities was also attributed to significant payments received in advance for government customers.

Significant Judgement/Estimate

In December 2016, the Group entered into a long-term fixed price contract with a customer. In June 2020, the contract expired prior to completion. The Group is currently in discussions with the customer with respect to the final amounts owing for the work completed. Although the contract is fixed price, the expiry of the contract and current negotiations of the final consideration to be paid (up to an estimated \$5.0 million) results in the consideration under the contract being variable. AASB 15 requires that variable consideration be recognised when it is highly probable that a significant reversal of the revenue will not occur. As a result of the contract not now expected to be completed, in FY20 management has re-assessed the consideration to be received under the contract based upon this highly probable threshold. This assessment requires significant judgement and estimation of the various possible outcomes and the likelihood of each occurring.

This assessment has resulted in a reversal of revenue of \$5.7m. Management will continue to re-assess this estimate each reporting period. The balances and the adjustment made for this contract is reflected in the below table:

	2020	2019
	\$'000	\$'000
Long-term fixed price contract (included in the balance above)		
Current accrued income (contract asset) – opening balance	6,353	9,936
Invoices raised – invoicing milestone met	(409)	(3,583)
Reduction in contract asset due to variable consideration constraint	(5,695)	-
Current accrued income (contract asset) – closing balance	249	6,353

FINANCIAL REPORT

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	2020	2019
	\$'000	\$'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	10,983	7,059

(iii) Unsatisfied long-term consulting contracts

The following table shows unsatisfied performance obligations resulting from long-term fixed price consulting contracts:

	2020	2019
	\$'000	\$'000
Aggregate amount of the transaction price allocated to long-term fixed price consulting contracts that are partially or fully unsatisfied as at 30 June	-	79

The amount disclosed in 2019 above does not include variable consideration which is constrained. All other long-term fixed price consulting contracts are for periods of one year or less or are billed based on time incurred. As permitted under AASB 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(iv) Determination of transaction price

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, goods and services tax). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. The transaction price is the amount that the Group allocates to the performance obligations identified in the contract and, therefore, represents the amount of revenue recognised as those performance obligations are satisfied. The following factors are taken into consideration in the determination of transaction price:

- Variable consideration;
- Significant financing components; and
- Guarantees (including service level agreements).

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(vi) Fulfilment costs

The Group may incur costs, such as setup costs, to fulfil their obligations under a contract once it is obtained, but before transferring goods or services to the customer. Management is first required to determine whether the accounting for these costs is addressed by other standards (property, plant and equipment, intangible assets, etc.). If not, the costs to fulfil a contract are eligible for capitalisation if all of the following criteria are met:

- The costs relate directly to a contract or a specifically-anticipated contract;
- The costs generate or enhance the Group's resources that will be used in satisfying future performance obligations; and
- The costs are expected to be recovered.

The Group amortises assets recognised from capitalising costs to obtain or fulfil a contract on a systematic basis, consistent with the pattern of transfer of the goods or services to which the asset relates. Capitalised costs could relate to an entire contract, specific performance obligations within a contract, or anticipated renewals. The amortization period does not include anticipated renewals if the Group also incurs a commensurate cost for them.

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FINANCIAL REPORT

Significant accounting policies

(i) Gain on fair value re-measurement of financial instruments

Gain on fair value re-measurement of financial instruments reflects the gain from Management's re-estimate of contingent consideration. If the expectation of the payable amount is lower than previously estimated, the difference is recognised directly in the statement of profit or loss and other comprehensive income as other income.

Critical accounting estimates

The percentage of completion is determined by either the passage of time for the individual contract, or the aggregated cost of effort incurred at the end of the reporting period compared with the estimated budgeted effort. Management's estimation of the cost incurred to date and the budgeted cost are primarily based on the labour effort employed in the contract. Citadel reviews and revises the estimation of contract cost in the budget prepared for each contract as each contract progresses.

Note 3 – Operating segments

Description of Segments

The Group's chief operating decision maker ('CODM'), consisting of the Chief Executive Officer and Managing Director and the Chief Financial Officer/Head of Shared Services examine the Group's performance both from a consolidated and segmental perspective.

There were three operating segments of the group for FY19: Health, Technology and Knowledge. However, after a restructure of the business the CODM have identified five operating segments of the Group for FY20. The operating segments have been determined to reflect the organisational structure and divisional reporting, with each operating segment's revenues and expenses sharing similar characteristics. Knowledge has been separated into Professional Services and Enterprise Solutions. The fifth operating segment is Wellbeing which is a separate segment due to its geographical location in the UK. The revenues from Wellbeing are all attributable to customers in the UK and are disclosed separately in line with the requirements set out in AASB 8 *Operating Segments*.

All prior year comparative figures for the Knowledge operating segment have been separated to show the amounts attributable to the Enterprise Solutions and Professional Services operating segments.

The operating segments are as follows:

- *Health* – specialising in optimising, integrating and innovating client's health operations through specific software products and services for diagnostic laboratories and clinical applications.
- *Technology* – specialising in data, video and voice technology management, assisting clients with managing the complexities of technology across a number of industries.
- *Enterprise Solutions* – specialising in providing cost-effective and innovative solutions to deliver end-to-end capabilities in enterprise information management solutions.
- *Professional Services* – specialising in providing strategic advisory, consulting and managed services to deliver end-to-end capabilities as well as labour hire and contracting, particularly to Defence and National Security clients.
- *Wellbeing* – specialising in providing solutions to improve workflows for healthcare professionals in the UK, with particular focus on radiology and maternity software.

Each of the above operating segments identified is a reportable segment under AASB 8 *Operating segments*. As at 30 June 2020 there has been no aggregation of operating segments. Segment information is prepared in accordance with Accounting Standard AASB 8 *Operating segments*. The CODM primarily uses a measure of Net Profit Before Tax (NPBT) to assess the performance of the operating segments. For the purposes of segment reporting, all corporate revenue and overheads have been allocated to each reportable segment based on percentage of revenue.

No reporting or reviews are made of segment assets, liabilities and cash flows and as such this is not measured or reported by segment.

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FINANCIAL REPORT

2020	Australia				UK	Other ¹ \$'000	Total from continuing operations \$'000
	Health \$'000	Technology \$'000	Enterprise Solutions \$'000	Professional Services \$'000	Wellbeing \$'000		
Revenue							
Segment revenue	19,163	30,971	20,716	43,366	7,069	-	121,285
Inter-segment sales	-	-	-	-	-	-	-
Revenue from external customers	19,163	30,971	20,716	43,366	7,069	-	121,285
Other income	-	168	146	2	316	205	837
Total	19,163	31,139	20,862	43,368	7,385	205	122,122
Segment revenue by stream:							
Software and services	19,163	-	20,716	124	7,069	-	47,072
Product sales and installation	-	26,740	-	-	-	-	26,740
Consulting and professional services	-	-	-	23,013	-	-	23,013
Managed services	-	4,231	-	20,229	-	-	24,460
Revenue from external customers	19,163	30,971	20,716	43,366	7,069	-	121,285
Timing of revenue recognition							
At a point in time	873	16,696	2,491	-	1,812	-	21,872
Over time	18,290	14,275	18,225	43,366	5,257	-	99,413
Total	19,163	30,971	20,716	43,366	7,069	-	121,285
Results							
Segment net profit before tax	10,657	914	1,877	5,537	(2,878)	(13,616)	2,491
Other segment information							
Capital expenditure	4,066	494	776	927	571	-	6,834
Depreciation and amortisation	2,041	786	627	637	1,456	6,689	12,236
Significant item – net contract adjustment ²	-	-	-	4,309	-	-	4,309
Significant item ² - expenses	16	112	179	221	3,736	3,217	7,481

FINANCIAL REPORT

¹Other is comprised of corporate overheads relating to non-operating activities that are not reported within the segments.

²Significant items relate to expenses in relation to acquisition, integration and restructure costs (see Note 4) and contract asset adjustment (see Note 2).

	Health	Technology	Enterprise Solutions ¹	Professional Services ¹	Other ²	Total from continuing operations
2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Segment revenue	20,353	35,028	15,223	28,366	-	98,970
Inter-segment sales	(738)	-	-	-	-	(738)
Revenue from external customers	19,615	35,028	15,223	28,366	-	98,232
Other income	13	142	121	25	629	930
Total	19,628	35,170	15,344	28,391	629	99,162
Segment revenue by stream:						
Software and services	19,615	-	15,223	-	-	34,838
Product sales and installation	-	28,964	-	-	-	28,964
Consulting and professional services	-	-	-	9,500	-	9,500
Managed services	-	6,064	-	18,866	-	24,930
Revenue from external customers	19,615	35,028	15,223	28,366	-	98,232
Timing of revenue recognition						
At a point in time	2,603	24,942	1,682	-	-	29,227
Over time	17,012	10,086	13,541	28,366	-	69,005
Total	19,615	35,028	15,223	28,366	-	98,232
Results						
Segment net profit before tax	10,740	1,783	4,255	6,480	(8,973)	14,285
Other segment information						
Capital expenditure	2,855	1,376	1,537	905	-	6,673
Depreciation and amortisation	1,148	188	292	197	6,157	7,982

¹Enterprise Solutions and Professional Services were one operating segment in FY19 (Knowledge), due to a restructure of the Group post the Noventus acquisition the segment was separated into two. Therefore, the prior year comparative figures have been restated.

²Other is comprised of corporate overheads relating to non-operating activities that are not reported within the segments.

See Note 1(d) which describes the impact of the adoption of the new leasing standard on the segment disclosures during the current year. Note that comparative segment information has not been restated for FY19 in relation to the effects of the new leasing standard and as a consequence the segment information disclosed for those items is not entirely comparable to the information disclosed in the prior year.

FINANCIAL REPORT

Note 4 – Expense items

	2020	2019
	\$'000	\$'000
(a) Breakdown of expenses by nature		
Changes in inventory of finished goods and work in progress	22,679	18,332
Employee benefits expenses	47,778	30,358
Net foreign exchange ³	81	-
Depreciation¹		
Depreciation of assets owned by the Group	864	839
Depreciation of assets leased by the Group	2,118	-
Amortisation²		
Amortisation on intangibles acquired through business combinations	7,091	5,489
Amortisation on internally developed software	1,709	1,224
Amortisation on external acquired intangible assets	454	430
Total Depreciation and Amortisation	12,236	7,982
(b) Finance costs		
Finance charges payable under invoice financing & trade facility	1	31
Finance charges payable under leases following adoption of AASB 16 (FY19: finance leases)	178	35
Interest charges & bank fees	1,959	864
Discount unwind	-	68
Total finance costs expensed	2,138	998

¹AASB 16 *Leases* was adopted from 1 July 2019 by the Group. Per the requirements of this standard the depreciation of all leased assets is included in the consolidated statement of profit or loss and other comprehensive income. Refer to Note 18 Leases for further information.

²Refer to Note 12 for further information on the amortisation of intangible assets.

³Net foreign exchange was classified in other income in the prior year.

Per AASB 101 when items of income and expense are material, their nature and amount shall be disclosed separately. During the year, a number of significant items were recognised through the profit or loss which require further disclosure for users of the financial statements.

	2020
	\$'000
Acquisition costs	5,961
Integration costs	292
Redundancy and restructure costs	1,228
Total significant items - expenses	7,481
Contract adjustment – revenue decrease	5,695
Contract adjustment – expense decrease	(1,386)
Total significant item – contract adjustment¹	4,309

¹This relates to a reversal of a contract asset (income accrual) and the reversal of an over accrual in respect of a sub-contract (refer to Note 2 and Note 10 for further information).

FINANCIAL REPORT

A prior year reclassification adjustment of sales and marketing salary costs has been made to better reflect the nature of the expenditure within the consolidated statement of profit or loss and other comprehensive income.

	2019 restated	Reclassification	2019
	\$'000	\$'000	\$'000
Distribution, sales and marketing	2,748	2,385	363
Administrative	24,793	(2,385)	27,178

Note 5 – Income tax expense

	Notes	2020	2019
		\$'000	\$'000
(a) Income Tax Expense			
Current Tax		1,496	935
Deferred Tax		(18)	2,520
		1,478	3,455
<i>Income expense is attributable to:</i>			
Profit from continuing operations (as reported in the Consolidated Statement of Profit or Loss)		1,520	3,420
Profit from discontinued operations (refer to Note 31)		(42)	35
		1,478	3,455
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease/(Increase) in deferred tax assets (not including any increase through business combinations)		-	-
Increase/(Decrease) in deferred tax liabilities (not including any increase through business combinations)		(18)	2,520
		(18)	2,520
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		2,491	14,285
Profit/(loss) from discontinued operations (refer to Note 31)		(140)	41
At the Group's statutory income tax rate of 30 % (FY19: 30%)		705	4,298
Differences in overseas tax rates		317	-
Gain on fair value increases		-	(176)
Research & development credit		(866)	(701)
Non-deductible expenses		1,842	-
Unwinding of discount		-	21
Under/(over) provision of prior year income tax		(520)	13
Income tax expense recognised in profit or loss (relating to continuing operations)		1,478	3,455

FINANCIAL REPORT

(c) Current tax liabilities/(assets)			
Provision for income tax/(current tax receivable)	10	(1,912)	(1,003)
		(1,912)	(1,003)
(d) Deferred tax balances are presented in the statement of financial position as follows:			
Deferred tax liabilities		18,169	8,660
Net deferred tax liability		18,169	8,660

Refer below for details on Citadel's tax funding arrangement as a tax consolidated group. Movements in and closing balances of deferred tax during the year are summarised below:

	Opening balance	Assumed on acquisition	Recognised in profit or loss	Closing balance
2020	\$'000	\$'000	\$'000	\$'000
Provisions	1,039	775	(148)	1,666
Property, equipment and intangibles	(7,827)	(12,006)	(2,376)	(22,209)
Prepayments	-	-	(1)	(1)
Creditors and accruals	207	-	2,876	3,083
Accrued revenue	(2,014)	-	(434)	(2,448)
Share based payments	(65)	-	65	-
	(8,660)	(11,231)	(18)	(19,909)
Revaluation of foreign subsidiaries at 30 June 2020				1,740
Net deferred tax liability expected to be settled after more than 12 months				(18,169)
Net deferred tax assets / (liabilities)				(18,169)

	Opening balance	Assumed on acquisition	Recognised in profit or loss	Closing balance
2019	\$'000	\$'000	\$'000	\$'000
Provisions	1,190	-	(151)	1,039
Property, equipment and intangibles	(6,172)	(50)	(1,605)	(7,827)
Prepayments	(714)	-	714	-
IPO costs	190	-	(190)	-
Creditors and accruals	744	-	(537)	207
Accrued revenue	(1,522)	-	(492)	(2,014)
Share based payments	194	-	(259)	(65)
	(6,090)	(50)	(2,520)	(8,660)
Net deferred tax liability expected to be settled after more than 12 months				(8,660)
Net deferred tax assets / (liabilities)				(8,660)

FINANCIAL REPORT

Significant accounting policies

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Citadel's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Australian companies within the Group may be entitled to claim special tax deduction for investments in qualifying assets or in relation to qualifying expenditure (e.g. Research and Development (R&D) Tax Incentive regime in Australia). The Group accounts for these allowances as tax credits in Australia, which means that the other allowance reduces income tax payable and current tax expense. In the UK, the Finance Act 2013 introduced the R&D Expenditure Credit (also referred to as the 'RDEC' or 'ATL credit' scheme), under which entities may receive a taxable credit based on qualifying R&D expenditure. This may result in a reduction in the current provision and recognition of other income.

(ii) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit & loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Citadel and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2005. The head entity, Citadel and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. Citadel has applied the allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the consolidated group.

In addition to its own current and deferred tax amounts, Citadel also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from its controlled entities which are not part of the tax consolidated group.

Assets or liabilities arising under the tax funding agreements with the tax consolidated entities are recognised as amounts receivable or payable to other entities in Citadel. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidation entities.

FINANCIAL REPORT

Note 6 – Earnings per share

	2020	2019
	Cents per share	Cents per share
Basic earnings/(loss) per share	(3.4)	16.0
Diluted earnings/(loss) per share	(3.4)	15.7
	\$'000	\$'000
(a) Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Profit/(loss) from continuing operations for the year attributable to owners of Citadel	(1,970)	7,866
Earnings/(loss) from continuing operations used in the calculation of basic earnings per share	(1,970)	7,866
Profit/(loss) for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(98)	6
Earnings/(loss) used in the calculation of basic earnings per share	(2,068)	7,872
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000)	57,212	49,205
(b) Diluted earnings per share		
The earnings used in the calculation of diluted earnings per share are as follows:		
Earnings/(loss) used in the calculation of basic earnings per share	(1,970)	7,866
Earnings/(loss) used in the calculation of diluted earnings per share	(1,970)	7,866
Profit/(loss) for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(98)	6
Earnings used in the calculation of diluted earnings per share	(2,068)	7,872
Weighted average number of ordinary shares used in the calculation of basic earnings per share ('000)	57,212	49,205
Shares deemed to be issued for no consideration in respect of:		
Employee share rights ('000)	77	932
Weighted average number of ordinary shares used in the calculation of diluted earnings per share ('000)	57,289	50,137

(a) Employee share rights

Share rights granted to employees are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share as the participants still remain employed by Citadel. They have not been included in the determination of basic earnings per share. Details relating to the rights are set out in Note 28(a).

Significant accounting policies**(i) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of Citadel, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

FINANCIAL REPORT

(ii) Diluted earnings per share

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

Note 7 – Cash and cash equivalents

	2020	2019
	\$'000	\$'000
(a) Cash and cash equivalents per the statement of financial position		
Cash at bank and in hand	32,546	14,021
	32,546	14,021
(b) Cash and cash equivalents reconciliation for cash flow purposes		
Cash at bank and in hand	32,546	14,021
	32,546	14,021

Significant accounting policies

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

Note 8 – Trade and other receivables

	2020	2019
	\$'000	\$'000
Trade receivables	11,981	21,392
Other receivables	242	105
	12,223	21,497

The Group conducted a review in accordance with AASB 9 *Financial Instruments* to determine the expected credit loss for both trade receivables and income accrual (see Note 10). It was determined that the overall expected credit loss to the group would be 0.1% (FY19: 0.02%) of trade receivable and income accrual (see Note 10). Any impacts from COVID-19 has been considered in our impairment assessment (refer to Note 27(b)).

Significant accounting policies

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement between 30 and 60 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in Note 27 (b).

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FINANCIAL REPORT

Note 9 – Inventories

	2020	2019
	\$'000	\$'000
Finished goods	3,809	2,690
Provision for obsolescence	(164)	(164)
	3,645	2,526

There were no reversals of write-down in the current year (FY19: \$nil).

Significant accounting policies

Finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials and direct labour. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 10 – Other current assets and income accrual

	2020	2019
	\$'000	\$'000
Income accrual (contract asset)	10,022	14,859
Total income accrual (contract asset)	10,022	14,859
Other current assets		
Prepayments	5,128	2,804
Tax receivable	1,912	1,003
Other	553	-
Total other current assets	7,593	3,807
Total other current assets and income accrual (contract asset)	17,615	18,666

Significant accounting policies

Income is accrued when it satisfies the revenue recognition policy (refer to Note 2). Income has been accrued where the Group have met the performance obligations of the contract and collectability is probable. It is recognised initially based on the transaction price, measure of progress, and allocation of standalone selling price. Subsequent measurement is at amortised cost, less an impairment provision. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 27 (b).

Significant Judgement/Estimate

In December 2016, the Group entered into a long-term fixed price contract with a customer. In June 2020, the contract expired prior to completion. The Group is currently in discussions with the customer with respect to the final amounts owing for the work completed by Citadel. Although the contract is fixed price, the expiry of the contract and current negotiations of the final consideration to be paid (up to an estimated \$5.0 million) results in the consideration under the contract being variable. AASB 15 requires that variable consideration be recognised when it is highly probable that a significant reversal of the revenue will not occur. As a result of the contract not now expected to be completed, in FY20, management has re-assessed the consideration to be received under the contract based upon this highly probable threshold. This assessment requires significant judgement and estimation of the various possible outcomes and the likelihood of each occurring.

This assessment has resulted in a reversal of revenue of \$5.7m. Management will continue to re-assess this estimate each reporting period. Refer Note 2 for further details.

FINANCIAL REPORT

Note 11 – Plant and equipment

	Furniture & office equip- ment	Plant & equip- ment	Computer equip- ment	Lease- hold improve- ments	Motor vehicles	Make good assets	ICT Softwa re	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost								
Balance at 1 July 2018	405	160	2,274	1,287	285	170	432	5,013
Additions	19	7	186	306	76	321	28	943
Disposals/write-offs	(88)	-	(76)	(12)	(5)	(110)	-	(291)
Balance at 1 July 2019	336	167	2,384	1,581	356	381	460	5,665
Reclassification	39	-	-	(39)	-	-	-	-
Additions	35	16	316	52	154	-	70	643
Additions – business combinations	308	-	-	-	-	-	-	308
Disposals/write-offs	(91)	-	-	(1)	-	(381)	-	(473)
Cost at 30 June 2020	627	183	2,700	1,593	510	-	530	6,143
Accumulated depreciation								
Balance at 1 July 2018	(310)	(106)	(1,453)	(450)	(111)	(116)	(406)	(2,952)
Depreciation and impairment losses for the year	(32)	(15)	(321)	(308)	(45)	(73)	(45)	(839)
Disposals/write-off	46	-	68	35	5	78	-	232
Balance at 1 July 2019	(296)	(121)	(1,706)	(723)	(151)	(111)	(451)	(3,559)
Reclassification	(73)	-	-	73	-	-	-	-
Depreciation and impairment losses for the year	(82)	(15)	(388)	(304)	(63)	-	(12)	(864)
Foreign exchange	7	-	-	-	-	-	-	7
Disposals/write-off	83	-	-	-	-	111	-	194
Accumulated depreciation at 30 June 2020	(361)	(136)	(2,094)	(954)	(214)	-	(463)	(4,222)
Net book value at 30 June 2020	266	47	606	639	296	-	67	1,921
Net book value at 30 June 2019	40	46	678	858	205	270	9	2,106

Note that prior year Plant & Equipment included a balance of \$0.3m in net book assets under finance leases. Since adoption of *AASB 16 Leases* all right-of-use assets are included as non-current assets and have been shown separately in Note 18.

Significant accounting policies

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

FINANCIAL REPORT

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Citadel and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line or diminishing value method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Furniture and office equipment	3-8 years
Plant and equipment	5-10 years
Computer equipment	3-5 years
ICT Software	2-10 years
Motor vehicles	3-5 years
Leasehold improvements	Term of lease

The asset's residual value and useful life is reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing sale proceeds with carrying amount. These are included in the statement of profit or loss and other comprehensive income.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

(i) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets other than goodwill and intangible assets that have an indefinite useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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FINANCIAL REPORT

Note 12 – Intangible assets

	Goodwill	Software and product development	Trademarks & other rights	Customer contracts and relationships	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost					
Balance at 1 July 2018	36,680	46,493	682	17,320	101,175
Additions – capitalised development costs	-	5,730	-	-	5,730
Additions – acquired through business combinations	5,652	528	-	167	6,347
Total Cost at 30 June 2019	42,332	52,751	682	17,487	113,252
Additions – capitalised development costs	-	5,841	-	-	5,841
Additions – acquired through business combinations	130,113	20,281	-	30,907	181,301
Additions – acquired through asset purchase	-	-	-	200	200
Finalisation of Purchase Price Accounting	(1,503)	-	-	2,395	892
Total Cost at 30 June 2020	170,942	78,873	682	50,989	301,486
Accumulated amortisation and impairment					
Balance at 1 July 2018	(5,947)	(11,037)	-	(4,488)	(21,472)
Amortisation expense and/or impairment loss	-	(5,352)	-	(1,791)	(7,143)
Total Accumulated Amortisation at 30 June 2019	(5,947)	(16,389)	-	(6,279)	(28,615)
Amortisation expense - Internally developed	-	(1,708)	(1)	-	(1,709)
Amortisation expense – acquired intangible	-	(4,465)	-	(2,626)	(7,091)
Amortisation expense – asset purchase	-	(343)	-	(111)	(454)
Foreign exchange	-	37	-	36	73
Total Accumulated Amortisation at 30 June 2020	(5,947)	(22,868)	(1)	(8,980)	(37,796)
Net book value					
30 June 2020	164,995	56,005	681	42,009	263,690
30 June 2019	36,385	36,362	682	11,208	84,637

FINANCIAL REPORT

Goodwill and other intangible assets with indefinite useful lives have been allocated for impairment testing purposes to the cash-generating units listed below.

	Goodwill \$'000	Trademarks & other rights \$'000	Total \$'000
Health	8,395	305	8,700
Technology	8,299	25	8,324
Enterprise Solutions	6,595	300	6,895
Professional Services ¹	11,593	51	11,644
Wellbeing	130,113	-	130,113
30 June 2020 Total	164,995	681	165,676
Health	8,395	305	8,700
Technology	8,299	25	8,324
Enterprise Solutions	6,595	300	6,895
Professional Services	13,096	52	13,148
30 June 2019 Total	36,385	682	37,067

¹The movement in the Goodwill balance of the Professional Services CGU is a result of the finalisation of the Purchase Price Accounting of Noventus (see Note 30).

The prior year impairment assessment included three CGU's within the Group. What was previously the Knowledge CGU has now been separated between Enterprise Solutions and Professional Services due to a restructure of the Group post the acquisition of Noventus. Enterprise Solutions consists of the areas of the business which specialises in providing enterprise software and Professional Services consists of the areas of the business which provide managed services, strategic advisory and contracting services. In addition, Wellbeing was acquired by the Group in April 2020 and as it is located in the United Kingdom, the Group have determined that the cash inflows of this business are largely independent of the cash inflows from other assets, or groups of assets and is therefore a separate CGU.

Citadel tests whether goodwill has suffered any impairment on an annual basis. An impairment loss is recorded against goodwill if its recoverable amount is less than its carrying amount.

The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of key assumptions. The value-in-use calculation is based on cash flow projections based on financial budgets for FY21 as reviewed by the Board. In establishing the FY21 budget, due consideration was given regarding the economic uncertainty surrounding COVID-19. A five-year cash-flow projection was utilised in the value-in-use calculations and into perpetuity using a steady 2.5% long term growth rate, which is consistent with the mid-point of long-term inflation forecasts by recognised bodies.

	Forecast Revenue Annual Growth Rates %	Post Tax Discount Rate %	Pre Tax Discount Rate %	Terminal Rate %
Health	7.7	11.8	16.8	2.5
Technology	7.8	12.8	16.3	2.5
Enterprise Solutions	9.4	12.0	15.5	2.5
Professional Solutions	4.4	12.0	17.0	2.5
Wellbeing	13.4	14.5	17.3	2.5

FINANCIAL REPORT

The key assumptions used in the value-in-use calculations include revenue growth, gross margin, operational costs and the discount rate. These assumptions have been used for the analysis of each CGU within an operating segment. The Group based these assumptions on past performance and its expectations for the future. The compound annual growth rates used are based on past performance, expected contract changes and/or continued growth planned without further strategic initiatives approved by the Group. The discount rates used reflect specific risks relating to Citadel and the markets in which we operate.

The post-tax discount rate is based on the weighted average cost of capital, and was developed by the Group with the assistance of external specialists. The discount rate for the Technology CGU was determined to be higher than the other Australian CGUs given lower levels of contracted revenues compared to other CGU's and the effects of COVID-19 in particular on University clients which have been a key industry focus. The discount rate for Wellbeing is higher than the Australian CGU's, and this reflects the riskier economic circumstances in the UK including the effect of COVID-19 and the departure of the UK from the European Union.

The Board approved FY21 budget was used as the base for the value-in-use calculations for each of the CGU's, with the exception of the Technology and Wellbeing CGU's. For the Technology and Wellbeing CGU's, the Group prepared a number of possible scenarios and used a weighted average of the scenarios to determine the appropriate recoverable amounts of the Technology and Wellbeing CGU's.

The growth rates for the Technology CGU are considered more sensitive to broader economic conditions due to having less contracted, recurring revenues than the other CGU's. This means the range of possible revenue growth outcomes is more pronounced, although the CGU has a variable cost base to adjust under each of the scenarios. Therefore, selecting a weighted average of the various scenarios is considered the most appropriate calculation methodology.

The growth rates for the Wellbeing CGU are based on a weighted average of a range of reasonably possible outcomes that were determined with reference to commercial due diligence undertaken as part of the acquisition process. The assessment considered a range of possible outcomes and probabilities attaching to achievement of the growth rates. Whilst Wellbeing has a high percentage of contracted, recurring revenues, the expected growth rates are higher than the other CGU's based on a combination of past performance and expected future performance. The higher growth rate and the recent acquisition makes the Wellbeing CGU more sensitive to broader economic impacts like COVID-19 and changes in assumptions around growth rates. Wellbeing operates predominantly out of the UK, providing radiology and maternity software to the NHS. Accordingly, the Group have used a range of possible outcomes as outlined in the due diligence process to assess the recoverable amount. The FY21 budget was used as the base for all scenarios, as this had been set to take into account the expected impact of COVID-19, along with the synergies program completed in June 2020. A range of possible growth outcomes were then assessed, and a weighted average of the scenarios was used to determine the recoverable amount of the CGU. At 30 June 2020, the recoverable amount exceeds its carrying value by \$3.2m.

The Group has considered and assessed reasonably possible changes for key assumptions and have not identified any instances that are likely to cause the carrying amount of a CGU to exceed its recoverable amount in the Health, Enterprise Solutions and Professional Services CGUs. The Group has assessed the following reasonably possible changes in key assumptions as part of their sensitivity analysis for the Technology and Wellbeing CGU's (all other assumptions held constant):

- Sensitivity analysis on the FY21 blended revenue growth rate used in the Wellbeing CGU indicates that the recoverable amount of the CGU would equal its carrying value if the FY21 blended revenue growth rate was to decrease by 1.1%.
- Sensitivity analysis on the FY21 blended revenue growth rate used in the Technology CGU indicates that the recoverable amount of the CGU would equal its carrying value if the FY21 blended revenue growth rate was to decrease by 2.2%.
- If the post-tax discount rate increased by 0.2% the carrying amount of the Wellbeing CGU would equal its recoverable amount.
- If the post-tax discount rate increased by 3.3% the carrying amount of the Technology CGU would equal its recoverable amount.

The Group believes that the assumption adopted in the value in use calculations reflect an appropriate balance between the Group's experience to date and the uncertainty associated with the COVID-19 pandemic.

Accordingly, the Group has concluded that no impairment is required based on current market and economic conditions and expected future performance.

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FINANCIAL REPORT

Significant accounting policies

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill below. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportive. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of Citadel's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment tests for Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Citadel's CGU's, or groups of CGU's, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of Citadel are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal Management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. If the recoverable amount of the cash-generating unit to which goodwill has been allocated is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

The recoverable amounts of the CGUs are based on a value in use calculation using cash flow projections which are based on the financial budget approved by Management covering a five-year period. There are several key assumptions used in this calculation including the terminal growth rate, the discount rate, future revenue and operating costs.

The terminal growth rate was set at 2.5% (FY19: 2.5%) which is in line with the Reserve Bank of Australia target level of inflation and long-term GDP growth expectations for Australia as well as the Bank of England target rates of inflation. The growth rates used in the calculation are based on Management's best estimate, external sources and past revenue growth. The weighted average cost of capital is used as the discount rate in the calculation and this calculation has been outsourced to a specialist.

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FINANCIAL REPORT

Management have considered the possible change in the key assumptions of the value-in-use calculation and have taken into account various possible scenarios when carrying out the impairment review.

(ii) Software and product development

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Citadel has an intention and ability to use the asset.

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when Citadel can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently, when an indication of impairment arises during the reporting period.

(iii) Trademarks and other rights

Costs capitalised include external direct costs of materials and service in acquiring the trademarks and other rights.

Included in Trademarks and other rights are amounts relating to brand names acquired in business combinations and these are not amortised as Management have assessed these to have indefinite useful lives.

(iv) Customer contracts

Customer contracts acquired as part of a business combination are recognised at fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

A summary of the policies applied to Citadel's intangible assets is as follows:

	Goodwill	Software and product development	Trademarks & other rights	Customer contracts
Useful lives	Indefinite	3-10 years	5-10 years/Indefinite	10-12 years

Impairment testing of goodwill is performed at least annually and for other intangible assets if there is an indicator of impairment.

Significant assumptions

Fair value of acquired intangibles

The fair value of intangible assets acquired in a business combination has been determined using a discounted cash flow approach. This methodology requires significant assumptions regarding the future revenue streams, EBITDA results, the proportion of EBITDA attributable to software versus customer contracts, and the discount rate.

Future revenue streams and EBITDA results are determined using budget estimates and forecasts taking into consideration the expected revenue arising from contracts and the costs associated with delivering those contracts. The level of risk associated with the software was also considered when calculating the discount rate. Citadel amortises the acquired intangibles in line with the useful lives detailed above and will perform impairment testing on an annual basis.

FINANCIAL REPORT

Impairment of goodwill and intangibles with indefinite useful lives

Citadel tests for impairment of goodwill and intangibles with indefinite useful lives on at least an annual basis. This requires estimates of the recoverable amount of the cash generating units using a value-in-use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

Useful lives of software development and customer contracts acquired

The Group acquired \$20.2 million of software and product development and \$31.7 million of customer contracts and relationship intangible assets as a result of the acquisition of Wellbeing. The Group estimates the economic useful life of the software to be 7 years based on the estimated lifecycle for the software. Software is replaced by new versions as the technology is continually advanced through internal development. The Group's economic useful life of the customer relationships is 12 years based on Management's best estimate, which is broadly supported by the listed relationship duration recorded for the individual customer accounts.

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FINANCIAL REPORT

Note 13 – Subsidiaries**(a) Material Subsidiaries**

Details of Citadel's material subsidiaries at the end of the reporting period are as follows:

Country of incorporation and operation	Principal activity	Interest held	
		2020	2019
Australia			
Australian Business Academy Pty Ltd	Education provider	100%	100%
Charm Health International Pty Ltd	Oncology patient management software	100%	100%
Citadel Health Pty Ltd	Technology and managed services	100%	100%
Citadel Technology Solutions Pty Ltd	Technology and integration services	100%	100%
Kapish Services Pty Ltd	Technology and managed services	100%	100%
Jakeman Business Solutions Pty Ltd (JBS)	Knowledge management and advisory services	100%	100%
Gruden Pty Ltd (a)	Software as a service	100%	100%
Noventus Pty Ltd (b)	Systems integration and software development	100%	100%
filosoph-e Pty Ltd (c)	Information and communications technology managed services provider	50%	50%
Citadel Group Services Australia Pty Ltd	Specialist consulting and HR solutions provider	100%	100%
United Kingdom (d)			
Citadel Group Australia Holdings I Limited	UK registered company set up to acquire Wellbeing Software Group	100%	-
Citadel Group Australia Holdings II Limited	UK registered company set up to acquire Wellbeing Software Group	100%	-
Citadel Group Australia Holdings III Limited	UK registered company set up to acquire Wellbeing Software Group	100%	-
Wellbeing Software Group Holdings Limited	UK Holding company	100%	-
Wellbeing Software Holdings Limited	UK Holding company	100%	-
Healthcare Software Solutions Limited	Provider of radiology and maternity workflow solutions	100%	-
Apollo Medical Software Solutions Limited	Provider of data management services	100%	-
Euroking Maternity Software Solutions Limited	Provider of maternity workflow solutions	100%	-
E-Health Innovations Limited	Provider of health software services	100%	-

- (a) On 12 December 2018, the Group acquired 100% of the share capital of Gruden Pty Ltd ('Gruden'), a Software as a Service ('SaaS') business that predominantly operates in the eProcurement space for key government agencies in Australia.
- (b) On 18 June 2019, the Group acquired 100% of the share capital of Noventus Pty Ltd ('Noventus'), a systems integration and software development business that predominately operates in the Defence and National Security vertical.
- (c) Control of filosofh-e was obtained on 4 April 2016 when JBS acquired an additional 25% shareholding, taking its total shareholding to 50%. The Board are the key decision-making body for filosofh-e. JBS holds 2 of the current 4 board seats as well as the Chairman's position, giving it authority to control the Board. As JBS is also filosofh-e's main customer, it has exposure to the variable returns and the ability to use its power to affect the amount of those returns.
- (d) On 3 April 2020, the Group acquired 100% of the share capital of Wellbeing Software Group Holdings Limited and its controlled entities ('Wellbeing'), a healthcare technology solutions provider that predominantly operates in the Health sector in United Kingdom.

FINANCIAL REPORT

(b) Non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to Citadel. The amounts disclosed for each subsidiary are before inter-company eliminations.

filosoph-e Pty Ltd	2020	2019
	\$'000	\$'000
Summarised balance sheet		
Total current assets	9,911	14,883
Total non-current assets	204	134
Total current liabilities	(3,736)	(6,964)
Total non-current liabilities	(457)	(2,013)
Net assets	5,922	6,040
	2020	2019
	\$'000	\$'000
Accumulated NCI	2,960	3,019
Summarised statement of profit or loss and other comprehensive income		
Profit after tax for the year attributed to NCI	2,941	2,999
Total comprehensive income for the year	2,941	2,999
Dividends paid to NCI	3,000	3,750
Summarised cash flow		
Cash flows from operating activities	5,612	5,327
Cash flow from financing activities	(6,000)	(7,500)
Net (decrease)/increase in cash and cash equivalents	(388)	(2,173)

Significant accounting policies

Citadel recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in filosoph-e Pty Ltd, Citadel elected to recognise the non-controlling interests at its proportionate share of the acquired identifiable net assets. See Note 1 for Citadel's accounting policies for business combinations.

Note 14 – Trade and other payables

	2020	2019
	\$'000	\$'000
Trade creditors	6,090	5,077
Other payables	4,757	2,173
GST payable	2,866	1,916
Accrued expenses	7,540	9,389
	21,253	18,555

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FINANCIAL REPORT**Significant accounting policies**

These amounts represent liabilities for goods and services provided to Citadel prior to the end of the financial year which are unpaid. These amounts are carried at amortised cost and due to their short term nature, they are not discounted. These amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Note 15 – Interest bearing liabilities: Current

	2020	2019
	\$'000	\$'000
Secured bank loan	3,546	4,594
Unsecured loans	40	40
Finance lease liabilities	-	305
	3,586	4,939

The debt facilities are issued by the financial institutions party to the relevant subscription agreement. The debt facilities are held by the legal parent The Citadel Group Limited, and Citadel Group Australia Holdings II Limited, and are secured by a fixed and floating charge over Citadel's assets. Each wholly-owned subsidiary of Citadel has entered into security arrangements to secure Group debt facilities. All covenants relating to these facilities have been complied with during the 2020 and 2019 reporting period.

As a result of the Wellbeing Software Group acquisition, on 27 March 2020, the Group executed a new \$100 million (being \$55 million and £23.2 million) multicurrency term and revolving subscription agreement for the provision of three-year facilities. Consequently, borrowing costs which had previously been capitalised and amortised were written off as they related to the debt facility which was no longer in existence.

Funding provided under the subscription agreement for new facilities for approximately \$90 million (half in Australian dollars, half in British pounds) (together with funds from a share placement to new and existing institutional investors and a subscription of new Citadel shares to Wellbeing Management) were used to fund the acquisition of the Wellbeing Software Group and to fully repay existing debt and certain other obligations.

The debt facilities are held by The Citadel Group Limited and a UK subsidiary entity Citadel Group Australia Holdings II Limited. They are secured by a fixed and floating charge over Group's assets. Each subsidiary of Citadel has agreed to a cross collateral mortgage debenture securing the Group's debt facility.

The current average effective interest rate on the facilities is 3.1% per annum (FY19: 3.5% per annum). The carrying amount of the current and non-current borrowings approximates their fair value.

Significant accounting policies

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the liability using the effective interest method.

Interest bearing liabilities are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Interest bearing liabilities are classified as current liabilities unless Citadel has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

FINANCIAL REPORT

Note 16 – Interest bearing liabilities: Non-current

	2020	2019
	\$'000	\$'000
Secured bank loan	77,049	6,898
Finance lease liabilities ¹	-	168
	77,049	7,066

¹See Note 1 for details about impact from changes in accounting policies

Note 17 – Other payables: Non-current

	2020	2019
	\$'000	\$'000
Lease liability ¹	-	117
Other payables	757	-
	757	117

¹In the comparative period a \$0.12m liability was recognised in relation to the operating property leases held by the group. Following the adoption of AASB 16 all leases, with the exception of low-value and short-term leases, are now disclosed on the balance sheet as a separate line item.

Note 18 – Leases

The Group has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 30 June 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. Please see Note 1 for further information on the transition.

The Group leases various properties and hardware equipment. Rental contracts relate to commercial leases for office premises and customer equipment with lease terms of between 1 and 6 years. Citadel does not have an option to purchase the leased land, buildings or equipment at the expiry of the lease periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Right-of-use assets	2020	1 July 2019 ¹
	\$'000	\$'000
Properties	3,829	4,226
Hardware	1,300	1,894
	5,129	6,120

There was \$1.1 million additions to properties right-of-use assets and no additions to hardware right-of-use assets during the current financial year.

Lease liabilities	2020	1 July 2019 ¹
	\$'000	\$'000
Current	2,488	2,792
Non-Current	3,863	4,981
	6,351	7,773

¹In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under AASB117 *Leases*. The assets were presented in property, plant and equipment and the liabilities as Other Payables.

FINANCIAL REPORT

Amounts recognised in the statement of profit or loss	2020 \$'000	2019 \$'000
Depreciation charge of right-of-use assets		
Properties	1,524	-
Hardware	594	-
	2,118	-
Interest expense (included in finance cost)	178	-
Expense relating to short-term leases	38	-
Expense relating to leases of low-value	277	-

The total cash outflow for leases in FY20 was \$2.7 million.

Significant accounting policies

(i) As a lessee

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, which is the case for the leases entered into by the Group, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The incremental borrowing rate used by the Group in FY20 was 3%.

Lease payments are allocated between principal and finance cost. The finance element is charged to the profit or loss over the lease period in order to produce a constant periodic rate of interest for each period on the remaining balance of the lease liability.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets buildings held by the Group are not revalued.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

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FINANCIAL REPORT

In a number of property and equipment leases across the Group there are extension and termination options. The majority of these options held are exercisable only by the Group and not by the respective lessor. In determining the lease term management considers all facts and circumstances that create an economic incentive to exercise an extension or not exercise a termination option. These options are only included in the lease term if the extension or termination option of the lease is reasonably certain. Extension options in offices and vehicles leases have not been included in the lease liability.

(ii) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group sub-lease some of their non-cancellable property leases and therefore act as an intermediate lessor in these arrangements. Given the application of IFRS 16 *Leases* to their respective head-leases, the sub-leases have been accounted for as finance leases as they transfer significantly all risk and reward of the underlying asset, measured with respect to the head-lease right-of-use asset. Under IFRS 16 *Leases*, the Group have de-recognised the right-of-use asset for those sub-leases classified as finance leases, recording an asset equal to the net investment in the lease. This is calculated as the present value of fixed future lease receipts. The net investment in leases is presented within other current assets (see Note 10) and other non-current assets as at 30 June 2020. Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases is \$1.0 million (FY19: \$0.8 million), with \$0.5 million expected to be received in the next 12 months.

Note 19 – Provisions

	2020	2019
	\$'000	\$'000
Employee benefits ¹	2,450	1,940
Make good and provision for onerous lease (Note 20)	202	468
Total current provisions	2,652	2,408
Employee benefits ¹	407	441
Make good and provision for onerous lease (Note 20)	631	916
Total non-current provisions	1,038	1,357

¹The provision for employee benefits relates to Citadel's liability for long service leave and annual leave.

Significant accounting policies**(i) Provisions**

Provisions for make good obligations are recognised when Citadel has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(ii) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and vesting personal leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement and are recognised in other payables where the liability is expected to be settled within 12 months. Expenses for non-vesting personal leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities recognised in respect of long term employee benefits, including annual leave and long service leave not expected to be settled within 12 months, are measured as the present value of the estimated future cash flows to be

FINANCIAL REPORT

made by Citadel in respect of services provided by employees up to reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in assumptions are recognised in profit or loss.

Note 20 – Make good provision and provision for onerous contract

	2020	2019
	\$'000	\$'000
Opening amount as at 1 July	1,384	1,622
Additional make good provision accrued	86	320
Make good provision paid or released	(95)	(86)
Provision for onerous contract	(542)	(472)
Closing amount as at 30 June	833	1,384
Current provision	202	468
Non-current provision	631	916
Total make good and provision for onerous contract	833	1,384

Provisions are considered current if they are expected to crystallise in the next 12 months.

Citadel is required to restore all leased premises to their original condition with the exception of the principal place of business in Symonston ACT. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

Citadel has accounted for onerous contracts in relation to leased premises for Australian Business Academy Pty Ltd. Sub-leases for these premises have been signed and onerous lease expenses recognised for the unavoidable costs.

Note 21 – Other liabilities: current

	2020	2019
	\$'000	\$'000
Deferred revenue	15,503	11,024
Other current liabilities	-	3,150
	15,503	14,174

Significant accounting policies

A deferred revenue balance is recognised as a liability when an amount has been paid or is contractually due in advance of Citadel meeting performance obligations in a customer contract. The balance of the deferred income account is amortised to revenue in the period when the performance obligations are met.

FINANCIAL REPORT

Note 22 – Contributed equity

	2020	2019	2020	2019
	Shares	Shares	\$'000	\$'000
Fully paid ordinary shares issued	78,710,046	49,259,426	191,174	58,699
Details			Number of shares	\$'000
Balance 30 June 2018			49,106,046	58,172
Conversion of rights and share options			153,200	527
Balance 30 June 2019			49,259,246	58,699
Conversion of rights and share options (i)			46,931	248
Employee share scheme (ii)			7,952	28
Issue of ordinary shares (iii)			27,398,422	127,403
Granted as consideration (iv)			1,997,495	9,288
Cost of equity issuance (v)			-	(4,492)
Closing balance 30 June 2020			78,710,046	191,174

- (i) During the year, share rights and share options issued to executives were exercised into ordinary shares.
- (ii) During the year, share rights issued to employees as part of the employee share scheme were converted to ordinary shares.
- (iii) Ordinary shares issued as part of institutional and conditional placement.
- (iv) Shares issues as part of the consideration for the acquisition of Wellbeing.
- (v) Underwriting fee for placement.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of Citadel in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and Citadel does not have a limited amount of authorised capital.

Significant accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Note 23 – Reserves (net of income tax)

	2020	2019
	\$'000	\$'000
Equity-settled employee benefits (i)	49	272
Translation reserve (ii)	(19,829)	-
Hedging reserve (iii)	-	-
	(19,780)	272

- (i) The equity-settled employee benefits reserve is used to recognise:
 - the grant date fair value of rights issued to employees but not exercised;

FINANCIAL REPORT

- the grant date fair value of shares issued to employees;
 - the grant date fair value of deferred shares granted to employees but not yet vested; and
 - the issue of shares rights under the employee share scheme.
- (ii) The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. These differences are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.
- (iii) The hedging reserve includes the cash flow hedge reserve and the costs of hedging reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently either transferred to the initial cost of the acquisition or reclassified to profit or loss as appropriate. The group defers the changes in the forward element of forward contracts and the time value of option contracts in the costs of hedging reserve. These deferred costs of hedging are included in the initial cost of the related acquisition when it is recognised.

	2020			2019		
	Employee benefits \$'000	Translation \$'000	Hedging \$'000	Employee benefits \$'000	Translation \$'000	Hedging \$'000
Balance at beginning of year	272	-	-	1,135	-	-
Value of share options and rights to employees	25	-	-	(336)	-	-
Exercise of rights and options	(248)	-	-	(527)	-	-
Translation differences	-	(19,829)	-	-	-	-
Revaluation of hedging instruments ¹	-	-	4,308	-	-	-
Reclassification to profit or loss	-	-	(238)	-	-	-
Transfer to the carrying amount of the hedged item	-	-	(4,070)	-	-	-
Balance at end of year	49	(19,829)	-	272	-	-

¹This includes the gain on the hedge of \$6.3 million less the cost of the cash flow hedge of \$2.0 million.

Significant accounting policies*Cash flow hedges that qualify for hedge accounting*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the ineffective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within the OCI in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging

FINANCIAL REPORT

instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss where the hedged item subsequently results in the recognition of a non-financial asset, both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss

Note 24 – Retained earnings

	2020	2019
	\$'000	\$'000
Retained earnings	16,610	24,355
Balance at beginning of year	24,355	23,267
Change in accounting policy (Note 1(d))	-	-
Profit attributable to owners of Citadel	(2,068)	7,872
Payment of dividends (Note 25)	(5,677)	(6,784)
Balance at end of year	16,610	24,355

Note 25 – Dividends

	2020	2019
	\$'000	\$'000
(a) Dividends paid – to ordinary shareholders (excludes non-controlling interests)		
Final dividend paid 27 September 2019: 6.0 cents per share fully franked based on tax paid at 30% (FY19: 9.0 cents per share fully franked based on tax paid at 30%)	2,955	4,420
Interim dividend paid 27 March 2020: 4.8 cents per share fully franked dividend based on tax paid at 30% (FY19: 4.8 cents per share fully franked based on tax paid at 30%)	2,722	2,364
Total dividend paid	5,677	6,784
(b) Dividends not recognised at the end of the reporting period		
Since year end the Directors have recommended the payment of a dividend of 6.0 cents fully franked based on tax paid at 30% (FY19: 6.0 cents fully franked).	4,723	2,955

Significant accounting policies

A provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

FINANCIAL REPORT**Note 26 – Capital management**

Citadel's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, Citadel may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistently with others in the industry, Citadel monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'interest bearing liabilities' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

During 2020, Citadel's strategy has maintained a net asset gearing ratio of 0.32 (FY19: (0.02) net asset position) due to strong cash balances at 9.6% of total assets (FY19: 9.7%). This is considered appropriate for the current conditions.

Under the terms of the current banking facilities, the Group is required to comply with the following debt covenants; gearing ratio; debt service coverage ratio; leverage ratio; and interest cover ratio. The Group has complied with all of its debt covenants during the reporting period.

Note 27 – Financial risk management

Citadel's activities expose it to a variety of financial risks: market risk (including currency risk, and interest rate risk), credit risk and liquidity risk. Citadel's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of Citadel.

Financial risk management is carried out by Citadel's corporate centre (Group Treasury) and reported to the Board. Group Treasury identifies and evaluates financial risks in close co-operation with Citadel's operating units.

This note explains the Group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context. Citadel's principal financial instruments are summarised below:

	2020	2019
	\$'000	\$'000
Financial assets at amortised cost		
Cash and cash equivalents	32,546	14,021
Trade and other receivables	12,223	21,497
Income accrual	10,022	14,859
Financial liabilities at amortised cost		
Trade and other payables	13,713	9,639
Bank loans	80,595	11,492
Lease liabilities	6,351	-

(a) Market risk**(i) Currency risk**

The Group has exposure to foreign currency translation risk at the end of the reporting period with consolidated operations in the United Kingdom. The Group holds investments in these entities, which have a functional currency of £GBP. There are no other significant exposures to the Group's foreign currency risk at the end of the reporting period.

During the year, a foreign currency option was entered into by Citadel to hedge against the material currency risk surrounding the acquisition of Wellbeing in the UK. The option expired in April and the resulting foreign exchange gain has been adjusted against the acquisition of Wellbeing (\$4.1 million) or reclassified to profit or loss (\$0.2 million).

FINANCIAL REPORT

Citadel's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
USD Trade receivables	41	43	-	-
CAD Trade receivables	17	17	-	-
NZD Trade receivables	7	4	-	-

During the year, the following foreign-exchange related amounts were recognised in the statement of profit or loss and other comprehensive income:

	2020	2019
	\$'000	\$'000
Net foreign exchange (loss)/gain included in other income/(other expenses)	(81)	(16)
Net foreign exchange (loss)/gain in other comprehensive income on hedging instrument	4,070	-
Net foreign exchange (loss)/gain in other expenses on hedging instrument	238	

(ii) Cash flow and fair value interest rate risk

Citadel's main interest rate risk arises from long-term borrowings as well as working capital facilities including overdrafts and invoice financing. The group's borrowing and receivables are held at amortised cost. Borrowings issued at variable rates expose Citadel to cash flow interest rate risk. The risk is managed by Citadel by monitoring of the rolling cash flow forecasts.

As a result of the Wellbeing Software Group acquisition, on 27 March 2020, the Group executed a new \$100 million (being \$55 million and £23.2 million) multicurrency term and revolving subscription agreement for the provision of three-year facilities.

As at the reporting date, Citadel had the following variable rate borrowings outstanding:

	2020		2019	
	Average interest rate	\$'000	Average interest rate	\$'000
	%		%	
Secured Bank Loans - Gross	3.1	86,463	3.5	11,492
Net exposure to cash flow interest rates	-	86,463	-	11,492

At 30 June 2020, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have increased/decreased by \$0.6 million (FY19: \$0.1 million)

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to government and wholesale customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Government customers are classified as Commonwealth, State and Local. Citadel has not separately assessed the credit risk for a government customer. If there is no independent rating for wholesale customers, Citadel assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

FINANCIAL REPORT

Sales to wholesale customers are required to be settled in cash, cheque or EFT, mitigating credit risk. Credit risk for deposits (loans) outstanding with employees is assessed by taking into account the individuals' position and time in Citadel, past experience and other factors. All employees make payments through the payroll system.

Citadel trades only with recognised, credit worthy third parties and, as such, collateral is not requested nor is it Citadel's policy to securitise its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis. Citadel has not experienced significant levels of bad debt.

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics, the days past due and the geographical location of the Group's customers. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The Group calculated the expected loss rate of 0.1% (FY19: 0.02%) as at 30 June 2020. This is based on the payment profile of sales over a period of 3 years and the corresponding historical credit losses experienced within this period. The historical loss rate was assessed to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Macroeconomic factors considered and analysed were the unemployment levels and GDP growth in the relevant jurisdictions. The impacts on COVID-19 were also specifically addressed in this assessment with the incorporation of any expected credit losses from University customers in the Technology segment.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised following.

	2020 \$'000	2019 \$'000
Financial assets		
Cash at bank	32,546	14,021
Trade and other receivables	12,223	21,497
Income accrual (Contract asset)	10,022	14,859
Total financial assets	54,791	50,377

(c) Liquidity risk

Citadel manages liquidity risk by continuously monitoring forecast and actual cash flows, the maturity profiles of financial assets and liabilities and the undrawn borrowing facilities.

The Group has access to \$10.0 million in an undrawn working capital facility at the end of the reporting period.

(i) Maturities of financial assets and liabilities

The amounts disclosed below in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

FINANCIAL REPORT

	0 – 12 months	12 – 24 months	24 – 48 months	48 + months
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	32,546	-	-	-
Trade and other receivables	12,223	-	-	-
Income accrual	10,022	-	-	-
Financial assets	54,791	-	-	-
Financial liabilities				
Trade payables (non-interest bearing)	6,090	-	-	-
Other payables (non-interest bearing)	7,624	-	-	-
Bank loans ¹	8,386	8,205	76,629	-
Lease liabilities ¹	2,508	2,207	898	791
Financial liabilities	24,608	10,412	77,527	791
Net financial assets/(liabilities)	30,183	(10,412)	(77,527)	(791)

¹ Bank loans and lease liabilities are inclusive of interest.

(d) Recognised fair value measurements**(i) Fair value hierarchy**

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, Citadel has classified its financial instruments into the three levels prescribed under the accounting standards.

There were no transfers between levels during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by Citadel is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable data, the instrument is included in level 3. This is the case for consideration liabilities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- Discounting of budget and forecast cash flow results, using a discount rate that is reflective of the risk associated with the instrument.

(iii) Fair value measurements using significant unobservable inputs (level 3)

There are no level 3 items remaining in FY20.

(iv) Valuation processes

For the purposes of determining the allocation of consideration to assets acquired and liabilities assumed, Citadel uses the services of external valuation experts. The fair value is reassessed by the finance team at least once every six

FINANCIAL REPORT

months, in line with Citadel's half-yearly reporting periods. The main level 3 inputs used by Citadel are derived and evaluated as follows:

- Discount rates for financial liabilities are determined using a capital asset pricing model to calculate a rate that reflects current market assessments of the time value of money and the risk specific to the liability; and
- Expected average EBITDA is estimated based on the entity's knowledge of the business and the likely impact of the current economic environment.

(e) Net Debt Reconciliation

	2020 \$'000	2019 \$'000
Cash at bank and in hand	32,546	14,021
Bank loans – repayable within one year ¹	(5,764)	(4,898)
Bank loans – repayable after one year ¹	(80,699)	(7,066)
Lease liabilities - repayable within one year	(2,488)	-
Lease liabilities – repayable after one year	(3,863)	-
(Net Debt)/surplus cash	(60,268)	2,057
Cash	32,546	14,021
Gross debt – fixed interest rates	-	(11,964)
Gross debt – variable interest rates	(86,463)	-
Lease liabilities	(6,351)	-
(Net Debt)/surplus cash	(60,268)	2,057

¹Bank loans are presented as gross amounts, excluding borrowing costs.

	Other Assets		Liabilities from financing activities				Total \$'000
	Cash/ bank over- draft \$'000	Short- term invest- ments \$'000	Lease liabilities due within 1 year \$'000	Lease liabilities due after 1 year \$'000	Borro- wings due within 1 year \$'000	Borro- wings due after 1 year \$'000	
Net Debt as at 30 June 2018	17,808	7,103	(285)	(407)	(5,614)	(11,497)	7,108
Cash Flows	(3,787)	(7,103)	187	-	-	4,599	(6,104)
Acquisitions - finance leases and lease incentives	-	-	(207)	239	-	-	32
Other	-	-	-	-	1,021	-	1,021
Net Debt as at 30 June 2019	14,021	-	(305)	(168)	(4,593)	(6,898)	2,057
Recognised on adoption of AASB 16 (see Note 1)	-	-	(2,792)	(4,981)	-	-	(7,773)
	14,021	-	(3,097)	(5,149)	(4,593)	(6,898)	(5,716)
Cash Flows	18,525	-	1,322	1,286	(1,171)	(73,801)	(53,839)
Acquisitions - leases and lease incentives	-	-	(713)	-	-	-	(713)
Net debt as at 30 June 2020	32,546	-	(2,488)	(3,863)	(5,764)	(80,699)	(60,268)

FINANCIAL REPORT

Note 28 – Share-based payments**(a) Employee share rights plan**

Details of the share rights plan for senior management personnel are provided below. Note that the terms of the plan are consistent with those offered to KMP as disclosed in the Remuneration Report.

	2020	2019
Number of rights to deferred shares granted on 1 October 2018 (i)	-	134,787
Weighted average fair value of rights at grant date: 1 October 2018	-	7.37
Number of rights to deferred shares granted on 4 November 2019 (ii)	250,622	-
Weighted average fair value of rights at grant date: 4 November 2019	3.87	-
Number of rights to deferred shares granted on 13 November 2019 (iii)	61,551	-
Weighted average fair value of rights at grant date: 13 November 2019	3.41	-
Number of rights to deferred shares granted on 13 February 2020 (iv)	11,921	-
Weighted average fair value of rights at grant date: 13 February 2020	4.96	-

- (i) On 1 October 2018, a total of 134,787 share rights were issued at a weighted average fair value of \$7.37 per share. 77,542 share rights under this grant remain on issue as at 30 June 2020.
- (ii) On 4 November 2019, a total of 250,622 share rights were issued at a weighted average fair value of \$3.87 per share. 131,303 share rights under this grant remain on issue as at 30 June 2020.
- (iii) On 13 November 2019, a total of 61,551 share rights were issued at a weighted average fair value of \$3.41 per share. All share rights under this grant remain on issue as at 30 June 2020.
- (iv) On 13 February 2020, a total of 11,921 share rights were issued at a weighted average fair value of \$4.96 per share. All share rights under this grant remain on issue as at 30 June 2020.

(b) Expenses Share Scheme

The employee share scheme was launched in FY16 and provides permanent full-time and part-time employees who are Australian tax residents and are aged 18 years or over, with the opportunity to purchase shares from pre-tax income via salary sacrifice. 7,952 ordinary shares were issued under the scheme in FY20 which was recognised directly in equity (see Note 22).

Total expenses arising from share-based payment transactions recognised during the year as part of expenses were as follows:

	2020	2019
	\$'000	\$'000
Options expensed over vesting period	-	-
Share rights granted	25	525
Share rights expense writeback	-	(861)
	25	(336)

Note 29 – Related party transactions**(a) Trading transactions**

During the year, the Group did not enter into any related party transactions.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 13(a).

FINANCIAL REPORT**(c) Key Management Personal Compensation**

Detailed compensation arrangements relating to key management personnel are disclosed in the Remuneration Report however, a summary is set out below:

	2020 \$'000	2019 \$'000
Short-term employee benefits	1,519	1,630
Post-employment benefits	79	68
Long-term employee benefits	(9)	5
Share-based payment	20	55
	1,609	1,758

(d) Other related party transactions**(i) Jakeman Family Trust**

Citadel had a contract with the Jakeman Family Trust (JFT) for the provision of services by Dr Miles Jakeman, details of which are included in the remuneration report. Dr Jakeman resigned on 18 February 2019.

(ii) Voluntary Escrow Deed

Citadel entered into a voluntary escrow deed with Bryony McConnell as trustee for McBren Investments, under the control of Mark McConnell, with regard to the 6,051,530 ordinary shares held as at 18 February 2020 for a period of 24 months. This agreement restricts the disposal of, creation of security interests in, or transfer of effective ownership of the shares, for the period.

A similar agreement was entered into in respect of the shares held by Avanteos Investments Limited as trustee for Mark McConnell for the 14,640 ordinary shares held as at 18 February 2020 for a period of 24 months with the same restrictions as outlined above.

Note 30 – Business combinations**Acquisition of Noventus Pty Ltd - 2019**

On 27 May 2019 Citadel executed a Share Sale and Purchase Agreement to acquire 100% of the ordinary shares of Noventus. The acquisition was completed on 18 June 2019 which, accordingly, is the Valuation Date. At the time the prior year Financial Report was authorised for issue, the Group had not yet completed the accounting for the acquisition. Amounts therefore were disclosed as provisional. A valuation of identifiable intangible assets was performed in the current financial year and as a result of that valuation a customer relationship intangible was recognised to the value of \$2.4 million. An adjustment of \$1.7 million (net of tax) has been adjusted against the Goodwill balance.

Business asset acquisition of Linked Training

On 20 December 2019, the Group acquired the business assets (learning material) of Linked Training, for a total cost of \$0.2 million payable in cash. In purchasing Linked Training, Citadel obtained the in-house training capability for Content Manager and the Kapish suite of products.

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FINANCIAL REPORT**Acquisition of Wellbeing Software Group Holdings Limited**

Citadel acquired 100% of the shares in Wellbeing Software Group Holdings Limited (Wellbeing) during the year ended 30 June 2020.

	Principal activity	Date of acquisition	Proportion acquired %	Consideration	
				£'000	\$'000
Wellbeing Software Group Holdings Limited	Provider of radiology and maternity workflow solutions in the UK	3 April 2020	100%	103,137	204,855

The acquisition will allow Citadel to enhance their existing product range and provide a full suite solution to healthcare providers whilst also allowing access to immediate market share in a new geography.

(a) Fair value of consideration

	2020 Total £'000	2020 Total \$'000
Cash paid	98,738	195,931
Share issue to Wellbeing vendors	4,399	8,924
Total	103,137	204,855

The fair value of the 1,997,495 shares issued as part of the consideration paid for Wellbeing (\$8.9 million) was based on the subscription price of \$4.65 per share and adjusting for exchange rate differences between the time of announcing the acquisition and the date of issue of the securities.

There was no contingent consideration included in this acquisition.

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FINANCIAL REPORT

At the time the Financial Report was authorised for issue, the Group had not yet completed the accounting for the acquisition. Amounts disclosed below are provisional.

(b) Provisional fair value of assets acquired and liabilities assumed at the date of acquisition

	2020	2020
	Total	Total
	£'000	\$'000
Assets		
Cash and cash equivalents	4,764	9,716
Trade and other receivables	3,186	6,499
Other assets	2,710	5,526
Deferred tax asset	366	747
Property, plant and equipment	172	351
Software	11,329	23,106
Customer relationships	17,265	35,213
Total Assets	39,792	81,158
Liabilities		
Trade and other payables	1,159	2,364
Contract liabilities	1,653	3,372
Other liabilities	4,026	8,210
Deferred tax liabilities on acquired intangible assets	5,571	11,362
Total Liabilities	12,409	25,308
Net assets acquired	27,383	55,850

The receivables and other debtors acquired in the Wellbeing transaction with a fair value of \$3.2 million had gross contractual amounts of the same value. The best estimate at acquisition date of the contractual cash flows not expected to be collected is \$nil.

(c) Goodwill arising on acquisition

	2020	2020
	Total	Total
	£'000	\$'000
Consideration ¹	103,137	204,855
Less: fair value of identifiable net assets acquired	(27,383)	(55,850)
Goodwill arising on acquisition	75,754	149,005

¹The consideration paid on 3 April 2020 includes the effects of the gain on the hedging arrangement and the differences in the exchange rates between the amount used from the hedge and the remaining amount paid on the acquisition date.

Goodwill arose in the acquisition of this entity because the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

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FINANCIAL REPORT

The Goodwill balance as at 30 June 2020 is as follows:

	Year ended 30 June 2020 \$'000
Goodwill on acquisition	149,005
Less: foreign currency translation	(18,892)
Balance as at 30 June 2020	130,113

(d) Net cash outflow on acquisitions

	Year ended 30 June 2020 \$'000
Consideration paid in cash for acquisitions during the year	207,934 ¹
Less: Cash and cash equivalent balances acquired	(9,716)
Outflow of cash – investing activities	198,218

¹This includes \$47.2 million in funds transferred to the vendors, by financial institutions party to the relevant subscription agreement, who provided debt financing for the acquisition.

(e) Impact of acquisitions on the results of Citadel

The acquired business contributed revenues of \$7.6 million and net loss of \$2.2 million to the Group for the period 3 April 2020 to 30 June 2020, including significant costs of \$3.7 million in respect of transaction costs allocated to the UK holding company and restructure costs.

If the acquisition had occurred on 1 July 2019, consolidated Wellbeing pro-forma revenue and net profit after tax (including significant items referred to below) for the year ended 30 June 2020 would have been an estimated \$29.5 million and \$2.7 million respectively. These amounts have been calculated using Wellbeing's actual results and adjusting them for:

- Differences in the accounting policies between the Group and Wellbeing; and
- The additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2019, together with the consequential tax effects.

(f) Acquisition-related costs

Acquisition-related costs of \$3.7 million which were not directly attributable to the issue of shares are included in administration expenses in the consolidated statement of profit or loss and other comprehensive income and in operating cash flows in the consolidated statement of cash flows.

FINANCIAL REPORT

Note 31 – Discontinued operations

Citadel announced the exit of Australian Business Academy Pty Ltd, a subsidiary, from the vocational education and training (VET) sector on 31 October 2016 and ceased operations on 9 December 2016. Minor transactions continue to be recognised for occupancy costs.

	2020 \$'000	2019 \$'000
Other income	-	44
Expenses	(140)	(3)
Profit/(Loss) before income tax	(140)	41
Income tax benefit/(expense)	42	(35)
Profit/(Loss) from discontinued operation	(98)	6
Net cash (outflow)/inflow from operating activities	150	(510)
Net cash (outflow)/inflow from financing activities	(112)	425
Net increase/(decrease) in cash generated by the operation	38	(85)

Note 32 – Reconciliation of the net profit after tax to the net cash flow from continuing operations

	2020 \$'000	2019 \$'000
Profit for the year	971	10,865
Depreciation and amortisation	12,236	7,982
Unwinding of discount	-	68
Share-based payments	(223)	(340)
Other movements	88	(155)
Gain on fair value re-measurement of financial instruments	-	(588)
(Increase)/decrease in trade and other receivables	14,504	(3,834)
(Increase)/decrease in inventories	(1,119)	794
(Increase)/decrease in income accruals and other assets	5,379	4,666
(Increase)/decrease in prepayments	(816)	756
Increase/(decrease) in trade payables	(1,276)	(2,829)
Increase/(decrease) in tax liabilities	(242)	234
Increase/(decrease) in provisions	168	167
Increase/(decrease) in other liabilities	(6,721)	(3,048)
Net exchange difference	(60)	-
Net cash inflow from operating activities	22,889	14,738

FINANCIAL REPORT

Note 33 – Operating lease arrangements

The Group leases various offices, warehouses, vehicles and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From 1 July 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 1 and Note 18 for further information.

	2020	2019
	\$'000	\$'000
Payments recognised as an expense:		
Minimum lease payments	277	1,548
Operating leases:		
- Not later than one year	72	2,583
- Later than one but not later than five years	46	5,544
Aggregate lease expenditure contracted for at 30 June	118	8,127

Note 34 – Commitments and contingencies

Lease liabilities and non-cancellable lease commitments are disclosed in Notes 18 and 33 to the financial statements.

As at 30 June 2020, Citadel has a total of \$1.3 million in bank guarantees outstanding (FY19: \$1.5 million) relating to office premises. As at 30 June 2020, there were no contingent assets or liabilities (FY19: nil).

Note 35 – Remuneration of auditors

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

(a) Auditors of the Group – PwC and related network firms

	2020	2019
	\$'000	\$'000
Audit and review of financial statements	520	330
Total remuneration for audit and other assurance services	520	330

During the year the following fees were paid or payable for non-audit services by the auditor of Citadel.

	2020	2019
	\$'000	\$'000
Taxation Services	54	55
Accounting Services	-	15

It is Citadel's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with Citadel are important. These assignments are principally tax advice.

(b) Other auditors and their related network firms

	2020	2019
	\$'000	\$'000
Audit and review of financial statements	113	55
Taxation services	41	15

FINANCIAL REPORT

Note 36 – Parent entity financial information

	2020 \$'000	2019 \$'000
Assets		
Current assets	2,625	7,478
Total assets	247,733	89,055
Liabilities		
Current liabilities	27,347	25,793
Total liabilities	70,292	33,474
Net assets	177,441	55,581
Shareholders' equity		
Issued capital	186,985	54,509
Retained earnings	(9,593)	801
Reserves - share based payments	49	271
Total equity	177,441	55,581
Profit (loss) for the year of the parent entity	(4,716)	483
Total comprehensive income/(loss) of the parent entity	(646)	483

There is a current net liability position of \$24.7 million (FY19: 18.3 million) as at 30 June 2020. These results are presented on a going concern basis due to the fact the parent is a party to a deed of cross guarantee with its wholly owned subsidiaries. Each entity within the deed guarantees the payment in full of all debts of the other entities in the deed in the event of their winding up (see Note 37).

(a) Guarantees

During the years ended 30 June 2020 and 30 June 2019, Citadel had signed a cross-collateral mortgage debenture with ANZ bank for the outstanding debt of all entities within Citadel.

In addition, Citadel has \$0.8 million (FY19: \$0.9 million) in bank guarantees outstanding relating to office premises.

(b) Contingent Assets and Liabilities

As at 30 June 2020 there are no contingent assets or liabilities (FY19: \$nil).

(c) Contractual Commitments for the acquisition of property plant and equipment

As at 30 June 2020 there are no contractual commitments for the acquisition of property, plant and equipment (FY19: \$nil).

Significant Accounting Policies

The financial information for the parent entity, The Citadel Group Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

Investments in subsidiaries are accounted for at cost. Such investments include both investments in shares issued by the subsidiary and other parent entity interests that in substance form part of the parent entity's investment in the subsidiary. These include investments in the form of interest-free loans which have no fixed repayment terms and which have been provided to subsidiaries as an additional source of long term capital.

Trade amounts receivable from subsidiaries in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables.

FINANCIAL REPORT

Note 37 – Deed of Cross Guarantee

The Citadel Group Limited and each of the wholly owned subsidiaries set out below (together referred to as the 'Closed Group') have entered into a Deed of Cross Guarantee (Deed), as defined in ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. The effect of the Deed is that each entity in the Closed Group guarantees the payment in full of all debts of the other entities in the Closed Group in the event of their winding up.

Pursuant to the Instrument, the wholly owned subsidiaries within the Closed Group are relieved from the requirement to prepare, audit and lodge separate financial reports, and as there are no other parties to the deed of cross guarantee that are controlled by Citadel Group Limited, they also represent the 'extended closed group'.

Companies in the Closed Group	
The Citadel Group Limited	Charm Health International Pty Ltd
Jakeman Business Solutions Pty Ltd	Charm Health Pty Ltd
Citadel Technology Solutions Pty Ltd	Charm Health Informatics Pty Ltd
Citadel Group Services Australia Pty Ltd	IT Alchemy Australia Pty Ltd
Citadel Health Pty Ltd	Australian Business Academy Pty Ltd
Kapish Services Pty Ltd	

Set out below is a consolidated statement of profit or loss and other comprehensive income and a summary of movement in consolidated retained earnings for the year ended 30 June 2020 of the closed group:

	2020	2019 Restated ¹
Consolidated Statement of Comprehensive Income	\$'000	\$'000
Sale of goods and rendering of services	70,383	95,233
Other Income	3,441	930
	73,824	96,163
Cost of sale of goods and rendering of services	(42,006)	(61,149)
Distribution, sales and marketing	(406)	(320)
Occupancy	(735)	(1,941)
Administration	(35,657)	(26,987)
Finance costs	(1,483)	(1,000)
Profit/(loss) before income tax	(6,463)	4,766
Income tax expense	1,964	(1,149)
Net profit/(loss) for the year	(4,499)	3,617
Other comprehensive income	4,070	-
Total comprehensive income/(loss) for the year	(429)	3,617

	2020	2019 Restated ¹
Consolidated Movement in Retained Earnings	\$'000	\$'000
Balance at beginning of year	20,411	19,828
Profit/(loss) attributable to owners of Citadel	(4,499)	3,617
Payment of dividends (Note 25)	(5,677)	(3,034)
Balance at end of year	10,235	20,411

FINANCIAL REPORT

Consolidated Balance Sheet	Notes	2020 \$'000	2019 Restated ¹ \$'000
ASSETS			
Current assets			
Cash and cash equivalents		16,921	9,529
Trade and other receivables		8,471	19,422
Inventories		3,640	2,526
Income accrual		4,686	13,149
Other current assets		3,696	2,798
Total current assets		37,414	47,424
Non – current assets			
Plant and equipment		1,641	2,101
Intangible assets		72,693	74,698
Right-of-use assets		4,337	-
Investments		171,493	13,281
Other non-current assets		14	14
Total non-current assets		250,178	90,094
TOTAL ASSETS		287,592	137,518
LIABILITIES			
Current liabilities			
Trade and other payables		12,039	18,496
Interest bearing liabilities		1,742	4,899
Provisions		2,176	2,259
Lease liabilities		2,283	-
Current tax liabilities		5,550	7,458
Other current liabilities		7,302	10,014
Total current liabilities		31,092	43,126
Non-current liabilities			
Other payables		-	117
Interest bearing liabilities		43,400	7,066
Deferred tax liabilities		10,715	6,511
Provisions		926	1,317
Total non-current liabilities		55,041	15,011
TOTAL LIABILITIES		86,133	58,137
NET ASSETS		201,459	79,381
EQUITY			
Contributed equity		191,175	58,699
Reserves		49	272
Retained earnings		10,235	20,411
TOTAL EQUITY		201,459	79,382

¹The prior year results have been restated to include Kapish Services Pty Ltd who were a member to the closed group.

FINANCIAL REPORT

Note 38 – Events occurring after the balance sheet date

(a) Acquisition of eQstats Pty Ltd

On 14 August 2020 Citadel signed a Share Purchase Agreement to acquire 100% of the issued shares in eQstats Pty Ltd (eQstats), a software development company.

The consideration is payable over the next 24 months, with the initial payment of \$1.1 million paid on completion and two contingent payments of \$0.4 million based on earn outs. The first contingent payment is expected to be paid in 12 months and the second payment in 24 months.

The Group is currently in the process of finalising the completion accounts and therefore cannot provide details of the fair value of the consideration payable and the net assets acquired. It is expected that the completion accounts process will be finalised by late August or early September 2020.

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Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 45 to 106 are in accordance with the Corporations Act 2001 (Cth), including:
 - i. complying with Accounting Standards, the Corporations Regulations 2001 (Cth) and other mandatory professional reporting requirements;
 - ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance, for the financial year ended on that date; and,
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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



Peter Leahy AC
Lt Gen (Retd)
Chairman
27 August 2020

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Independent auditor's report

To the members of The Citadel Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial report, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

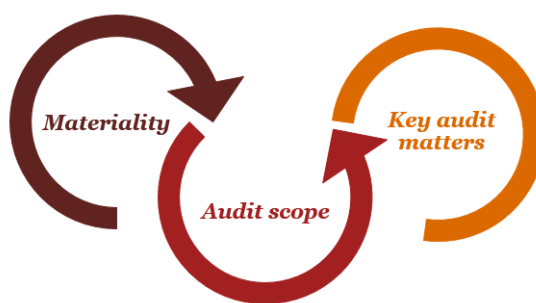
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the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

Our audit approach

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

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

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Materiality

- For the purpose of our audit we used overall Group materiality of \$722,000, which was determined after applying professional judgement following consideration of the Group's revenue and profitability over the past three years.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group audit was planned and led by our Group audit team in Australia. We, and component auditors in the United Kingdom, conducted audit procedures over the financial information of the most financially significant entities, which are based in Australia and the United Kingdom.
- The Group includes other entities in the same countries which individually do not contribute materially to the overall Group result. We obtained an understanding of these entities and performed analytical procedures over their financial balances.
- Audit procedures were performed by the Group audit team over the consolidation process and balances recorded at a Group level. The audit work carried out at an entity level together with the additional procedures performed at a Group level, in our view, provided us with sufficient evidence to express an opinion on the financial report of the Group as a whole.
- We ensured that the audit teams both at a Group and at entity levels had the appropriate skills and competencies. This included engaging experts to address aspects of our audit work in relation to business combinations.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Goodwill impairment assessment (Refer to note 12) [\$165m]</p> <p>At 30 June 2020 the Group recognised \$165m of goodwill, which is recognised across the five Cash</p>	<p>We evaluated the Group's cash flow forecasts and the process by which they were developed. We compared the Group's forecasts for the previous three financial years, including 2020, with the actual results for</p>

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FINANCIAL REPORT



Generating Units (“CGUs”): Enterprise, Professional Service, Technology, Health and Wellbeing.

We considered the assessment of impairment of goodwill associated with the Technology and Wellbeing CGUs to be a key audit matter given:

- the carrying value of the related goodwill is material (\$8.3m and \$130.1m respectively); and
- the carrying value of each of the CGUs is particularly sensitive to growth assumptions.

Assessing the carrying value of goodwill requires the Group to make estimates of uncertain future cash flows in models. Given the specific situations for the CGUs discussed above the impairment outcome may be sensitive to reasonably possible changes in the assumptions. The significant assumptions include the forecast growth in earnings before interest, tax, depreciation and amortisation (“EBITDA”), terminal growth and discount rates.

those years to assess the historical accuracy of forecasting.

We checked the forecast used in each valuation model was consistent with the Board approved budget and that the determination of key assumptions were subject to oversight from the directors.

We assessed the assumptions and methodology used for the impairment test, in particular, those assumptions relating to the discount rate, allocation of corporate assets and corporate overheads, revenue and expense growth rates, and terminal growth rates. To do this we performed a number of procedures including the following:

- considered the sensitivity of the calculations by varying key assumptions and applying other values within a reasonably possible range, for example by reducing certain growth assumptions as a risk assessment procedure
- evaluated the appropriateness of the discount rate adopted, based on market data and industry research
- evaluated the probabilities assigned to various scenarios modelled by the directors with reference to external industry information, existing contract terms, pipeline, and historical growth
- evaluated whether the included assets, liabilities and cash flows were directly attributable to each CGU and the allocation of corporate assets and overheads was reasonable; and
- checked the calculations in the valuations models for mathematical accuracy.

We evaluated the adequacy of the disclosures made in note 12 in relation to the key assumptions used in the impairment assessment in light of outcomes of the above analysis and the requirements of Australian Accounting Standards.

Wellbeing business combination (Refer to note 30) [\$205m]

On 3 April 2020 the Group acquired 100% of the shares in Wellbeing Software Group Holdings Limited (‘Wellbeing’) for £103.1m (\$204.9m). The consideration included £98.7m in cash and £4.4m in Group shares.

Assisted by PwC valuation experts in aspects of our work, our procedures included the following:

- evaluated the Group’s accounting for consistency with the requirements of Australian Accounting Standards, key transaction agreements, our understanding

FINANCIAL REPORT



The acquisition of a business is complex and Australian Accounting Standards require the Group to identify all assets and liabilities of Wellbeing and estimate the fair value of each item. The fair value of these items may be significantly different to the historical cost, which had been previously recorded by the acquired business. Also, the items may not previously have met the recognition criteria under Australian Accounting Standards.

The acquisition of Wellbeing was a key audit matter because it was a significant transaction for the year given the financial and operational impacts on the Group. In addition, the Group made complex judgements when accounting for the acquisition, including identifying:

- all assets and liabilities of the newly acquired business and estimating the fair value of each asset and liability for initial recognition by the Group. The Group engaged an external valuation expert in this process; and
- whether consideration paid relates to the recipients' role as a shareholder or employee and the associated accounting treatment of the consideration.

The accounting for the acquisition is provisional at the time of authorisation of the financial report, as permitted under Australian Accounting Standards.

Revenue recognition (Refer to note 2) [\$121m]

For the year ended 30 June 2020 the Group recognised \$121.3m of revenue from contracts with customers across four streams: software and services, product sales and installation, consulting and professional services, and managed services.

We considered the recognition of revenue to be a key audit matter as revenue is comprised of a number of complex revenue streams. This complexity can arise from a significant difference between the timing of the recognition of revenue and receipt of cash from customers, and also through the judgement required to determine the percentage complete of each performance obligation and amounts for which it was highly probable that a significant reversal will not occur.

of the business acquired and its industry, and legal correspondence

- assessed the fair values of the acquired assets and liabilities recognised including:
 - evaluated the methodology used by the Group's valuation experts in preparing the purchase price allocation against the requirements of Australian Accounting Standards,
 - evaluated cash flow forecasts in the fair value models by comparing the forecasted revenue and EBITDA to due diligence materials; and
 - compared the discount rate adopted in determining the fair value of assets acquired to the Group's historical cost of capital, and that of other market participants
- considered the adequacy of the business combination disclosures in light of the requirements of Australian Accounting Standards; and
- evaluated the Group's accounting treatment of consideration paid to recipients in line with Australian Accounting Standards.

We assessed the Group's accounting policy against requirements of Australian Accounting Standards.

For a sample of contracts for each revenue stream we:

- developed an understanding of the key terms of contracts with customers, considered the Group's identification of performance obligations, identification and allocation of selling prices and corroborating audit evidence to support the timing of revenue recognition through substantive testing; and
- obtained corroborating evidence for cumulative revenue recognised to evidence from customers or other available supporting documentation, to support the percentage complete of each performance obligation, and amounts for which it was highly probable that a significant reversal will not occur.

FINANCIAL REPORT



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Borrowings*(Refer to note 15, note 16) [\$81m]*

At 30 June 2020, the Group recognised \$80.6m in borrowings. This includes \$3.6m recognised within current liabilities (note 15) and \$77.0m recognised within non-current liabilities (note 16).

We considered borrowings to be a key audit matter given:

- the borrowings balance is significant to the Group and it increased to \$80.6m from the prior year, with the new facility denominated in Australian dollars and British pounds; and
- the financial covenants the Group is required to comply with are complex.

We evaluated the adequacy of the Group's disclosures in light of the requirements of Australian Accounting Standards.

We obtained confirmations directly from the Group's banks to confirm the borrowings' balance at 30 June 2020, tenure and conditions.

We read the most up-to-date borrowing agreements between the Group and its financiers to develop an understanding of the terms associated with the facilities and the amount of the facilities available for drawdown.

We evaluated the Group's assessment of compliance with debt covenants.

We compared the Group's accounting for borrowing costs from the new and existing facilities with the requirements of Australian Accounting Standards.

Where debt is classified as non-current, we evaluated the Group's assessment that they had the unconditional right to defer settlement of the liability for at least 12 months such that there were no repayments required within 12 months from the balance date.

We evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

FINANCIAL REPORT



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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 22 to 41 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of The Citadel Group Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
27 August 2020

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Shareholder information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 19 August 2020.

In accordance with ASX Listing Rule 4.10.19, Citadel confirms that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the ASX in a way consistent with its business objectives.

1. Distribution of shareholders

The distribution of issued capital is as follows:

Holding	Total No. of Shares Held	No. of Shareholders
100,001 and over	60,401,149	42
10,001 – 100,000	8,675,399	348
5,001 – 10,000	3,706,907	490
1,001 – 5,000	4,738,004	1,875
1 – 1,000	1,188,587	2,573
	78,710,046	5,328

2. Distribution of Performance Rights Holders

Holding	Total No. of Rights Held	No. of Rights Holders
100,001 and over	-	-
10,001 – 100,000	347,612	10
5,001 – 10,000	8,458	1
1,001 – 5,000	-	-
1 – 1,000	-	-
	356,070	11

3. Distribution of options

The distribution of unquoted options on issue are:

Holding	Total No. of Options Held	No. of Option Holder
100,001 and over	-	-
10,001 – 100,000	-	-
5,001 – 10,000	-	-
1,001 – 5,000	-	-
1 – 1,000	-	-
	-	-

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FINANCIAL REPORT

4. Twenty largest shareholders

The twenty largest holders of quoted equity securities are listed below:

Ordinary Shares		
Shareholder	Number Held	% of Issued Shares
J P Morgan Nominees Australia Pty Limited	7,911,321	10.05%
HSBC Custody Nominees (Australia) Limited	7,253,382	9.22%
National Nominees Limited	6,817,636	8.66%
Bryony McConnell	6,265,530	7.96%
Citicorp Nominees Pty Limited	5,952,365	7.56%
Equitas Nominees Pty Limited	5,476,181	6.96%
BNP Paribas Nominees Pty Ltd	2,943,387	3.74%
PJA Australia Pty Ltd	2,753,095	3.50%
UBS Nominees Pty Ltd	1,355,435	1.72%
Capital Property Corporation Pty Ltd	1,246,521	1.58%
Brispot Nominees Pty Ltd	1,230,125	1.56%
Cs Fourth Nominees Pty Limited	1,090,459	1.39%
HSBC Custody Nominees (Australia) Limited - A/C 2	984,489	1.25%
Christopher Paul Yeowart	938,792	1.19%
BNP Paribas Noms Pty Ltd	833,835	1.06%
Jakeman Holding Co Pty Ltd	800,000	1.02%
Graham Paul Ridgway	732,009	0.93%
Citicorp Nominees Pty Limited	689,000	0.88%
National Nominees Limited	639,052	0.81%
Abbysah Pty Limited	500,000	0.64%

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FINANCIAL REPORT**5. Substantial Shareholders**

The names of the Substantial Shareholders listed in the Company's Register as at 19 August 2020:

ORDINARY SHARES		
Shareholder	Number Held	% of Issued Shares
The Citadel Group and its controlled entities ¹	7,315,335	9.54%
Jakeman Holdings Pty Ltd (ATF Jakeman Family Trust)	6,741,957	8.79%
Bryony McConnell as trustee for McBren Investments	6,000,000	7.82%
Wilson Asset Management Group	5,611,042	7.31%
Microequities Asset Management Pty Ltd	5,015,158	6.54%
Lennox Capital Partners Pty Limited	4,241,010	5.53%
Challenger Limited	4,241,010	5.53%
Perennial Vale Management Limited	4,035,144	5.26%
Copia Investment Partners Ltd	3,417,569	4.46%

¹The Citadel Group Limited has entered into voluntary escrow deeds with respect to fully paid ordinary shares held by:

- Bryony McConnell as trustee for McBren Investments;
- Avanteos Investments Limited ACN 096 259 979 as trustee for Mark Steven McConnell Custody Shares Account;
- Christopher Paul Yeowart;
- Paul Anthony Megaw;
- Kate Smith;
- Lee Sykes;
- Matthew Smith;
- Claire White;
- Richard Farr; and
- Philip Brentnall,

which restrict the disposal of shares as disclosed in Form 603 (Notice of initial substantial holder) dated 3 April 2020 and in Form 604s (Notice of change of interests of substantial holder) dated 6 April 2020 and 8 April 2020 and which gives The Citadel Group Limited a technical relevant interest under s608(1)(c) of the Corporations Act 2001 (Cth). However the escrow deeds do not restrict the exercise of voting rights attaching to the escrowed securities.

6. Less than marketable parcels of ordinary shares

There are no shareholders with unmarketable parcels totalling nil shares.

7. Unquoted equity securities

The company had the following unquoted securities on issue as at 19 August 2020:

Security	No. of securities
Unquoted Rights	356,070
Unquoted Options	-

FINANCIAL REPORT
8. Restricted securities

The company had the following restricted securities on issue as at 19 August 2020:

Class	No. of Shares	% of issued capital
Fully paid ordinary shares – mandatory escrow		
Restricted until 31 Dec 2020	1,698	0.00%
Restricted until 03 Apr 2021	717,533	0.91%
Restricted until 08 Apr 2021	68,236	0.09%
Restricted until 30 Jun 2021	6,792	0.01%
Restricted until 18 Feb 2022	6,066,170	7.71%
Restricted until 03 Apr 2022	469,396	0.6%
Restricted until 30 Jun 2023	6,532	0.01%

9. Voting Rights

In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or in a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid ordinary share, on a poll.

Performance rights and Options have no voting rights.

10. On-Market buy-backs

There is no current on-market buy-back in relation to the Company's securities.