

Preliminary Final Report

SMS MANAGEMENT & TECHNOLOGY LIMITED ABN 49 009 558 865

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

Reporting period: Year ended 30 June 2013
Previous corresponding period: Year ended 30 June 2012

2. Results for announcement to the market

Results	Change from previous corresponding period			June 2013
Total revenue from ordinary activities	down	\$57.0m or 17.0%	to	\$278.5m
Profit from ordinary activities after tax attributable to members	down	\$9.5m or 31.0%	to	\$21.1m
Net profit for the period attributable to members	down	\$9.5m or 31.0%	to	\$21.1m

Dividends	Amount per security	Franked amount per security
<i>Current period:</i>		
Final dividend	12.0 cents	12.0 cents
Interim dividend	13.5 cents	13.5 cents
<i>Previous corresponding period:</i>		
Final dividend	17.0 cents	17.0 cents
Interim dividend	13.5 cents	13.5 cents
Record date for determining entitlements to final dividend	4 October 2013	
Payment date of final dividend	25 October 2013	

A brief explanation of the results can be found in the accompanying Media Release, Investor Presentation and in the Directors' Report in the attached Annual Report

3. Consolidated statement of comprehensive income

Refer to the financial statements in the attached Annual Report

4. Consolidated statement of financial position

Refer to the financial statements in the attached Annual Report

5. Consolidated statement of cash flows

Refer to the financial statements in the attached Annual Report

6. Consolidated statement of changes in equity

Refer to the financial statements in the attached Annual Report

7. Details of individual and total dividends and payment dates

Refer to section 2 above and also note 22 to the financial statements in the attached Annual Report

8. Details of dividend reinvestment plan

Not applicable

9. Net tangible assets

	Current period	Previous corresponding period
Net tangible assets per ordinary security	89 cents	83 cents

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

Refer note 27 to the financial statements in the attached Annual Report

11. Details of associates and joint venture entities

Not applicable

12. Details of any other significant information

Refer to the accompanying Media Release, Investor Presentation and to the Directors' Report in the attached Annual Report

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

Not applicable

14. Commentary on the results for the period

Refer to the accompanying Media Release, Investor Presentation and to the Directors' Report in the attached Annual Report

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

The financial statements have been audited

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

Not applicable

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

Not applicable. The independent audit report does not contain any modified opinion, emphasis of matter or other matter paragraph. The independent audit report is included in the financial statements in the attached Annual Report



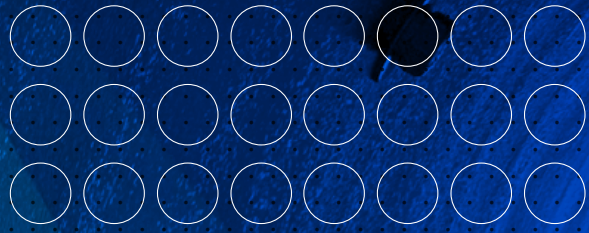
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Date: 21 August 2013

Anna Gorton

Company Secretary

YOUR VISION. DELIVERED.



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IN TODAY'S FAST-CHANGING WORLD, IT IS MORE IMPORTANT THAN EVER FOR ORGANISATIONS TO RESPOND QUICKLY AND EFFECTIVELY TO EMERGING TRENDS. OUR SUCCESS AT SMS, NOW AND INTO THE FUTURE, IS BUILT ON OUR ABILITY TO WORK AS A PARTNER WITH OUR CLIENTS IN A WAY THAT ENSURES THEY NOT ONLY COPE WITH NEW TECHNOLOGICAL AND SOCIAL TRENDS, BUT ARE ABLE TO TAKE ADVANTAGE OF THEM TO ENHANCE GROWTH.

>> CHAIRMAN AND CEO MESSAGE



CONTINUED ECONOMIC UNCERTAINTY IMPACTED SMS DURING 2013 AS THE FOCUS OF CLIENTS SHIFTED FROM EXPANSION TO COST CONTROL, WITH CAPITAL PROJECTS DEFERRED

Dear Shareholder,

The challenging market conditions faced during the first half of the 2013 financial year continued to impact the business for the remainder of the year. Revenue from services contracted by 17% to \$278.5m and net profit after tax decreased by 31% to \$21.1m. Despite challenging operating conditions, the business remains debt free and held cash of \$37.0m at 30 June.

This financial strength has allowed the Company to declare a fully franked final dividend of 12.0 cents per share, taking full year dividends to 25.5 cents per share. This level of dividend was set to balance the need to provide shareholders with a reliable dividend payment whilst positioning the Company to execute on earnings per share ("EPS") accretive acquisitions as opportunities arise.

Uncertainty in the macroeconomic environment caused clients to delay projects and led to reduced demand across most sectors, particularly from Federal Government, Information and Communications Technology ("ICT"), Resources and Transport. Project delays previously advised to you at the 2012 Annual General Meeting continued to impact the rest of the 2013 financial year.

We have maintained strong client relationships and most clients have new initiatives in the pipeline, however, economic sentiment has caused reluctance to commence these programs of work.



1 LAURENCE G COX
2 THOMAS STIANOS



SMS has achieved operational improvements during 2013 through reductions in overheads, whilst closely managing working capital to free up additional cash flow. The business increased net cash holdings during the financial year despite a difficult trading environment and further payments in relation to previous business acquisitions.

Management is taking steps to protect earnings in the short term as well as launching initiatives that will generate growth in the mid-term. We are accelerating our development of managed services and on 4 July 2013 we acquired the Indicium group which strengthens our capability in the Business Cloud and Infrastructure Management Solutions segment of the market. We are actively assessing other EPS accretive transactions that will position us ahead of the expected cyclical upturn.

The expansion of our Managed Services and Business Cloud offerings is important in that it capitalises on a structural trend in the market whereby clients are replacing capital spend with operating expenditure, by procuring infrastructure and software as a service rather than installing new physical facilities. SMS is partnering with global providers to exploit this emerging market.

The growth and development of our people is of critical importance to our long-term success and we are committed to developing the capabilities and talent of our people.

- > Revenue from services
\$278.5m
- > EBITDA
\$29.5m
- > Net Profit After Tax
\$21.1m
- > Basic earnings per share
30.6 cents
- > Dividends per share
25.5 cents
- > Cash balance
\$37.0m

Our professional development program focuses on continuous learning and on-the-job development experiences that come from the extensive range of work we undertake for our clients.

For the first time in 2013, SMS has responded to emerging client demand for talented junior consultants by launching a graduate program. The program is borne out of extensive research on market best practice, and we are confident that the quality of our consultants will ensure ongoing success. We have also expanded our dual-shore development centre in Vietnam with a view to offering more competitive development and testing services to our clients.

Based on business activity in the last six months of the financial year, we expect that the first half of the 2014 financial year will continue to be challenging but the Company is well leveraged to an uplift in demand.

The subdued client activity is creating a pent-up demand to resume many of the programs that have been deferred, and SMS has a healthy balance sheet to be able to take advantage of this expected recovery in demand.

Finally, we thank our staff for their sustained resilience over what has been a challenging financial year. Their continued support, as our most valuable asset, positions us well for the years ahead.



Laurence G Cox
Chairman



Thomas Stianos
CEO



TECHNOLOGY CONTINUES TO CHANGE, NEW TRENDS EMERGE EVERY DAY, BUT AT SMS OUR THREE CORE PRINCIPLES HAVE STAYED THE SAME FOR OVER 25 YEARS: ADD VALUE, MAINTAIN UNITY AND ENHANCE REPUTATION. THEY CONTINUE TO GUIDE US AS WE STRIVE TO DELIVER BETTER SERVICES FOR ALL OUR CLIENTS.



AT SMS, WE ARE FULLY FOCUSED ON DELIVERY: DELIVERY OF OUR CLIENTS' VISION; DELIVERY OF STRATEGIES THAT IMPROVE BUSINESS PERFORMANCE; DELIVERY OF THE BUSINESS AND TECHNOLOGY PROJECTS THEY NEED; AND DELIVERY OF SOLUTIONS THAT TAKE ADVANTAGE OF EMERGING TRENDS.



>> YOUR VISION. DELIVERED.

>> BOARD OF DIRECTORS

- 1 LAURENCE G COX
- 2 THOMAS STIANOS
- 3 BRUCE THOMPSON
- 4 NICOLE BIRRELL
- 5 KERRY SMITH
- 6 DEREK YOUNG

**LAURENCE G COX, AO****Chairman of the Board**

Laurie Cox became Chairman of SMS in May 2001 and is also the Chairman of Australian Prostate Cancer Research. He has extensive experience in the Australian and international financial markets, which has previously included roles as:

- > Executive Chairman of the Potter Warburg Group of Companies in Australia from 1989-1995;
- > Director of SG Warburg Securities of London;
- > Chairman of Australian Stock Exchange Ltd;
- > Executive Director of Macquarie Group Ltd;
- > Chairman of Transurban City Link Ltd;
- > Non-Executive Director of OneSteel Limited; and
- > Chairman of the Murdoch Children's Research Institute.

Laurie was awarded the Order of Australia for services to the Australian Securities Exchange ("ASX") and the securities industry, including his contribution as a Director of Australian Stock Exchange Ltd. from its inception in 1987, and as Chairman between 1989 and 1994.

Laurie is a graduate of The University of Melbourne with a Bachelor of Commerce, a Fellow of the Australian Society of Certified Practising Accountants, a Senior Fellow of the Financial Services Institute of Australia and a Fellow of the Australian Institute of Company Directors ("AICD").

THOMAS STIANOS**Chief Executive Officer and Executive Director**

Tom Stianos joined SMS in January 1989, and was appointed CEO in March 2002.

Please refer to page 10 for Tom's complete profile.

BRUCE THOMPSON**Non-Executive Director**

Bruce Thompson joined the Board of SMS in October 2000. He is the former Chairman and Managing Director of Hewlett-Packard Australia Ltd, and worked with Hewlett-Packard for 32 years, in Australia and overseas, until his retirement in August 2000.

Bruce is Chairman of the Victorian Government Commission for Gambling and Liquor Regulation. He is a Council and Board member of the Box Hill Institute of TAFE.

Bruce was formerly Chairman for Innovonics Ltd; formerly Chief Executive Officer of Keycorp Limited; formerly a trustee of Melbourne Cricket Ground Trust; and formerly a member of the Business Council of Australia.

Bruce is a graduate of Monash University with a Bachelor of Economics, a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of the AICD and a Graduate of the Wharton Business School Advanced Management Program.



NICOLE BIRRELL

Non-Executive Director

Nicole Birrell joined the Board of SMS in December 2004. She has over 28 years' experience in corporate and investment banking, most recently as Head of Operational Risk and Compliance in the Institutional Financial Services division of ANZ Banking Group in Melbourne. Prior roles were with investment bank County NatWest and with Chase Manhattan Bank/ Chase AMP in London and Sydney.

Nicole is currently a Director of Superpartners Pty Ltd and Wheat Quality Australia Ltd. Nicole is also an operational risk management consultant. She was previously on the Board of Queensland Sugar Ltd, Grains Research & Development Corporation, AusBulk Ltd, and Australian Practice Nurses Association Inc. She was formerly the Chair of AusMalt Pty Ltd and was a member of Wheat Exports Australia.

Nicole graduated from the University of Antwerp with a degree in Applied Economics and obtained a M.Sc. in International Relations from the London School of Economics. She is a Fellow of the AICD.

KERRY SMITH

Non-Executive Director

Kerry Smith joined the Board of SMS in December 2004. He is a former Managing Director of Schroders Australia Group, which successfully operated wholesale funds management, property asset management, corporate advisory and financial markets businesses in Australia.



Prior to joining Schroders, Kerry was the Group Finance Director of Mojo MDA Group, a publicly listed advertising and marketing communications group, and was formerly a Director of Financial Accounting at Macquarie Bank.

Kerry is also a Director of the Board of Wellcom Group Limited. He is a graduate of The University of Sydney with a Bachelor of Economics and has been a member of the Institute of Chartered Accountants in Australia ("ICAA") for over 25 years.

DEREK YOUNG, AM

Non-Executive Director

Derek Young joined the Board of SMS in November 2011. He has over 30 years' management consulting experience, most recently as the Managing Director of Accenture Australia and Managing Partner of Accenture's Financial Services in Asia Pacific.

Derek represented Accenture at the Business Council of Australia, and served as a board member of the Australian Information Industry Association ("AIIA") and the Committee for Melbourne.

Since 2005, he has acted as Chairman of the Melbourne Theatre Company and Chairman of the Australian Major Performing Arts Group. He is formerly a member of the RMIT University Council and the Chair of its Planning and Finance Committee.

Derek is a Certified Practising Accountant, Fellow of the Association of Chartered Certified Accountants (UK) and a Member of the AICD.

>> CORPORATE EXECUTIVES

- 1 THOMAS STIANOS
- 2 RICK ROSTOLIS
- 3 DARREN STANLEY
- 4 CHRIS SANDHAM

THOMAS STIANOS

Chief Executive Officer & Executive Director

Tom Stianos joined SMS in January 1989 and was appointed CEO in March 2002. During his time with SMS, he has led many growth initiatives into different industries and practice areas.

Tom previously held positions of Regional Director Victoria, Regional Director New South Wales and Regional Director ACT and led the establishment of SMS in Singapore. Immediately prior to his current appointment he was Managing Director of SMS Consulting Australia.

After becoming CEO in 2002, Tom re-engineered and restructured the Company through building a new leadership team, investing in new systems and processes, divesting non-core businesses and launching new lines of business to tap into emerging markets. These changes resulted in the business increasing its earnings almost sixfold from 2004 to 2008.

Tom led the expansion of SMS's range of services through the acquisition of 15 specialist companies and the launch of new practice areas. Four years ago, Tom restructured SMS again by introducing a practice-based organisation to maximise the leverage of specialist capabilities into all regions. At this time, SMS also expanded its services into the Asia Pacific region and is now a leading provider in the region.

SMS today is a leading Australian consulting and Systems Integration company, and is part of the Standard & Poor's ASX200 Index.

Prior to joining SMS, Tom held senior executive roles with the Victorian Government including the Departments of Premier & Cabinet, the Attorney General, Education and Agriculture.

Tom is a Director of the AIIA and is a Fellow of the AICD.

Tom graduated from The University of Melbourne with a Bachelor of Applied Science and was awarded the Ford Australia prize for Economics. His career spans more than 30 years in business and IT.

RICK ROSTOLIS

Chief Financial Officer & Company Secretary

Rick Rostolis holds management accountability for all corporate functions of SMS, including the Company's finance, IT, commercial, contract management, investor relations and company secretarial functions.

Rick commenced his professional career with KPMG, where he worked for twelve years prior to joining Pacific Brands. During his ten years with Pacific Brands, Rick held various senior management roles including Group General Manager, Outerwear & Sport, Group Commercial Manager, Underwear & Hosiery and



General Manager, Corporate Development. In 2004, Rick led the project team involved in the \$1.25 billion IPO of Pacific Brands.

Immediately prior to joining SMS in October 2010, Rick was the Chief Operating Officer of BlueAnt Wireless, a global technology company specialising in wireless communication.

Rick holds a Bachelor of Business in Accountancy and is a Fellow of the ICAA.

DARREN STANLEY

Managing Director, SMS Consulting Australia

Darren Stanley was appointed to the position of Managing Director of SMS Consulting Australia, in July 2013. He is also the Regional Director, North, managing the New South Wales and Queensland consulting operations.

Darren has previously held the roles of Regional Director Queensland, Regional Director New South Wales, Banking & Finance Industry Director and Senior Consultant for SMS Queensland.

Darren worked for two years in the late 1990s as managing consultant with SMS UK, assisting with development of business opportunities and market presence. He joined SMS in 1997.



Darren has a Masters of Business Administration ("MBA") from Deakin University and a Bachelor of Science from University of New South Wales. He is a Member of the AICD.

CHRIS SANDHAM

Managing Director, M&T Resources

Chris Sandham joined SMS in January 2003 as the NSW Regional Director for M&T Resources. In 2006, Chris relocated to the UK where he worked as part of the SMS UK operation.

In March 2010, Chris re-joined the business as National Sales Director and became Managing Director of M&T Resources in January 2011.

Since joining SMS, Chris has implemented significant initiatives across the M&T Resources business to ensure it retains its position as a market leader. His focus is on maintaining a values-based employer of choice business with strengths in innovation, creative sourcing, and the ability to provide agile and proactive talent strategies for clients.

Chris holds a degree in Business and Finance, gained in the UK.





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- 5 ANNA GORTON
- 6 SHANEEN ARGALL
- 7 MERLIN ALLAN

ANNA GORTON

General Counsel & Company Secretary

Anna Gorton joined SMS in April 2012 as General Counsel, and was appointed as Company Secretary for all SMS Group companies in May 2012. Anna is responsible for the legal function at SMS, together with company secretarial, insurance and related areas.

Prior to joining SMS, Anna was the Head of Legal – Australia for Carter Holt Harvey, where she spent four years managing the legal risks inherent in a heavy manufacturing environment. Previously, Anna held various Banking & Finance legal roles in law firms. Anna is a member of the Australian Corporate Lawyers Association, Law Institute of Victoria, and a Certificated Member of Chartered Secretaries Australia. Anna has degrees in Arts and Law from the University of Melbourne and is a Graduate Member of the AICD.

SHANEEN ARGALL

Director, Human Resources

Shaneen Argall joined SMS in September 2008 as Director, Human Resources. In conjunction with the executive leadership team, Shaneen is responsible for developing the human resources strategy and implementing systems and processes to support the achievement of business objectives, including the attraction, retention, professional development, and remuneration of our people.

Prior to joining SMS, Shaneen’s career spanned human resources roles in both the legal profession and higher education sector. She also spent five years as an industrial relations officer with the peak Australian employer association for universities.

Shaneen is a member of the Australian Human Resources Institute. She has a Masters of Labour Law and Relations from the University of Sydney, a Graduate Diploma in Industrial Relations from the University of Canberra and a Bachelor of Arts degree from the Australian National University.

MERLIN ALLAN

Director, Mergers & Acquisitions

Merlin Allan is responsible for driving the Company’s strategic development, with a focus on non-organic growth including demand driver analysis, M&A deal origination, execution and integration planning. These activities enable SMS to extend its scale and capability into new geographies and market sectors. As a member of the executive leadership team, he has been responsible for twelve acquisitions, from analysis to on-boarding.

Immediately prior to SMS, Merlin worked in the venture capital sector in the USA and Australia, and brings extensive international business experience from five countries including corporate development, strategy execution, operational management and M&A across a range of service sectors. He is a graduate of the University of West of England and a Member of the AICD.



GREAT ACHIEVEMENTS ARE BUILT ON GREAT PARTNERSHIPS. AT SMS, WE ARE ABLE TO DELIVER OUTSTANDING END-TO-END SOLUTIONS BECAUSE WE WORK IN CLOSE PARTNERSHIP WITH CLIENTS' AND ALSO WITH SOME OF THE WORLD'S LEADING TECHNOLOGY COMPANIES. ONLY BY WORKING TOGETHER ARE WE ABLE TO DELIVER THE TAILORED SOLUTIONS THAT MEET OUR CLIENTS' VISION.

>> MANAGEMENT TEAM

- 1 DEAN OAKLEY
- 2 DARREN STANLEY
- 3 CRAIG LENNARD
- 4 ADAM THRELFALL
- 5 STEPHEN MABBS



DEAN OAKLEY

Regional Director, Victoria

Dean is accountable for the performance of the SMS consulting business in Victoria and for driving sales, delivery and operational improvement of the regional team.

Dean has been with SMS for nine years, holding a variety of roles including National Practice Director, Program & Project Services; and Industry Director, Financial Services.

Prior to joining SMS, Dean was a founding Director of Implementation Partners International ("IPI"), where he successfully delivered a number of large scale engagements, including the establishment of the Australian Program Office for a major bank, and leadership of a global program to build organisational project governance and capability for a major financial services institution.

Dean has a Bachelor of Science in Computer Science from the University of New South Wales, a Graduate Diploma in Communications Engineering from Victoria University, and a MBA from Deakin University.

DARREN STANLEY

Regional Director, North

Darren joined SMS in 1997 and is the Regional Director, North, managing SMS's New South Wales and Queensland operations.

Please refer to page 11 for Darren's complete profile.

CRAIG LENNARD

Regional Director, NSW

Craig joined SMS in April 2010 as Regional Director for NSW consulting operations.

Craig has over 29 years' experience in the ICT industry.

Prior to SMS, Craig worked in a variety of senior roles, managing sales, project, product and consulting business units. Craig was previously General Manager ANZ at Q-Free ASA, Managing Director Industry, Distribution and Transportation at Logica Australia and Consulting and Product Development Manager at Acxiom.

Craig has a MBA from Deakin University and a Bachelor of Electrical Engineering from the University of New South Wales. Craig is a Graduate Member of the AICD.



ADAM THRELFALL

Regional Director, ACT

Adam is responsible for the development and performance of SMS' consulting business in the ACT Region.

Adam joined SMS in 1999, and has worked in a variety of consulting, account management and service line leadership roles.

With over 25 years' experience in Federal Government, he has led technology and business reviews and major programs and projects.

Adam has managed a portfolio of accounts across Federal Government, working in the education, employment and social services sectors delivering training solutions, strategic reviews, and program and project management solutions.

Adam holds a Masters in Business and Technology from the University of New South Wales.



STEPHEN MABBS

Regional Director, West

Stephen has responsibility for consulting operations in South Australia and Western Australia.

Prior to SMS, Stephen was Managing Director and Principal Consultant of Permian, an engineering consultancy with offices in Melbourne and Adelaide, which was acquired by SMS in 2007.

Stephen has previously served in the Australian Army for five years and was a Research Scientist in the Defence Science and Technology Organisation for three years.

Stephen has a Bachelor of Engineering from the University of Western Australia, a PhD from the University of Melbourne, and holds a Certified Practising Project Director accreditation from the Australian Institute of Project Management.

- 6 BENJAMIN COWLING
- 7 TIM HURST
- 8 DAVID MOODIE
- 9 DANIEL PORTER
- 10 CAMPBELL JOHNSTON



BENJAMIN COWLING
Regional Director, Asia

Benjamin is responsible for SMS' consulting operations in Asia, which includes growing the business and ensuring the successful delivery of projects in the region.

Prior to joining SMS, Benjamin worked in Government (in the Foreign Affairs and Transport Portfolios) and consulted in organisational performance improvement. He joined SMS in 2005 as a Senior Consultant in our Canberra office working in Defence.

In 2008, Benjamin joined SMS in Adelaide and played a key role in growing the business in South Australia, across the Government, Finance, ICT, Resources and Utilities sectors. He also led SMS's initial entry into Western Australia.

Benjamin supports the broader IT sector in Hong Kong, through his involvement in the Hong Kong Computer Society and is a Member of the Digital, Information and Telecommunications Committee of the Hong Kong General Chamber of Commerce.

Benjamin has a MBA from the University of South Australia and a Graduate Diploma in Terrorism, Safety and Security from Charles Sturt University.

TIM HURST
Regional Director, WA

Tim is responsible for the regional development and performance of the SMS business in the Resources, Utilities and Government sectors across Western Australia. Tim joined SMS in January 2012.

Tim has 30 years' experience in the ICT industry in senior operational and business development roles across Australia, Europe and USA.

Prior to joining SMS, Tim worked in a number of roles including Operations Director for Velrada Capital, Senior Executive with UXC Eclipse and State Manager for JD Edwards Australia.

DAVID MOODIE
Director, Clients & Markets

David is responsible for managing client relationships and a range of business development activities to support strategic growth objectives.

David has held a number of senior roles at SMS including Regional Director, Victoria, Regional Director, New South Wales and Industry Director ICT, Utilities and Gaming.



Prior to joining SMS, David was Managing Director of IPI. He is a senior IT professional with over 20 years' experience in IT strategy, project and change management.

David has a Bachelor of Arts in Economics and History from the University of Melbourne and a Graduate Diploma in Project Management from RMIT.

DANIEL PORTER

Director, Practice Solutions (BPI & PPS)

Daniel is the Practice Director for the Business Performance Improvement ("BPI") and Project and Program Services ("PPS") Practices and is responsible for leading SMS capability across strategic and business consulting as well as project/program delivery.

Daniel joined SMS in August 2004 and has worked across all SMS industries and regions, in senior client and business development roles.

Prior to joining SMS, Daniel was General Manager of the Tasmanian Association for the Teaching of English, General Manager Directory Operations of Telstra, and Group Manager Systems for Tabcorp.

Daniel has a Bachelor of Economics from La Trobe University.



CAMPBELL JOHNSTON

Director, Practice Solutions (SI & IDM)


Campbell is the Practice Director for the Systems Integration ("SI") and Information and Data Management ("IDM") Practices.

He is responsible for the operational and strategic development and performance of the Practices across all markets. Campbell also holds executive responsibility for the management of the Vietnam dual-shore development centre.

Prior to joining SMS, Campbell worked in a variety of roles including Managing Director of Koukia (a Wesfarmers Group Company), Head of Technology and Outsourcing for JDV, General Manager of Computer Power Training for Australia and New Zealand and a number of other roles in ANZ, NAB, St George and Andersen Consulting.

His experience in these roles spans from a general and strategic management perspective to deep experience in technology management disciplines.

Campbell has a Bachelor of Arts in Psychology from the University of Melbourne, and is a Graduate Member of the AICD.



SMS CONTINUES TO ENHANCE ITS EXPERTISE THROUGH ESTABLISHED INDUSTRY LINES. INDUSTRY AND ACCOUNT DIRECTORS WORK WITH A RANGE OF CONSULTANTS WHO HAVE EITHER COME FROM THESE AREAS, OR HAVE BUILT CONSIDERABLE EXPERIENCE IN THE DELIVERY OF INDUSTRY-CENTRIC SOLUTIONS FOR OUR CLIENTS.



>> YOUR VISION. DELIVERED.

>> CAPITALISING ON KEY MARKET THEMES

THE MARKET SMS OPERATES IN HAS CONTINUED TO EVOLVE OVER THE LAST TWELVE MONTHS. THE PROLIFERATION OF DIGITAL DEVICES, NEW WAYS OF OPERATING, SOCIAL MEDIA AND CHANGING CUSTOMER EXPECTATIONS, HAVE PUT PRESSURE ON ORGANISATIONS TO TRANSFORM THE WAY THEY DO BUSINESS. AS A RESULT, CLIENT AGENDAS HAVE CHANGED.

SMS IS SEEING SIGNIFICANT THEMES IN THE MARKET AND WITH CLIENTS IN A NUMBER OF KEY AREAS.

CUSTOMER

- > **Poor customer experiences result in an estimated US\$83 billion loss each year¹**
- > **86% of consumers will pay more for a better customer experience²**
- > **89% of consumers began doing business with a competitor following a poor customer experience²**

¹ Parature, *Infographic: The Financial Impact of Customer Service*

² RightNow Technology, *2011 Customer Experience Impact Report: Getting to the Heart of the Consumer and Brand Relationship*

Growth Driver

Customers expect a higher level of service from organisations, tailored to their needs, at a lower price point.

SMS Objective

To enable clients to deliver a customer experience superior to their competition's.

How We Deliver

A number of organisations have already made moves to 'put the customer at the centre' of what they do. The appointment of Chief Customer Officers at the 'C-Level' is a clear indication of this shift in focus.

SMS has the information and data analytics capability to give clients a single view of their customers, with insights into their needs and buying behaviour. We use big data analytics and other tools to help our clients understand customer centricity.

We have the capability to support our clients on an end-to-end journey – from strategy to the customer experience improvement – and the Project Management, Change Management, Training and Enablement capability to bring it all together and maximise client benefits.

MOBILITY

- > **There will be over 50 billion mobile devices connected by 2020¹**
- > **By 2015, the world's mobile worker population will reach 1.3 billion – over 37% of the total workforce²**
- > **Global mobile traffic now represents roughly 17% of internet traffic³**

¹ Ericsson, *More Than 50 Billion Connected Devices*

² IDC, *Worldwide Mobile Worker Population 2011-2015 Forecast*

³ StatCounters Global Stats
http://gs.statcounter.com/#mobile_vs_desktop-ww-monthly-201207-201307

⁴ Cisco, *Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2012–2017*

Growth Driver

By the end of 2013, there will be more mobile-connected devices than there are people⁴. Customers and employees expect to interact with organisations on any device from anywhere.

SMS Objective

To partner with clients looking to embrace the big picture on mobility – a future encompassing mobile workforce enablement, infrastructure management and capitalising on 'the connectedness of things'.

How We Deliver

The consumerisation of technology is driving powerful change within the corporate and Government environments. The proliferation of consumer devices is driving the strategic imperatives of organisations, at both a technology and customer level. The bulk of customer engagement, and approximately a quarter of sales, now involve a computer, mobile phone, tablet or some other digital device.

Having worked on a number of the leading and award-winning applications in the Australian market, and the back-end systems to maximise the use of the data collected, SMS will reinforce its presence as a leading provider of mobility solutions.

We are strengthening our relationships with leading technology providers. We are using these partnerships to deliver leading mobile workforce enablement, infrastructure tracking and automation solutions to the Asia Pacific market.

DIGITAL TRANSFORMATION

- > **The number of industry-focused public cloud services platforms – less than 100 in 2012 – will increase tenfold by 2016¹**
- > **70% of organisations are either using or investigating cloud computing solutions²**
- > **80% growth of unstructured data is predicted over the next five years³**

¹ IDC, *IDC Predictions 2013: Competing on the 3rd Platform*

² AMD, *AMD Global Cloud Study Reveals Growing Trust in Cloud Computing as Businesses Achieve Measurable Value*

³ Gartner, *Top Ten Trends for 2012*

Growth Driver

The decline in cost as digital channels have matured has allowed newer, more nimble competitors to enter the market, challenging the established players.

SMS Objective

To partner with organisations in maximising the opportunities presented by digital channels.

How We Deliver

The challenges presented by the transformation of digital services also provide significant opportunities for organisations looking to capitalise on them. SMS is working with a number of clients on their digital strategies, and helping them radically improve corporate performance and business outcomes.

We have the capability to assist clients devise new business models, enabling them to evolve and operate in ways that capitalise on changing societal expectations and technology. We take a pragmatic approach to digital transformation, by focussing on initiating programs that deliver immediate customer impact and allow clients to be more responsive to the market. The learnings from each program are iteratively applied to other initiatives, leading to demonstrably better financial performance.

SMS has the breadth of capability to deliver for our clients, with organisations that embrace the development of new technologies and business models being ideally suited to capitalise on the benefits and lead the market.

EFFICIENCY

- > **Nearly half of global CEOs see improving operational effectiveness as one of their top three investment priorities over the next 12 months¹**
- > **70% of global CEOs plan to implement a cost reduction initiative¹**
- > **31% of CEOs plan to outsource a business process or function¹**

¹ PricewaterhouseCoopers, 16th Annual Global CEO Survey

Growth Driver

As pressure increases to deliver better results on tighter margins, businesses are looking to align their IT and business infrastructure with their strategic goals and deliver efficiency.

SMS Objective

To enhance our clients operational efficiency.

How We Deliver

SMS is focussing on driving cost out of our clients' businesses through tackling their data storage, infrastructure, and support costs. We have developed strong capabilities in all major Cloud ecosystems and are partnering with the world's leading technology companies to deliver cost reduction to our clients.

We are assisting clients in unifying their data requirement views, and identifying and managing the removal of data debris. We can reduce the cost of data storage and deliver sustainable information management processes.

While there is less funding for major projects, organisations are experiencing ever-increasing cost pressures with ageing legacy systems and business processes dependent on them. We are helping drive out cost by providing support for legacy systems. This allows clients to reduce their costs by paying for what they use, and allowing their IT groups to focus resources on delivering operational goals.

BUSINESS INNOVATION

- > **93% of CEOs say that their organisation's strategy is dependent on innovation for its long term success¹**
- > **70% of CEOs rank innovation among their top 5 strategic priorities¹**
- > **40% of organisations cite 'complexity' as the greatest barrier to improving multichannel customer experience, overtaking 'organisational structure' since 2010²**

¹ Accenture, *Why "Low Risk" Innovation Is Costly – Overcoming the Perils of Renovation and Invention*

² Econsultancy, *Multichannel Customer Experience Report*, November 2011

Growth Driver

Organisations and their legacy systems are not lean enough to respond quickly to strong competition or changing customer expectations.

SMS Objective

To enable clients to deliver improved outcomes at lower cost, by leveraging new ways of thinking and new technologies, whilst building a culture of innovative thinking within the organisation.

How We Deliver

Organisations have the opportunity to change business models, taking advantage of modern technology and new ways of thinking, allowing them to 'do more with less', or 'less with less', whilst building a culture of innovative thinking and driving better business outcomes.






SMS is supporting clients to understand what they need to be doing, what they need to do differently, and what they need to stop doing. By combining process efficiency with customer experience, we deliver stronger service design solutions.

SMS is enabling organisations to innovate through a number of service offerings, including process efficiency and learning enablement. We are introducing ground-breaking working approaches such as our Enterprise Control Room concept, which provides a visualisation of an organisation's strategy and enterprise portfolio of programs, and at a glance, demonstrates how all the programs of work are delivering against the goals and objectives.

SMS takes an end-to-end approach to business innovation, with the capability to work with clients at a strategic level, through to building and integrating a solution which maximises outcomes. We empower our clients to own and manage their own processes and systems, and maintain our relationship with them based on learning and constant improvement.

>> OUR CAPABILITY

THESE KEY MARKET THEMES:

 CUSTOMER	 MOBILITY	 DIGITAL TRANSFORMATION	 EFFICIENCY	 BUSINESS INNOVATION
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ARE BEING ADDRESSED THROUGH:

CONSULTING Provides industry knowledge & business insights	+	SYSTEMS INTEGRATION Provides technical capability	+	MANAGED SERVICES Provides ongoing infrastructure support	+	STRATEGIC PARTNERS Access to products & technology
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BY PROVIDING DEEP DOMAIN EXPERTISE IN AREAS SUCH AS:

<ul style="list-style-type: none">> Business Process Optimisation> Customer Experience	<ul style="list-style-type: none">> Information Management> Application Development	<ul style="list-style-type: none">> Business Cloud> Infrastructure Consulting
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OUR SUCCESS OVER THREE DECADES HAS ALWAYS RESTED ON BRINGING OUT THE BEST IN OUR PEOPLE. IT DEFINES SMS AND GIVES INDIVIDUALS EXHILARATION AND FULFILLMENT. BEING TREATED WITH RESPECT AND HAVING FREEDOM TO ACT ARE AT OUR VERY CORE. IN RETURN, OUR PEOPLE ARE ALWAYS READY TO GO OUT OF THEIR WAY FOR A COLLEAGUE OR A CLIENT. THAT SMALL EXTRA EFFORT HAS A PROFOUND IMPACT ON OUR CULTURE AND THE EXPERIENCE OUR PEOPLE HAVE AT WORK.



>> YOUR VISION. DELIVERED.

>> CASE STUDIES

INVENTORY CONTROL ON THE MOVE

Key Statistics

Locations Impacted: 250 branches
Business Outcome: 85% reduction in stock count time, 97% reduction in stock count errors

The client, one of Australia's largest equipment hire companies, wanted to modernise their inventory control systems. With many processes being done in paper form then transferred to back-end systems at office terminals, they sought to reduce the time and cost of stock counts, allow staff more time to actively engage with customers, and reduce fleet holding costs through higher turnaround and utilisation of equipment.

The client had twice tried to develop and integrate a mobile application to meet their needs, but fallen over both times at the integration stage. SMS was engaged to deliver the solution: a new asset tracking system for the million-plus assets, integrated into the financial management system.

SMS delivered a complete mobility solution. This allowed the client's staff to move 'out of the office and into the yard', while still having access to all the features needed to operate branches and track assets.

At an enterprise level, SMS created a mobile application for tracking and managing assets, while simultaneously creating the back-end infrastructure to connect the application to tracking and recording systems. This involved the streamlining of systems and applications to allow staff to work in more mobile and connected ways.

SMS successfully deployed this technology to ground staff at over 250 branches around Australia. Through seamless integration with various in-house systems, and ground-up application development, SMS enabled staff to use mobile devices to quickly complete stock counts and focus on sales opportunities through real-time, online asset tracking.

The efficiency gains were marked: branches have reduced their stock count time from two days to three hours, and human error ratings have fallen from 30% to 1%.

INNOVATIVE LEARNING AND ENGAGEMENT SOLUTIONS

Key Statistics

Employees Impacted: 400+

Business Outcome: 87% training adoption rate

The client, one of the largest logistics organisations in Australia, had commenced an initiative to increase sales efficiencies and reduce revenue leakage amongst a distributed workforce of 400 sales staff.

This involved the release of new functionality for their Customer Relationship Management (“CRM”) system. SMS was engaged to design and deliver a national training program to uplift staff in new business process and system functionality.

SMS worked with the client to orchestrate a blended learning solution, comprising facilitated face-to-face training and a suite of online learning modules accessible via desktop, smartphone and tablet.

SMS designed 12 ‘mobile movies’ that included detailed coverage of the new business process and CRM functionality. The learner was guided by an SMS-created, 3D learning avatar.

As another first for the client, SMS developed a bespoke mobile application that was deployed to all sales staff, providing them with access to the learning content on the move. This accessibility resulted in the training program delivering an impressive adoption rate of 87%. Further, a number of performance support tools and guides were created to aid the user in the new environment.

SMS successfully deployed the training program to over 400 staff around Australia, guiding the client to achieve their desired outcome for the project. SMS has since been re-engaged within other areas of the business to design and deliver leading-edge learning solutions.

MANAGING SPORT IN THE CLOUD

Key Statistics

Customers Impacted: 15,000 industry participants and registered members

Employees Impacted: 60

Business Outcome: Successful migration from legacy application to cloud-based application

The client, a sports industry body responsible for promoting and controlling the sport, needed to replace an ageing legacy application that was critical to its business but becoming unsupported. In addition, there was pressure to reduce operational costs and improve reliability.

SMS worked collaboratively with the client to deliver a modern business system for staff that was simpler to use and maintain, cost-effective and easily scalable.

The solution delivered a feature-rich platform for industry participants and introduced a major innovation for the industry around race grading, resulting in consistency of competitive racing, and allowing race grading to be completed in 30 minutes instead of many hours.

As the application is available for use by the public as well as client staff and the industry, releases were trialled and staged progressively to release major elements of the application and incorporate integration to interstate authorities. Everything that could be automated was automated, bringing resilience, repeatability and consistency to the delivery.

The replacement web portal and database provide a highly reliable and scalable platform. The Agile development methodology used in delivering the project allowed for extensive collaboration between the client and development team to prioritise requirements, while allowing flexibility to refine and change scope.

FIRST CLASS HEALTHCARE FOR A GOVERNMENT DEPARTMENT

Key Statistics

Personnel Impacted: 80,000+

Locations: 70 national sites

Business Outcome: Transformational program completed with improved clinical outcomes

The client, one of the largest health care organisations in Australia, won the contract for the provision of healthcare to a large government department, from point of injury or illness, through to return to work. The client needed to simplify and streamline the healthcare process for all personnel, and further enhance their reputation as a world-class provider of health insurance services and solutions.

The client engaged SMS to partner in providing the business-critical 'transition in' services. This involved managing the services for over 80,000 personnel, across 70 nationwide locations and five streams of work.

SMS partnered with the client in developing a transformational program to deliver both improved clinical outcomes for personnel, and improved commercial outcomes for the client. This included the engagement and signatories of over 5,000 medical

specialists, allied health professionals and hospitals to deliver services, a new schedule of fees and invoicing arrangements, and the set-up of a dedicated call centre.

SMS established a Project Management Office to manage the scale of the project. This included program management and scheduling, organisational change management, communications management and project management. SMS undertook a director-level assessment of the project to identify and mitigate risk and build senior-level relationships. The review identified a number of improvement recommendations on accountability and communications flow, and gave the client confidence that the program was well placed for 'start-up'.

SMS successfully delivered the transformational program and has since been retained to manage a continuous improvement program.

>> OUR PEOPLE

Our passion is to be a company which brings out the best in people and one that people want to work for...our people define us.

We remain a company that is committed to continually developing the capabilities and talent of our people. Our professional development program focuses on continuous learning and on-the-job development experiences that come from the extensive range of work we undertake for our clients. This is supplemented with formal training in emerging technologies and the consulting tools that keep our people positioned as thought leaders and business partners to our clients.

Our people join us from a diverse range of backgrounds and display a strong connection with our shared values.

Add Value, Maintain Unity and Enhance Reputation, are the cultural hallmarks of an SMS consultant.

Our brand and future growth rely on us continuing to attract and retain outstanding people who share these common values.

As we progress our growth strategy, it is important that we understand what keeps our people engaged and committed, and how they view SMS as a place to work. Our annual employee engagement survey provides the opportunity for our people to tell us how they feel about working at SMS. This year, 86% of

respondents agreed that SMS delivers on its Employee Value Proposition to staff. This represents a 10% increase over the past three years, reflecting the success of our engagement and connectedness programs.

Our graduate program allows us to respond to emerging client demand, whilst shaping the future leaders of our organisation.

As part of our strategic planning process, a new people initiative has arisen to meet changing client needs. SMS has traditionally hired highly experienced consultants. However, in response to emerging client demand for very capable junior consultants and our need to organically grow our talent pipeline, an SMS graduate recruitment program was launched in 2013.

Our five-step graduate recruitment process reflects best practice in our industry and beyond. We have carefully selected the Graduate Consultants who will add new vigour, energy and capability when they commence with us in 2014. The supporting 18-month young professionals program is the result of extensive research on market practices for graduate programs – both in respect of their format and length. Many of our experienced consultants are looking forward to having the opportunity to lead and help shape the career journey of this important new group within our workforce.



THE KEY TO OUR GROWTH IS OUR FOCUS ON DELIVERING VALUE AT EVERY STAGE OF EVERY ONE OF OUR COMPANY RELATIONSHIPS: WITH CLIENTS; WITH SHAREHOLDERS; AND WITH OUR OWN STAFF. BY ALWAYS DELIVERING REAL VALUE, OUR BUSINESS WILL CONTINUE TO GROW, NOW AND INTO THE FUTURE.



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The directors of SMS Management & Technology Limited ("the Company") present their report, together with the financial report of the Company and its controlled entities (collectively "the Group") for the financial year ended 30 June 2013 and the auditor's report thereon. The information set out below is to be read in conjunction with the Remuneration Report set out on pages 51 to 60 which forms part of the Directors' Report.

DIRECTORS

The directors of the Company during the financial year and up to the date of this report are:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p>Laurence G Cox, AO B. Comm, FCPA, FAICD, SF Fin</p> <p>Chairman of the Board</p> <p>Independent Non-Executive Director</p> <p>Chairman of the Remuneration and Nominations Committee</p> <p>Director since 9 May 2001</p>	<p>Currently Chairman of Australian Prostate Cancer Research.</p> <p>Roles previously held:</p> <ul style="list-style-type: none"> > Executive Chairman of the Potter Warburg Group of Companies in Australia from 1989-1995; > Director of SG Warburg Securities of London; > Chairman of Australian Stock Exchange Limited; > Executive Director of Macquarie Group Limited; > Chairman of Transurban City Link Ltd; > Non-Executive Director of OneSteel Limited; and > Chairman of the Murdoch Children's Research Institute.
<p>Bruce Thompson B. Ec, FCPA, FAICD</p> <p>Independent Non-Executive Director</p> <p>Chairman of the Audit, Risk and Compliance Committee</p> <p>Director since 18 October 2000</p>	<p>Currently a Council and Board member of the Box Hill Institute of TAFE and Chairman of the Victorian Government Commission for Gambling and Liquor Regulation.</p> <p>Formerly Chairman of Innovonics Ltd; formerly Chairman and Managing Director of Hewlett-Packard Australia Ltd; formerly Chief Executive Officer of Keycorp Limited; formerly a trustee of Melbourne Cricket Ground Trust; formerly a member of the Business Council of Australia.</p>
<p>Nicole Birrell B. App Ec, M.Sc, FAICD</p> <p>Independent Non-Executive Director</p> <p>Director since 20 December 2004</p>	<p>Currently a Director of Superpartners Pty Ltd and Wheat Quality Australia Ltd; also an operational risk management consultant.</p> <p>Formerly Director of Queensland Sugar Ltd; formerly Director of Grains Research & Development Corporation; formerly Director of AusBulk Limited; formerly a member of Wheat Exports Australia; formerly Director of Australian Practice Nurses Association Inc.; formerly Chair of AusMalt Pty Ltd; formerly Head of Operational Risk and Compliance for the Institutional Financial Services division of ANZ Banking Group, Melbourne.</p>

DIRECTORS (continued)

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p>Kerry Smith B. Ec, ACA</p> <p>Independent Non-Executive Director</p> <p>Director since 20 December 2004</p>	<p>Currently a Director of Wellcom Group Ltd.</p> <p>Formerly Managing Director of Schroders Australia Group; formerly Group Finance Director of Mojo MDA Group Ltd; formerly Director of Financial Accounting at Macquarie Bank Limited.</p>
<p>Derek Young, AM CPA, FACCA (UK), AICD</p> <p>Independent Non-Executive Director</p> <p>Director since 22 November 2011</p>	<p>Currently Chairman of the Melbourne Theatre Company and Chairman of the Australian Major Performing Arts Group.</p> <p>Formerly a member of the RMIT University Council and the Chair of its Planning and Finance Committee; formerly Managing Director of Accenture Australia and Managing Partner of Accenture's Financial Services in Asia Pacific; formerly represented Accenture at the Business Council of Australia; formerly a Board member of the Australian Information Industry Association ("AIIA") and the Committee for Melbourne.</p>
<p>Thomas Stianos B. App Sc, FAICD</p> <p>Executive Director</p> <p>Chief Executive Officer ("CEO")</p> <p>Director since 25 March 2002</p>	<p>Currently a Director of the AIIA.</p> <p>Previous positions held with the Company include Regional Director Victoria, Regional Director NSW, Regional Director ACT and Managing Director of SMS Consulting Australia.</p>

COMPANY SECRETARY

The Company Secretary position is jointly held by Mr Rick Rostolis and Ms Anna Gorton. Mr Rostolis is also Chief Financial Officer ("CFO") and has a Bachelor of Business in Accountancy and is a Fellow of the Institute of Chartered Accountants in Australia. Ms Gorton is also General Counsel and has a Bachelor of Arts, a Bachelor of Laws and is a Graduate Member of the Australian Institute of Company Directors ("AICD"). She is a member of the Law Institute of Victoria, the Australian Corporate Lawyers Association, and is a Certificated Member of Chartered Secretaries Australia.

DIRECTORS' MEETINGS

The number of meetings of the Company's directors (including formally constituted committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board of Directors		Audit, Risk and Compliance Committee		Remuneration and Nominations Committee	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
Laurence Cox	13	13	–	–	3	3
Bruce Thompson	13	12	2	2	3	3
Nicole Birrell	13	12	2	2	3	2
Kerry Smith	13	13	2	2	3	3
Derek Young (iii)	13	13	2	2	3	3
Thomas Stianos	13	13	–	–	–	–

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

(ii) Number of meetings attended

(iii) Appointed to Audit, Risk and Compliance Committee and Remuneration and Nominations Committee on 24 July 2012

DIRECTORS' INTERESTS

The relevant interests of each director in the shares, rights or options over such instruments issued by the Company, as notified by the directors to the Australian Securities Exchange ("ASX") in accordance with s205G(1) of the Corporations Act 2001, at the date of this report are as follows:

Director	Ordinary shares	Performance rights over ordinary shares
Laurence Cox	411,762	–
Bruce Thompson	70,499	–
Nicole Birrell	9,681	–
Kerry Smith	4,681	–
Derek Young	–	–
Thomas Stianos	1,817,383	245,532

SHARE OPTIONS AND PERFORMANCE RIGHTS**Performance rights granted to the CEO and officers of the Company**

Equity movements during the financial year are disclosed in detail in Note 29 to the financial statements.

STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the Group during the financial year.

PRINCIPAL ACTIVITIES

During the financial year, the Group operated under two separate business brands.

Under the SMS Consulting brand, the Group offers a range of value added management and technology related business services including:

- > Business Performance Improvement
- > Business Process Management
- > Customer Relationship Management
- > Information and Data Management
- > Infrastructure Consulting and Managed Services
- > Operational Learning and Change
- > Program and Project Services
- > Systems Integration.

Under the M&T Resources brand, the Group offers:

- > Recruitment and Contract Labour (predominantly in the Information Technology ("IT") sector).

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

OPERATING AND FINANCIAL REVIEW

Review of operations

SMS provides a broad range of IT and business consultancy and contracting services to assist clients improve their use of people, processes and technology. Over the past 27 years, SMS has expanded across Australia and Asia-Pacific, with regional offices in Hong Kong, Singapore and Vietnam.

The business operates as two segments:

- > SMS Consulting, representing a range of specialised consulting services; and
- > M&T Resources, sourcing contract and permanent candidates to work with corporate clients.

Over many years, SMS has successfully targeted clients investing in growth projects and increased market share. The financial year ended 30 June 2013 saw clients shift from expansionary spending to conservative cost control across a number of key industries, with capital projects deferred as continued economic uncertainty weighed on clients. Demand for contract staff is similarly linked to the volume of capital projects: in the financial year ended 30 June 2013, clients shifted to sourcing labour from alternative, cheaper channels, such as social media, referrals and internal sourcing.

The contraction of the market led to greater price competition. SMS sought to offset the pressure on margins by:

- > continuing to develop its dual-shore development centre in Vietnam as a lower cost solution for Application Development and Systems Integration projects; and
- > the commencement of a graduate program to develop junior talent internally and provide better leverage to the staffing mix in project delivery.

Demand and pipeline during the 2013 financial year was reflective in the sales-to-bill ratio of 1.13:

	2013 \$m
Sales (contracts signed during FY13)	316.0
FY13 revenue from services	279.0

OPERATING AND FINANCIAL REVIEW (continued)

Review of financial results

Revenue from services

	2013 \$m	2012 \$m
SMS Consulting	214.6	262.5
M&T Resources	63.9	73.0
Total revenue from services	278.5	335.5

SMS Consulting

Revenue is driven by a number of factors, including:

- > the number of billable projects SMS Consulting is engaged on;
- > the number of full-time equivalent ("FTE") client-facing staff;
- > the utilisation of client-facing staff on billable projects; and
- > the pricing of consulting projects.

Continued economic uncertainty saw clients defer capital projects during the 2013 financial year, leading to a contraction in demand for consulting services. In response, SMS Consulting adjusted recruitment activities to match market conditions, reducing billable FTEs by 134 through natural attrition and selected retrenchment.

Soft market conditions further impacted billable utilisation, declining from 87% (2012) to 83% in the 2013 financial year. As the market contracted, price competition increased, with service providers discounting to maintain market share.

The revenue decline was spread across a number of industries in which SMS Consulting operates. Australian revenue was primarily impacted by clients in Resources, Information and Communications Technology ("ICT"), and Federal Government; Asian revenue was affected by a Transport client seeking to reduce costs.

M&T Resources

Revenue arises from commission earned upon the placement of contract and permanent IT staff. Economic uncertainty impacted M&T Resources revenue, with a weakening of market demand to recruit contract staff.

Revenue was impacted by the loss in the previous financial year of a significant ICT contract due to supplier rationalisation, and by clients shifting labour sourcing to lower cost channels, such as social media, referrals and internal recruitment.

OPERATING AND FINANCIAL REVIEW (continued)

Profit

	2013 \$m	2012 \$m
SMS Consulting	37.3	52.2
M&T Resources	2.7	4.3
Segment EBITDA*	40.0	56.5
Other income	1.3	0.4
Corporate expenses	(11.8)	(12.6)
Consolidated EBITDA*	29.5	44.3
Interest and depreciation	(0.1)	(0.8)
Income tax expense	(8.3)	(12.9)
Net profit after tax	21.1	30.6

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

SMS Consulting EBITDA

SMS Consulting EBITDA during the year was primarily impacted by lower client demand and utilisation of billable consultants, together with market pressure on project pricing.

The largest expense borne by SMS Consulting is employee costs, reflecting a fixed cost base of salaried, billable consultants. Consequently, lower client demand has impacted EBITDA.

SMS Consulting offset part of the impact of lower demand and pricing pressure by reducing the number of FTE billable resources during the year from 1,127 to 993. Employee costs were further reduced through a shift in the employee mix, with an increased use of lower-cost labour from the Vietnam dual-shore development centre.

Lower client demand, billable FTEs and utilisation reduced EBITDA for the year by \$18.8m, whilst pricing pressure reduced EBITDA by \$5.5m.

Cost savings were achieved during the year through a pull-back in discretionary expenditure and savings in administration and operating costs, including non-billable FTEs. These initiatives were partially offset by termination payments for redundancies.

The net impact of these cost initiatives reduced operating expenditure by \$9.4m.

M&T Resources EBITDA

The largest expense borne by M&T Resources is contract labour costs. The majority of these costs relate to billable contractors, temporarily deployed to clients as needed, resulting in a more variable cost base than SMS Consulting. Reduced revenue led to a decrease in EBITDA of \$1.4m, whilst pricing pressure decreased EBITDA by \$0.6m.

M&T Resources offset the impact of lower demand and pricing pressure by reducing the number of contract labour resources from 364 to 320 over the 2013 financial year.

A decrease in administration and operating costs during the year delivered \$0.4m in EBITDA savings.

Other income

Results for the 2013 financial year include a \$0.9m gain on the re-measurement of deferred consideration provided for in previous financial years upon the acquisition of Renewtek, and a \$0.4m gain on the sale of other assets.

Corporate expenses

Corporate expenses relate to the employee costs for management and administrative staff including executive, finance, HR, and IT functions.

Corporate expense savings were achieved during the year through a reduction in both FTEs and discretionary expenditure and amounted to \$0.8m.

OPERATING AND FINANCIAL REVIEW (continued)

Cash flow and financial position

	2013 \$m	2012 \$m
EBITDA	29.5	44.3
Change in working capital	9.6	2.5
Tax paid	(9.7)	(13.2)
Other	0.9	1.8
Net operating cash flow	30.3	35.4
Capital expenditure and dividend payments	(22.1)	(20.9)
Deferred consideration payments	(2.0)	(9.7)
Other	0.8	0.3
Net cash flow	7.0	5.1

During the year, cash increased by \$7.0m to \$37.0m at 30 June 2013, driven mainly by two factors:

- > Tighter working capital management – a focus on increased frequency of billing clients to reduce work in progress and improved collection of receivables generated an additional \$9.6m of cash.
- > Decreased deferred consideration payments – one cash payment of \$2.0m was made in the 2013 financial year as deferred consideration relating to a previous business acquisition.

	2013 \$m	2012 \$m
Cash	37.0	30.0
Trade receivables and work in progress	45.1	61.2
Debt	–	–
Debtor days	30	32
Lock-up days (WIP plus debtor days)	59	65

The balance sheet predominantly consists of cash, working capital (receivables, work in progress and payables), and intangible assets that have arisen from previous acquisitions.

Trade receivables and work in progress were lower at 30 June 2013 due to reduced revenue, and the impact of tighter working capital management was reflected in the improvement in both debtor days and lock-up days.

Capital management

SMS seeks to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Group defines as the profit attributable to ordinary equity holders divided by average shareholders' equity.

SMS has declared a fully franked final dividend of 12.0 cents per share taking the full year dividends to 25.5 cents per share. The Company's ability to pay a dividend is underpinned by strong cash generation and a balance sheet which is debt free.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

OPERATING AND FINANCIAL REVIEW (continued)

Strategy

SMS' goal is to become the premier IT and management consulting partner to Australian corporations in the Asia Pacific region. Achieving this consists of three strategic elements:

- > Improve the business through the organic growth of specialised service offerings and pursuing operational excellence.
- > Extend the business by addressing key market themes with new offerings and leveraging geographical breadth and service capability to deliver large-scale projects.
- > Transform the business through acquisitions of service providers to capture high-growth sectors of the market that SMS is not servicing.

This strategy has been applied during the financial year ended 30 June 2013 and is expected to continue through the next financial year and beyond.

Improve the business

Organic growth through specialised service offerings

SMS provides a broad range of services that have evolved either organically (through development of capability in-house) or inorganically, by acquisition of service providers that offer unique skill-sets demanded by the market.

Organic growth is achieved by developing specialised service offerings that offer deep industry expertise and unique technical capability. In providing niche skills, SMS is able to protect margins and capture industry spend from larger service providers by being more agile in responding to client demand.

Pursue operational excellence

Operational excellence involves reducing business costs and investing in talent to enable price competition, whilst preserving margins and delivery quality.

SMS views the growth and development of staff as critically important to the future success of the business. Professional development focuses on continuous learning and on-the-job development experiences from the work undertaken for clients.

Examples of how SMS pursued operational excellence during the 2013 financial year include:

- > the use of cost-effective and skilled labour from its dual-shore development facility in Vietnam; and
- > the launch of a graduate recruitment program. Through better utilisation of junior staff, SMS seeks improved operational leverage in the delivery of projects.

Cost reduction is expected to remain a key focus of the business during the next financial year.

Extend the business

Address key market themes with new services and products

During the financial year ended 30 June 2013, SMS identified a number of trends in the market and from clients, including:

- > **Customer** – more than ever, customers expect a higher level of service from organisations, tailored to their needs, at a lower price point. SMS assists clients with end-to-end capability to improve the customer experience.
- > **Mobility** – with the growth of mobile devices, customers and employees expect to interact with organisations on any device from anywhere. SMS assists clients to develop infrastructure and services to enable a mobile workforce.
- > **Digital transformation** – digital channels have matured over the 2013 financial year, with lower costs enabling newer, more nimble competition to enter the market. SMS assists clients to maximise opportunities presented by digital channels.
- > **Efficiency** – organisations are seeking to maintain margins and remain sensitive to costs. SMS is helping clients to enhance the operational efficiency of their IT and business infrastructure.
- > **Business innovation** – organisations and their legacy systems are not lean enough to respond quickly to today's very competitive business environment. SMS assists clients to create an innovative culture in the workplace to deliver at a lower cost.

SMS has evolved traditional capability in Consulting, Systems Integration and Managed Services, and leveraged technology partners in software and infrastructure to address these key market themes with new offerings.

OPERATING AND FINANCIAL REVIEW (continued)

Leverage geographical breadth and service capability to deliver large-scale projects

The IT and business consulting markets consist of both global consulting firms, catering for large outsourcing arrangements, and smaller, local providers of niche solutions. SMS is positioned between these two extremes, with the scale to address complex projects, yet maintaining the flexibility and responsiveness of the smaller providers. In competing with the larger providers, SMS differentiates itself by focusing on high value-add services, and ensuring the delivery quality which the business has become known for is maintained.

Recent acquisitions, coupled with organic growth across Australia and Asia Pacific, enable SMS to target bigger projects and compete against larger, commodity players. A number of Systems Integration projects of this nature were undertaken in Australia and Singapore during the financial year ended 30 June 2013.

Transform the business

Acquire businesses focused on customer, capability or geographic expansion

SMS has made a number of acquisitions over recent years, as opportunities have emerged to complement existing services with specialised capability.

IT outsourcing has not been historically of interest to SMS. Recent evolution and uptake of cloud services in the market has allowed for competition with traditional Managed Services providers, without the need for investment in data centres.

The acquisition of Indicium in July 2013 added capability in Business Cloud and Infrastructure Management to SMS' service offerings. SMS intends to pull through on the increasing volume of System Integration work undertaken during the financial year ended 30 June 2013 to deliver Managed Services to the same clients. This additional work is anticipated to be annuity-based, providing greater revenue security.

Acquisition opportunities will continue to be considered, provided they augment existing capability and are earnings per share ("EPS") accretive.

Risk

SMS has a number of policies in relation to its audit and risk management responsibilities, as well as related internal compliance and control systems. Procedures exist to monitor risk, with ultimate reporting to the Board, through the Audit, Risk & Compliance Committee for financial and business risk and the CEO for operational risk.

There are a range of specific risks that have the potential to have an adverse impact on SMS' business:

- > **Financial risk:** the Board has adopted a number of financial risk strategies and policies to address market price risk, liquidity risk, credit risk and funding risk.
- > **Business risk:** a range of policies and procedures deal with specific business risks, including delegation of authority, capital investment processes, corporate conduct, and litigation reporting.
- > **Operational risk:** policies for operational risk include health, safety and environment, asset protection and operational security, information technology and insurance.

SMS maintains a risk register, which is reviewed and updated twice a year for changes in the nature of the risk, mitigating controls and risk rating. The register separately identifies risks as strategic, human resources, operational, legal & regulatory, and financial, with relevant business owners assigned to ensure continuous management and monitoring of the risk.

A risk rating between 'low' and 'high' is assigned to each risk on the risk register. Risks classified as high reflect the material risks faced by SMS that are likely to have an effect on the financial prospects of the Company, and highlight the critical factors on which the achievement of our business strategies depend.

The material risks faced by SMS and how the Company manages these include:

- > **Staff retention** – staff turnover may increase due to salary pressure, leadership, success of the company and career progression opportunities. SMS consultants are the front line of project delivery, and maintaining and developing client relationships.

OPERATING AND FINANCIAL REVIEW (continued)

Failure to retain staff may impair relationships with clients, leading to a loss of key contracts; the ability to deliver specialised consulting advice may be impacted if staff with unique skill-sets resign.

The risk is addressed by investing in a strong value proposition for employees, which includes the provision of technical and soft skill training for staff, career planning, a performance management system, attractive remuneration and benefits.

The risk is ongoing and expected to remain high in the next financial year.

- > **Delivery failure and/or the loss of key clients** – the risk of poor delivery of a project against contract requirements, with the potential loss of contract or client, and reputational damage.

The risk is addressed by investing time in maintaining relationships with clients, ensuring appropriate resources are allocated to each project, performing quality assurance reviews on the work being delivered, and ensuring proposals are subject to governance reviews.

The risk is expected to increase in the next financial year as SMS extends the business into larger-scale projects.

- > **Economic downturn** – global or localised downturn in economic conditions may lead to clients suspending, deferring or terminating contracts, as has been experienced in the 2013 financial year.

The risk is partially mitigated as the workforce can be reduced through attrition and selective retrenchment, and exposure is limited in industries such as retail and manufacturing that have been impacted most by the downturn. SMS is also seeking to grow its multi-year, annuity revenue as evidenced by the recent acquisition of Indicium.

The risk is expected to remain high in the next financial year due to continuing economic uncertainty.

SMS designs operational processes to be environmentally sustainable through the use of energy efficient offices, recycling and waste management. SMS will continue to evaluate opportunities to adopt further environmentally sustainable initiatives in the next financial year and beyond.

Outlook

The economic uncertainty that led to reduced business activity during the 2013 financial year is set to continue into the 2014 financial year, with clients expected to maintain their focus on cost control.

The second half of the 2014 financial year and beyond may see a resurgence in business activity and deliver improved financial results, but this is dependent on the level of contract wins during the first half of the 2014 financial year.

SMS understands that clients have new initiatives in the pipeline, and a number of project opportunities identified indicate a stronger performance in the Financial Services, ICT, Transport and Utilities sectors for the 2014 financial year.

SMS has maintained a debt-free balance sheet with \$37.0m of cash at 30 June 2013, providing capacity to pursue EPS accretive acquisitions, should opportunities present themselves.

SMS will continue to invest in growing the business organically, with targeted recruitment to address specific skill needs. More broadly, SMS will seek to improve the billable utilisation of consultants.

SMS is well-positioned to benefit once economic sentiment improves and client demand picks up, due to the operational leverage of our consulting resources.

LIKELY DEVELOPMENTS

Likely developments in the operations of the Group are covered generally in the Operating and Financial Review section of this report as set out on pages 39 to 45.

EVENTS SUBSEQUENT TO REPORTING DATE

On 4 July 2013, SMS Consulting Group Limited, a controlled entity, acquired 100% of the shares in Indicium Technology Group Pty Ltd and 100% of the units in Access Networks and Communications Unit Trust (together "Indicium") for \$22,000,000. Indicium is a managed services provider, specialising in Business Cloud and Infrastructure Management solutions for the corporate market.

The purchase consideration is subject to earn-out arrangements over a two-year period and is comprised of:

- > An up-front payment of \$9,680,000 in cash and \$2,420,000 in shares;
- > A second payment of \$4,400,000 (due in September 2014), being the contingent amount of the purchase price to be paid after meeting expected earnings before interest and tax ("EBIT") targets for the financial year ending 30 June 2014;

- > A third payment of \$5,500,000 (due in September 2015), being the contingent amount of the purchase price to be paid after meeting expected EBIT targets for the financial year ending 30 June 2015.

The vendors of Indicium may be entitled to payments over and above the amounts stated above should EBIT targets for the financial years ending 30 June 2014 and 30 June 2015 be exceeded.

Other than the acquisition of Indicium, no matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

DIVIDENDS

Declared and paid during the year

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

Type	Cents per share	Amount \$'000	Franked/unfranked	Date of payment
Final 2012 ordinary	17.0	11,713	Fully franked	26 Oct 2012
Interim 2013 ordinary	13.5	9,366	Fully franked	28 Mar 2013

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

Declared after the end of the year

On 21 August 2013, the directors declared the payment of a final 2013 ordinary (fully franked) dividend of 12.0 cents per share (\$8,390,384) to be paid on 25 October 2013.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2013 and will be recognised in subsequent financial statements.

CORPORATE GOVERNANCE STATEMENT

The Company supports the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles"). The Company complies with all of the ASX Principles.

Further information on the Company's corporate governance policies and practices can be found under the 'Investors' – 'Corporate Governance' section of the Company's website at www.smsmt.com.

Principle 1: Lay solid foundations for management and oversight

The Board has adopted a Charter that sets out, among other things, its specific powers and responsibilities and the matters delegated to the CEO and those reserved to the Board. Information regarding the Charter is available on the Company's website.

As part of the Board's oversight of senior management, all Company executives are subject to annual performance reviews and planning. Each executive is assessed against a range of criteria including financial goals, completion of key performance measures and adherence to the Company's values.

Principle 2: Structure the Board to add value

The Board is structured to bring a range of skills, experience, expertise and diversity to the Company.

Pages 36 and 37 of this report set out the qualifications, expertise, experience and period of office of each director as at the date of this report.

As required under the Board's Charter and the ASX Principles, the Board comprises a majority of independent non-executive directors. In determining whether a director is independent or otherwise, the Board considers the matters set out in its Charter, as summarised on pages 48 to 50 of this report.

The Board carries out a number of its duties and responsibilities through the Remuneration and Nominations Committee and the Audit, Risk and Compliance Committee. Details of the Remuneration and Nominations Committee are set out on pages 50 and 51, and the Audit, Risk and Compliance Committee on pages 60 and 61 of this report.

Principle 3: Promote ethical and responsible decision making

The Company considers its reputation one of its most valuable assets, founded largely on the ethical behaviour of its people.

The Board has approved a Code of Conduct that sets out principles of ethical behaviour for all Group personnel. Information relating to the Code of Conduct is available on the Company's website.

The Board has established a Share Trading Policy which governs dealing in the Company's shares. Information relating to this policy is available on the Company's website.

In addition, the Board has established a Diversity Policy overseen by the Diversity Working Group to ensure the Company has and retains a culture of inclusion. Details are contained on pages 64 and 65 of this report.

Principle 4: Safeguard integrity in financial reporting

The Board has established an Audit, Risk and Compliance Committee which assists the Board in the effective discharge of its responsibilities for financial reporting, internal controls, risk management, external audit and insurance (with the exception of directors' and officers' insurance). Information on the Company's approach to audit, risk and compliance is set out on the Company's website.

The composition and structure of the Audit, Risk and Compliance Committee comply with the ASX Principles.

The members of the Audit, Risk and Compliance Committee are set out on page 60 of this report and their attendance at meetings of the Committee is set out on page 38 of this report.

Principle 5: Make timely and balanced disclosure

The Company is subject to continuous disclosure obligations under the ASX Listing Rules and the Corporations Act 2001. Subject to limited exceptions, the Company must immediately notify the market, through the ASX, of any information that a reasonable person would expect to have a material effect on the price or value of its securities. To this end, the Company has a Continuous Disclosure Policy, details of which can be found on its website.

CORPORATE GOVERNANCE STATEMENT (continued)

Principle 6: Respect the rights of shareholders

Respecting the rights of shareholders is of fundamental importance to the Company and a key element of this is how the Company communicates with its shareholders. To this end, the Company recognises that shareholders must receive relevant information in a timely manner in order to be able to properly and effectively exercise their rights as shareholders. Information regarding the Company's Communications Statement is available on its website.

Principle 7: Recognise and manage risk

The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks and management has reported that those risks are being managed effectively.

For the annual and half year results, the CEO and CFO have provided a written declaration to the Board that the Company's financial records have been properly maintained, and that the Company's financial report gives a true and fair view of the Company's financial position and performance and complies with Australian Accounting Standards ("AASBs").

Principle 8: Remunerate fairly and responsibly

The Remuneration Report (on pages 51 to 60 of this report) sets out details of the Company's policy and practices for remunerating directors and executives.

The members of the Remuneration and Nominations Committee are set out on page 50 of this report, and their attendance at meetings of the Committee is set out on page 38 of this report.

Information relating to the Remuneration and Nominations Committee and the Company's policy on share trading in relation to shares or equity-based products are available on the Company's website.

ELECTION OF DIRECTORS

Article 47 of the Company's Constitution requires that a director must retire from office no later than the longer of the third Annual General Meeting of the Company, or three years, following that director's last election or appointment. Therefore, Mr Kerry Smith will retire at the 2013 Annual General Meeting of the Company and is eligible for re-election.

BOARD OF DIRECTORS

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal controls, legal compliance and management information systems.

The Board is also responsible for approving and monitoring financial and other reporting. Details of the Board's Charter are located on the Company's website.

The Board has delegated responsibility for operation and administration of the Group to the CEO and executive management. Responsibilities are defined by formal authority delegations.

Board processes

To assist in the execution of its responsibilities, the Board has established a Remuneration and Nominations Committee and an Audit, Risk and Compliance Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The Board has also established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

BOARD OF DIRECTORS (continued)

The Board currently holds eleven scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, CEO, CFO and Company Secretaries. Standing items include the CEO's report, CFO's report, operational report, strategic matters and governance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to Group offices, for contact with a wider group of employees.

Director and executive education

The Group has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy, the culture and values of the Group, and the expectations of the Group concerning performance of directors. In addition, directors are also educated regarding meeting arrangements and director interaction with each other, executives and other stakeholders. Directors have the opportunity to visit Group offices and meet with management to gain a better understanding of business operations.

The Group has a formal process to educate new executives upon taking up such positions. The induction program includes reviewing the Group's structure, strategy, operations and financial position. It familiarises the individual with the respective rights, duties, responsibilities and roles of the individual, executive management and the Board.

Independent professional advice and access to Company information

Each director has the right of access to all relevant Group information and to the Group's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an adviser suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation.

A copy of the advice received by the director is made available to all other members of the Board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out on pages 36 and 37.

The composition of the Board is determined using the following principles:

- > a minimum of three directors, with a broad range of expertise both nationally and internationally;
- > a majority of non-executive directors;
- > a non-executive independent director is appointed as Chairperson;
- > a majority of directors having extensive knowledge of the Group's industries, and those who do not, having extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies;
- > enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities; and
- > a maximum period of three years' service, subject to re-election every three years (except for the CEO).

The Board considers the mix of skills and the diversity of Board members when assessing the composition of the Board. The Board assesses existing and potential directors' skills to ensure they have appropriate industry expertise in the Group's operating segments.

The Board considers the diversity of existing and potential directors to ensure they are in line with the geographical and operational segments of the Group. The Board's policy is to seek a diverse range of directors who have a range of ages, genders and ethnicity which mirrors the environment in which the Group operates.

BOARD OF DIRECTORS (continued)

An independent director is a director who is not a member of management (a non-executive director) and who:

- > holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company;
- > within the past three years has not been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment;
- > within the past three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another Group member;
- > is not a material* supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer;
- > has no material* contractual relationship with the Company or another Group member other than as a director of the Company; and
- > is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the director's ability to act in the best interests of the Company.

* The Board considers 'material' in this context, where any director-related business relationship has represented, or is likely in the future to represent, the lesser of at least ten per cent of the relevant segments or the director-related business' revenue. The Board considered the nature of the relevant industries' competition, and the size and nature of each director-related business relationship, in arriving at this threshold.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee oversees the appointment and induction process for directors and Committee members, and the selection, appointment and succession planning process of the Company's CEO. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee, and in turn, the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates with advice from an external consultant. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The Committee reviews and makes recommendations to the Board on remuneration and policies applicable to the directors, CEO and executives. It is also responsible for share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The Committee conducts an annual review of the performance of the CEO and the executives reporting directly to the CEO and the results of the review are discussed at a Board meeting.

The Committee comprised the following members during the year, all of whom were non-executive directors:

Laurence Cox (Chairman)
Bruce Thompson
Nicole Birrell
Kerry Smith
Derek Young (appointed to the Committee on 24 July 2012).

The Board policy is that the Committee will only comprise independent non-executive directors. The CEO and the Director, Human Resources, are invited to the Committee meetings, as required, to discuss executives' performance and remuneration, but are not in attendance when matters pertaining to themselves are discussed.

REMUNERATION AND NOMINATIONS COMMITTEE (continued)

The Committee met three times during the year and Committee members' attendance record is disclosed in the table of directors' meetings, on page 38 of this report. The terms and conditions of the appointment and retirement of non-executive directors are set out in a letter of appointment. This includes expectations of attendance and preparation for all Board meetings, minimum hourly commitment, appointments to other boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

A summary of the Committee's role and responsibilities is available on the Company's website.

REMUNERATION REPORT – AUDITED

Remuneration policies

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

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

- > the capability and experience of the directors and executives;
- > the directors' and executives' ability to control the relevant business units' performance;
- > the Group's performance including:
 - Group earnings;
 - growth in the share price and in shareholder wealth; and
- > the component of incentives within the CEO's and each executive's remuneration.

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

Fixed remuneration

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

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

Performance linked remuneration

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

The short-term incentive ("STI") is an 'at risk' bonus provided in the form of cash, while the long-term incentive ("LTI") is provided as performance rights over the ordinary shares of the Company under the rules of the 2009 Executive Performance Rights Plan (the "2009 Plan"), 2010 Executive Performance Rights Plan (the "2010 Plan"), 2011 Executive Performance Rights Plan (the "2011 Plan"), and 2012 Executive Performance Rights Plan (the "2012 Plan").

Short-term incentive ("STI")

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

REMUNERATION REPORT – AUDITED (continued)

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

At the end of the financial year, the Remuneration and Nominations Committee assesses the actual performance of the Group, the relevant region and/or business unit and the individual against the KPIs as set at the beginning of the financial year. A percentage of the predetermined maximum amount is awarded depending on the results.

This method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. The Remuneration and Nominations Committee recommends the quantum of the STI to be paid to the individuals for approval by the Board.

Long-term incentive ("LTI")

2009 Executive Performance Rights Plan

50% of performance rights granted to executives under the 2009 Plan were based on a relative total shareholder return ("TSR") performance hurdle and the other 50% were based on a relative EPS performance hurdle. On 1 July 2012, 72% of the TSR performance rights and 100% of the EPS performance rights vested and converted to shares, following the end of the three-year performance period.

2010, 2011 and 2012 Executive Performance Rights Plans

In July 2010, the Company introduced the 2010 Plan which provided for the CEO and executives to receive grants of performance rights over ordinary shares, granted for nil consideration. The performance rights are exercisable subject to a three year performance period and the satisfaction of set performance criteria during that period.

For the 2010 Plan, one tranche, equal to 50% of the total performance rights granted, is based on a relative TSR performance hurdle which takes into account share price appreciation plus reinvested dividends, expressed as a percentage of investment and adjusted for changes in the Company's capital structure. A second tranche, equal to 50% of the total performance rights granted, is based on a relative EPS performance hurdle.

In order for each separate grant of performance rights to vest and convert to shares, the Company's performance over the three year performance period with respect to the relevant performance hurdle must be at or above the 50th percentile when ranked relative to the performance of companies in a peer group consisting of 15 comparator companies ("comparator group").

Between the 50th percentile and 75th percentile, performance rights will vest on a linear basis from 50% of award to 100% of award, and 100% of the performance rights will vest at the 75th percentile or higher. Similar plans were introduced in July 2011 (the 2011 Plan) and July 2012 (the 2012 Plan), both with peer groups comprising 15 comparator companies.

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

REMUNERATION REPORT – AUDITED (continued)

Consequences of performance on shareholders' wealth

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

Measure	2013	2012	2011	2010	2009
EBITDA	\$29.5m	\$44.3m	\$42.2m	\$38.1m	\$33.2m
Profit for the year	\$21.1m	\$30.6m	\$29.8m	\$27.9m	\$24.3m
Dividends declared (fully franked)	25.5c	30.5c	30.0c	29.0c	25.0c
Change in share price	(\$0.59)	(\$1.16)	\$0.34	\$2.06	\$0.21
Basic earnings per share	30.6c	44.8c	44.3c	41.9c	36.7c

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

The remuneration structure in place is considered to be generating the desired outcomes over recent years. Until this financial year, growth has led to STI's and LTI's vesting on average at a high proportion. This year, STI financial performance criteria were not met, whilst LTI's relating to the 2009 Plan partially vested.

Other performance related benefits

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

Service agreements and contract details

It is the Group's policy that contracts of employment for the CEO and executives be unlimited in term but capable of termination on either one month's or three months' notice and that the Group retain the right to terminate the contract immediately, by making payment equal to one month's or three months' pay in lieu of notice.

The terms of engagement for Mr Thomas Stianos (CEO) include a payout of 12 months' base remuneration if it is due to redundancy as a result of a corporate reorganisation/restructure.

Non-executive directors

Total remuneration for all the non-executive directors, last voted on at a general meeting of the Company on 23 October 2012, is not to exceed \$750,000 per annum. A non-executive director's total remuneration is \$84,500 per annum following a directors' resolution passed on 24 July 2012, with effect from 1 January 2012. The Chairman receives twice that amount.

Non-executive directors do not receive performance related remuneration.

REMUNERATION REPORT – AUDITED (continued)

Directors' and executives' remuneration

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

Directors	Year	Short-term remuneration			Post-employment
		Base remuneration	STI cash bonus (i)	Leave entitlements	Superannuation contribution
		\$	\$	\$	\$
Non-Executive					
Laurence Cox	2013	158,716	–	–	14,284
Chairman	2012	151,560	–	–	13,640
Bruce Thompson	2013	79,358	–	–	7,142
	2012	75,780	–	–	6,820
Nicole Birrell	2013	79,358	–	–	7,142
	2012	75,780	–	–	6,820
Kerry Smith	2013	79,358	–	–	7,142
	2012	75,780	–	–	6,820
Derek Young	2013	79,358	–	–	7,142
(Appointed 22 November 2011)	2012	43,081	–	–	3,877
Executive					
Thomas Stianos	2013	625,815	–	56,859	24,333
CEO	2012	575,000	240,000	721	49,852
Total all directors	2013	1,101,963	–	56,859	67,185
	2012	996,981	240,000	721	87,829
Executives					
Rick Rostolis	2013	326,867	–	4,131	24,333
CFO	2012	291,200	35,000	3,682	25,000
Graham Lanphier (v)	2013	193,994	–	(11,664)	28,553
Managing Director, SMS Consulting (Ceased employment 11 February 2013)	2012	313,127	40,000	14,493	28,073
Chris Sandham	2013	230,558	–	(5,234)	20,642
Managing Director, M&T Resources	2012	234,420	8,000	(2,599)	16,456
Shaneen Argall	2013	203,535	–	4,659	18,260
Director, Human Resources	2012	202,259	40,000	506	18,095
David Moodie	2013	253,494	–	4,502	22,706
Director, Clients & Markets (Appointed to KMP role 1 January 2012)	2012	119,866	15,000	1,971	10,734
Total all named executives	2013	1,208,448	–	(3,606)	114,494
	2012	1,160,872	138,000	18,053	98,358
Total remuneration	2013	2,310,411	–	53,253	181,679
	2012	2,157,853	378,000	18,774	186,187

REMUNERATION REPORT – AUDITED (continued)

Other long-term	Termination benefits	Equity remuneration		Total (iii) (iv)	Proportion of remuneration performance related	Value of equity remuneration as proportion of remuneration
Leave entitlements		Value of performance rights (ii)				
\$	\$	\$		\$	%	%
–	–	–		173,000	–	–
–	–	–		165,200	–	–
–	–	–		86,500	–	–
–	–	–		82,600	–	–
–	–	–		86,500	–	–
–	–	–		82,600	–	–
–	–	–		86,500	–	–
–	–	–		82,600	–	–
–	–	–		86,500	–	–
–	–	–		46,958	–	–
(10,385)	–	319,376		1,015,998	31.4%	31.4%
14,199	–	290,963		1,170,735	45.4%	24.9%
(10,385)	–	319,376		1,534,998		
14,199	–	290,963		1,630,693		
–	–	54,802		410,133	13.4%	13.4%
–	–	31,356		386,238	17.2%	8.1%
7,165	250,000	(29,788)		438,260	(6.8%)	(6.8%)
11,063	–	80,567		487,323	24.7%	16.5%
648	–	67,496		314,110	21.5%	21.5%
–	–	44,050		300,327	17.3%	14.7%
999	–	63,950		291,403	21.9%	21.9%
597	–	60,425		321,882	31.2%	18.8%
6,713	–	68,450		355,865	19.2%	19.2%
9,441	–	32,462		189,474	25.0%	17.1%
15,525	250,000	224,910		1,809,771		
21,101	–	248,860		1,685,244		
5,140	250,000	544,286		3,344,769		
35,300	–	539,823		3,315,937		

REMUNERATION REPORT – AUDITED (continued)

Notes in relation to the table of directors' and executives' remuneration

- (i) The STI cash bonus is for performance using the criteria set out on pages 51 and 52. No STI cash bonuses were paid or are payable for the 2013 financial year.
- (ii) The fair value of performance rights granted under the 2010 Plan, the 2011 Plan and the 2012 Plan with a TSR performance hurdle was calculated at the date of grant using a Monte Carlo Simulation. The fair value of performance rights granted under the 2010 Plan, the 2011 Plan and the 2012 Plan with an EPS performance hurdle was calculated at the date of grant using a closed form Black Scholes valuation model. The fair values are allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the performance rights allocated to this reporting period. In valuing performance rights at grant date, market conditions have been taken into account.
- (iii) Directors' and officers' insurance premiums are not included within total remuneration in this table, as disclosure of premiums paid is prohibited under the terms of the insurance contract.
- (iv) The amounts of \$173,000 and \$86,500 for the Chairman and Non-Executive Directors respectively take into account the resolution passed on 24 July 2012 to increase total remuneration with effect from 1 January 2012.
- (v) On departure, Mr Graham Lanphier was paid out \$48,079 of annual leave and \$73,570 of long service leave, provided for in previous years.

STI cash bonus

Analysis of STI included in remuneration

Details of the percentage of the available STI that was expensed in the 2013 financial year for each KMP, and the percentage that was forfeited because the financial performance criteria were not met, are set out below. Non-executive directors do not participate in the STI scheme.

KMP	Short-term incentive		
	Included in remuneration \$	Achieved in year	Forfeited in year
Thomas Stianos	–	–	100%
Rick Rostolis	–	–	100%
Graham Lanphier	–	–	100%
Chris Sandham	–	–	100%
Shaneen Argall	–	–	100%
David Moodie	–	–	100%

Equity remuneration

Determination of fair value

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

Grant date	Expiry date	Fair value per performance right	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
01 Jul 10 (i)	n/a	\$3.02	–	\$5.88	50%	4.41%	4.90%
01 Jul 10 (ii)	n/a	\$5.09	–	\$5.88	50%	4.41%	4.90%
01 Jul 11 (i)	n/a	\$3.08	–	\$6.24	47%	4.73%	4.94%
01 Jul 11 (ii)	n/a	\$5.26	–	\$6.24	47%	4.73%	4.94%
01 Jul 12 (i)	n/a	\$2.91	–	\$5.06	31%	3.28%	5.82%
01 Jul 12 (ii)	n/a	\$4.25	–	\$5.06	31%	3.28%	5.82%

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

Each performance right entitles the holder to acquire one ordinary share in the Company. The performance rights granted under the 2010 Plan, the 2011 Plan and the 2012 Plan are subject to specified performance criteria of at least the 50th percentile (and reaching the 75th percentile to fully vest) for each of the two separate TSR and EPS grants, as well as a performance period of three years ending on 1 July 2013, 1 July 2014 and 1 July 2015 respectively, unless vested earlier at the Board's discretion. All performance rights expire on the termination of the individual's employment.

REMUNERATION REPORT – AUDITED (continued)

Performance rights over equity instruments granted as remuneration

Details of performance rights over ordinary shares in the Company that were granted as remuneration and vested to each KMP during the reporting period are set out in the following table. The performance rights were provided at no cost to the recipients and have a nil exercise price.

All performance rights vest three years from grant date subject to performance criteria being met and expire on the termination of the individual's employment. Details of the performance criteria are included in the LTI section on page 52 of this report.

There have been no modifications to the terms of equity-settled share-based payment transactions during the financial year.

	Granted during 2013	Grant date	Vested during 2013	Fair value per performance right at grant date	Expiry date
Directors					
Thomas Stianos	49,116	01 Jul 12	–	\$2.91	–
	49,116	01 Jul 12	–	\$4.25	–
Executives					
Rick Rostolis	9,824	01 Jul 12	–	\$2.91	–
	9,823	01 Jul 12	–	\$4.25	–
Graham Lanphier (i)	13,753	01 Jul 12	–	\$2.91	–
	13,752	01 Jul 12	–	\$4.25	–
Chris Sandham	9,824	01 Jul 12	–	\$2.91	–
	9,823	01 Jul 12	–	\$4.25	–
Shaneen Argall	9,824	01 Jul 12	–	\$2.91	–
	9,823	01 Jul 12	–	\$4.25	–
David Moodie	9,824	01 Jul 12	–	\$2.91	–
	9,823	01 Jul 12	–	\$4.25	–

	Granted during 2012	Grant date	Vested during 2013	Fair value per performance right at grant date	Expiry date
Directors					
Thomas Stianos	39,809	01 Jul 11	–	\$3.08	–
	39,809	01 Jul 11	–	\$5.26	–
Executives					
Rick Rostolis	7,166	01 Jul 11	–	\$3.08	–
	7,166	01 Jul 11	–	\$5.26	–
Graham Lanphier (i)	9,555	01 Jul 11	–	\$3.08	–
	9,554	01 Jul 11	–	\$5.26	–
Chris Sandham	7,962	01 Jul 11	–	\$3.08	–
	7,962	01 Jul 11	–	\$5.26	–
Shaneen Argall	7,166	01 Jul 11	–	\$3.08	–
	7,166	01 Jul 11	–	\$5.26	–
David Moodie	7,962	01 Jul 11	–	\$3.08	–
	7,962	01 Jul 11	–	\$5.26	–

(i) Ceased employment 11 February 2013, with 100% of 2012 and 2011 performance rights forfeited and 100% of 2010 performance rights based on a TSR performance hurdle forfeited. On departure, 100% of 2010 performance rights based on a EPS performance hurdle were converted to shares at the discretion of the Board.

REMUNERATION REPORT – AUDITED (continued)

Performance rights over equity instruments granted as remuneration (continued)

	Granted during 2011	Grant date	Vested during 2013	Fair value per performance right at grant date	Expiry date
Directors					
Thomas Stianos	33,841	01 Jul 10	–	\$3.02	–
	33,841	01 Jul 10	–	\$5.09	–
Executives					
Rick Rostolis	4,230	01 Jul 10	–	\$3.02	–
	4,230	01 Jul 10	–	\$5.09	–
Graham Lanphier (i)	10,153	01 Jul 10	–	\$3.02	–
	10,152	01 Jul 10	100%	\$5.09	–
Chris Sandham	8,107	01 Jul 10	–	\$3.02	–
	8,107	01 Jul 10	–	\$5.09	–
Shaneen Argall	7,614	01 Jul 10	–	\$3.02	–
	7,614	01 Jul 10	–	\$5.09	–
David Moodie	8,460	01 Jul 10	–	\$3.02	–
	8,460	01 Jul 10	–	\$5.09	–

	Granted during 2010	Grant date	Vested during 2013	Fair value per performance right at grant date	Expiry date
Directors					
Thomas Stianos	53,500	01 Jul 09	72%	\$1.86	–
	53,500	01 Jul 09	100%	\$3.12	–
Executives					
Graham Lanphier (i)	16,000	01 Jul 09	72%	\$1.86	–
	16,000	01 Jul 09	100%	\$3.12	–
Shaneen Argall	12,000	01 Jul 09	72%	\$1.86	–
	12,000	01 Jul 09	100%	\$3.12	–
David Moodie	12,000	01 Jul 09	72%	\$1.86	–
	12,000	01 Jul 09	100%	\$3.12	–

(i) Ceased employment 11 February 2013, with 100% of 2012 and 2011 performance rights forfeited and 100% of 2010 performance rights based on a TSR performance hurdle forfeited. On departure, 100% of 2010 performance rights based on a EPS performance hurdle were converted to shares at the discretion of the Board.

REMUNERATION REPORT – AUDITED (continued)

Analysis of share-based payments granted as remuneration

The vesting profile of performance rights granted as remuneration to directors and KMPs of the Company is detailed below.

Performance rights granted					
	Number	Date	Vested in year %	Forfeited in year %	Date on which grant vests
Directors					
Thomas Stianos	107,000	01 Jul 09	86%	14%	01 Jul 12
	67,682	01 Jul 10	–	–	01 Jul 13
	79,618	01 Jul 11	–	–	01 Jul 14
	98,232	01 Jul 12	–	–	01 Jul 15
Executives					
Rick Rostolis	8,460	01 Jul 10	–	–	01 Jul 13
	14,332	01 Jul 11	–	–	01 Jul 14
	19,647	01 Jul 12	–	–	01 Jul 15
Graham Lanphier (i)	32,000	01 Jul 09	86%	14%	01 Jul 12
	20,305	01 Jul 10	50%	50%	01 Jul 13
	19,109	01 Jul 11	–	100%	01 Jul 14
	27,505	01 Jul 12	–	100%	01 Jul 15
Chris Sandham	16,214	01 Jul 10	–	–	01 Jul 13
	15,924	01 Jul 11	–	–	01 Jul 14
	19,647	01 Jul 12	–	–	01 Jul 15
Shaneen Argall	24,000	01 Jul 09	86%	14%	01 Jul 12
	15,228	01 Jul 10	–	–	01 Jul 13
	14,332	01 Jul 11	–	–	01 Jul 14
	19,647	01 Jul 12	–	–	01 Jul 15
David Moodie	24,000	01 Jul 09	86%	14%	01 Jul 12
	16,920	01 Jul 10	–	–	01 Jul 13
	15,924	01 Jul 11	–	–	01 Jul 14
	19,647	01 Jul 12	–	–	01 Jul 15

(i) Ceased employment 11 February 2013, with 100% of 2012 and 2011 performance rights forfeited and 100% of 2010 performance rights based on a TSR performance hurdle forfeited. On departure, 100% of 2010 performance rights based on a EPS performance hurdle were converted to shares at the discretion of the Board.

REMUNERATION REPORT – AUDITED (continued)

Analysis of movements in performance rights

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

Value of performance rights			
	Granted in year (i) \$	Vested and exercised in year (ii) \$	Forfeited in year (iii) \$
Directors			
Thomas Stianos	351,671	238,567	27,863
Executives			
Rick Rostolis	70,336	–	–
Graham Lanphier (iv)	98,468	123,011	217,147
Chris Sandham	70,336	–	–
Shaneen Argall	70,336	53,510	6,250
David Moodie	70,336	53,510	6,250

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

(ii) 72% of the TSR performance rights and 100% of the EPS performance rights granted under the 2009 Plan vested during the year based on the performance criteria of the Plan. The value of performance rights vested and exercised in the year is their fair value at grant date. The value relates to performance rights granted in previous financial years.

(iii) The value of performance rights forfeited in the year is their fair value at grant date. The value relates to performance rights granted in previous financial years.

(iv) Ceased employment 11 February 2013, with 100% of 2012 and 2011 performance rights forfeited and 100% of 2010 performance rights based on a TSR performance hurdle forfeited. On departure, 100% of 2010 performance rights based on a EPS performance hurdle were converted to shares at the discretion of the Board.

AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee has a documented Charter, approved by the Board. All members must be non-executive directors with a majority being independent. The Chairman of the Board may not be the Chairman of the Committee. The Committee advises on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the Group. The Committee comprised the following members during the year, all of whom were non-executive directors:

Bruce Thompson (Chairman)
Nicole Birrell
Kerry Smith
Derek Young (appointed to the Committee on 24 July 2012).

The external auditor, the Chairman of the Board, the CEO and CFO are invited to Committee meetings at the discretion of the Committee. The Committee met on two occasions during the year and Committee members' attendance record is disclosed in the table of directors' meetings on page 38 of this report.

The CEO and CFO declared in writing to the Board that the financial records of the Company and the Group for the financial year have been properly maintained and that the Group's financial report for the year ended 30 June 2013 complies with Australian Accounting Standards ("AASBs") and gives a true and fair view of the Group's financial position and performance. This statement is required annually.

A summary of the Committee's role and responsibilities is available on the Company's website together with information on procedures for the selection and appointment of the external auditor, and for the rotation of the external audit engagement partner.

AUDIT, RISK AND COMPLIANCE COMMITTEE (continued)

The responsibilities of the Audit, Risk and Compliance Committee include reporting to the Board on:

- > the annual, half-year and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with AASBs, and assessing whether the financial information is adequate for shareholder needs;
- > managing processes supporting external reporting;
- > corporate risk assessment processes;
- > the performance and objectivity of the internal audit processes where applicable;
- > establishing procedures for selecting, appointing and if necessary removing the external auditor;
- > whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the audit or review;
- > whether the provision of the non-audit services provided by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- > the adequacy of the internal control framework and the Company's code of ethical standards;
- > organising and reviewing special reviews or investigations deemed necessary by the Board;
- > fraud and monitoring prompt and appropriate rectification of any deficiencies or breakdowns;
- > the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- > any matters outstanding with auditors, Australian Taxation Office ("ATO"), Australian Securities and Investments Commission ("ASIC"), ASX and financial institutions.

The Audit, Risk and Compliance Committee reviews the performance of the external auditor on an annual basis and normally meets with them during the year to:

- > discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the

financial statements and to review the fees proposed for the audit work to be performed;

- > review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- > review the half-year and preliminary final report prior to lodgement with the ASX, consider any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- > review the draft financial report and recommend Board approval of the financial report; and
- > organise, review and report on any special reviews or investigations deemed necessary by the Board.

RISK MANAGEMENT

The Board oversees the establishment, implementation and annual review of the Group's risk management system. Management has established and implemented the risk management system for assessing, monitoring and managing all risks including material business risks for the Group (including sustainability risk).

The CEO and CFO have provided assurance in writing to the Board that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively.

Risk profile

The Audit, Risk and Compliance Committee reports the status of material business risks to the Board on an annual basis. Further details of the Group's Risk Management Policy and internal compliance and control system are available on the Company's website.

Each business unit is responsible and accountable for implementing and managing the standards required by the program.

Material business risks for the Group may arise from such matters as actions by competitors, government policy changes, workplace health and safety, property, financial reporting, and the purchase, development and use of information systems.

RISK MANAGEMENT (continued)

Risk management, compliance and control

The Group strives to ensure that its services are of the highest standard. Towards this aim, the Group has gained national accreditation to AS/NZS ISO 9001:2008 Quality Management Systems.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Group's internal compliance and control systems include:

- > operating unit controls – operating/business units confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals;
- > functional speciality reporting – key areas subject to regular reporting to the Board include Finance and IT, Legal, Human Resources and Company Secretarial; and
- > investment appraisal – guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- > capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- > financial exposures are controlled with policies concerning close monitoring of investment activities;
- > workplace health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- > business transactions are properly authorised and executed;
- > the quality and integrity of personnel are maintained; and
- > financial reporting accuracy and compliance with the financial reporting regulatory framework.

Quality and integrity of personnel

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance

reviews create an environment of co-operation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees are available to fill senior positions when retirements or resignations occur.

Financial reporting

The CEO and CFO have provided assurance in writing to the Board that the Group's financial reports are founded on a sound system of risk management and internal compliance and control which applies the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Board and revised forecasts for the year are prepared regularly.

Environmental regulation

The Group has processes in place to explore the ways in which the Group and its employees can control their carbon footprint and environmental impact.

Internal controls

The Board reviews compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above-mentioned compliance and control systems. The Audit, Risk and Compliance Committee is responsible for approving the program of review.

Ethical standards

All directors, executives and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated manager to whom they may refer any issues arising from their employment.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director related party transactions with the Company and Group are set out in Note 29 to the financial statements.

RISK MANAGEMENT (continued)

Code of Conduct

The Group has advised each director, executive and employee that they must comply with the Code of Conduct (“the Code”). The Code covers the following:

- > aligning the behaviour of the Board and management with the Code by maintaining appropriate core Group values and objectives;
- > fulfilling responsibilities to shareholders by delivering shareholder value;
- > usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure;
- > fulfilling responsibilities to clients by maintaining high standards of product quality, service standards and commitments to fair value;
- > employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- > responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- > managing actual or potential conflicts of interest;
- > corporate opportunities such as preventing directors and executives from taking advantage of property, information or position for personal gain;
- > reporting of unlawful or unethical behaviour including protection of those who report violations in good faith; and
- > the processes for monitoring and ensuring compliance with the Code.

Trading in general Company securities by directors, executives and employees

The key elements of the Company’s Share Trading Policy relating to directors, executives and employees are:

- > identification of those restricted from trading;
- > directors and executives may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
 - except between three and thirty days (including the day of the announcement) after the release of the Company’s half-year and annual results to

the ASX, the Annual General Meeting and any major announcement; and

- whilst in possession of price sensitive information not yet released to the market.
- > raising awareness of legal prohibitions including transactions with colleagues and external advisers;
- > requiring details to be provided of intended trading in the Company’s shares;
- > requiring details to be provided of the subsequent confirmation of the trade; and
- > identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

The policy also details the insider trading provisions of the Corporations Act 2001 and is reproduced in full on the Company’s internal and external websites.

COMMUNICATION WITH SHAREHOLDERS

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company’s securities, notifying them to the ASX, posting them on the Company’s website, and issuing media releases. More details of the policy are available on the Company’s website.

In summary, the Continuous Disclosure Policy operates as follows:

- > the CEO, CFO and Company Secretaries are responsible for interpreting the Company’s policy and where necessary informing the Board. The Company Secretaries are responsible for all communications with the ASX. Such matters are advised to the ASX once the Company becomes aware of any material information;
- > the full annual financial report is provided via the Company’s website to all shareholders (unless a shareholder has specifically requested to receive a physical copy), including relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;
- > the half-yearly report contains summarised financial information and a review of the operations of the

COMMUNICATION WITH SHAREHOLDERS (continued)

Group during the period. The half-year report is lodged with ASIC and the ASX, and sent to any shareholder who requests it;

- > proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders;
- > all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- > analyst and media briefings and general meetings transcripts are released to the ASX and placed on the Company's website;
- > the full texts of notices of meetings and associated explanatory material are placed on the Company's website; and
- > the external auditor attends the Annual General Meeting to answer any questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

All of the above information is made available on the Company's website within one day of public release. Shareholder requests for financial report information are handled by the Company's share registry, Link Market Services Limited.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

Shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

DIVERSITY

The Board and Group executive are committed to an inclusive workplace that embraces and promotes diversity through a range of initiatives including a focus on women in management and equal opportunity. We value, respect and leverage the unique contributions of people with diverse backgrounds, experiences and perspectives to provide exceptional service to equally diverse clients.

Each year since the introduction of a diversity policy, the Board has set objectives against which diversity is measured. The policy and objectives reflect the Board's commitment to a blend of diversity in the Company's executive positions and on the Board itself.

The measurable objectives for 2013 focused on gender diversity and addressing the issue of unconscious bias that might be associated with preventing women from advancing their careers internally. The specific objectives included:

- > continuing the program of work being undertaken by the diversity working group;
- > developing an understanding of inclusive leadership and how unconscious bias can hinder diversity;
- > conducting unconscious bias training for executives and managers;
- > ensuring the sponsorship of women in career progression and succession planning initiatives; and
- > increasing the percentage of women at executive levels.

These objectives have been partially met.

Progress against each year's measurable objectives will continue to be disclosed in the Annual Report, together with the proportion of women in the workforce, at executive levels and the Board.

The Group's gender representation is as follows:

	2013		2012	
	Female %	Male %	Female %	Male %
Board	17%	83%	17%	83%
Executive KMP	20%	80%	20%	80%
Group	32%	68%	30%	70%

DIVERSITY (continued)

The measurable diversity objectives for 2014 include:

- > ensuring that the diversity working group continues to drive diversity as a Group objective, overseeing and guiding the practical activity undertaken by regional diversity implementation groups;
- > through communication and education, building the capability of leaders to lead inclusively and understand how unconscious bias impacts on diversity, inclusion and business performance;
- > progressing the sponsorship of women in career progression and succession planning, encouraging leaders to take proactive steps to expand their recruitment pools and seek diversity;
- > increasing the percentage of women at the Board, executive and management levels; and
- > extend diversity leadership beyond gender by focusing on age and culture.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Group paid a premium to insure officers of the Company and related bodies corporate. The officers of the Company covered by the insurance policy at 30 June 2013 included the directors, CFO and Company Secretaries.

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

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

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

NON-AUDIT SERVICES

During the year, KPMG, the Group's auditor, performed other services in addition to its statutory duties. The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, in view of both the amount and the nature of the non-audit services rendered.

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

	2013 \$	2012 \$
Audit services		
Auditors of the Group – KPMG		
– Audit and review of financial reports	178,000	171,000
Services other than statutory audit		
Accounting and tax advisory services – KPMG	21,649	22,000
Total	199,649	193,000

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 67 and forms part of the Directors' Report for the year ended 30 June 2013.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



Laurence G Cox
Director



Thomas Stianos
Director

Signed at Melbourne on this 21st day of August 2013.



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of SMS Management & Technology Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Penny Stragalinos'.

Penny Stragalinos
Partner

Melbourne

21 August 2013

>> CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2013

>> 68

	Notes	2013 \$'000	2012 \$'000
Revenue from services		278,482	335,471
Other income	7	1,314	366
Total income		279,796	335,837
Employee benefits expense		(227,962)	(264,821)
Project expenses		(6,001)	(6,701)
Depreciation expense	14	(809)	(1,114)
Administrative expenses		(5,925)	(6,189)
Occupancy expenses		(4,641)	(4,970)
Other expenses		(5,794)	(8,818)
Results from operating activities		28,664	43,224
Finance income		868	554
Finance costs		(84)	(278)
Net finance income		784	276
Profit before income tax		29,448	43,500
Income tax expense	8	(8,331)	(12,898)
Profit for the year		21,117	30,602
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		547	731
Profit and other comprehensive income for the year attributable to the ordinary equity holders of the company		21,664	31,333
Earnings per share:			
Basic earnings per share	9	30.6 cents	44.8 cents
Diluted earnings per share	9	30.1 cents	43.4 cents

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 72 to 108.

>> CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Current assets			
Cash and cash equivalents	11	36,998	29,979
Trade and other receivables	12	45,061	61,151
Other	13	2,168	1,410
Total current assets		84,227	92,540
Non-current assets			
Plant and equipment	14	3,164	2,938
Intangible assets	15	62,290	62,290
Other	13	–	276
Total non-current assets		65,454	65,504
Total assets		149,681	158,044
Current liabilities			
Trade and other payables	16	9,582	15,053
Current tax liabilities	17	3,098	2,469
Employee benefits	18	9,090	9,532
Other	20	777	6,593
Total current liabilities		22,547	33,647
Non-current liabilities			
Employee benefits	18	765	712
Deferred tax liabilities	19	1,048	3,352
Other	20	1,183	1,055
Total non-current liabilities		2,996	5,119
Total liabilities		25,543	38,766
Net assets		124,138	119,278
Equity			
Issued capital		65,596	62,825
Reserves		9,262	7,211
Retained earnings		49,280	49,242
Total equity		124,138	119,278

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 72 to 108.

>> CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2013

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	Notes	Issued capital \$'000	Foreign currency translation reserve \$'000	Equity compensation reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2011		61,909	(1,558)	5,940	39,127	105,418
Total comprehensive income for the year						
Profit		–	–	–	30,602	30,602
Other comprehensive income		–	731	–	–	731
Transactions with owners, recorded directly in equity						
Issue of ordinary shares related to business combinations	10	916	–	–	–	916
Equity-settled share-based payment transactions		–	–	2,098	–	2,098
Dividends to shareholders	22	–	–	–	(20,487)	(20,487)
Balance at 30 June 2012		62,825	(827)	8,038	49,242	119,278
Balance at 1 July 2012		62,825	(827)	8,038	49,242	119,278
Total comprehensive income for the year						
Profit		–	–	–	21,117	21,117
Other comprehensive income		–	547	–	–	547
Transactions with owners, recorded directly in equity						
Issue of ordinary shares related to business combinations	10	2,771	–	–	–	2,771
Equity-settled share-based payment transactions		–	–	1,504	–	1,504
Dividends to shareholders	22	–	–	–	(21,079)	(21,079)
Balance at 30 June 2013		65,596	(280)	9,542	49,280	124,138

The amounts recognised directly in equity are disclosed net of tax.

>> CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers		322,448	369,015
Payments to suppliers and employees		(283,357)	(320,894)
Cash generated from operations		39,091	48,121
Interest received		875	498
Income taxes paid		(9,687)	(13,180)
Borrowing costs paid		(4)	(21)
Other		–	7
Net cash from operating activities	28	30,275	35,425
Cash flows from investing activities			
Acquisition of plant and equipment	14	(1,021)	(424)
Proceeds on sale of plant and equipment		–	21
Acquisition of other assets		(916)	–
Proceeds on sale of other assets		1,288	–
Payments of deferred consideration related to previous business combinations	10	(2,021)	(9,691)
Net cash used in investing activities		(2,670)	(10,094)
Cash flows from financing activities			
Dividends paid to shareholders		(21,079)	(20,487)
Net cash used in financing activities		(21,079)	(20,487)
Net increase in cash and cash equivalents		6,526	4,844
Cash and cash equivalents at 1 July	11	29,979	24,876
Effect of exchange rate fluctuations on cash held		493	259
Cash and cash equivalents at 30 June	11	36,998	29,979

1. REPORTING ENTITY

SMS Management & Technology Limited (“the Company”) is a for-profit company domiciled in Australia. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2013 comprise the Company and its controlled entities (collectively “the Group”).

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”), and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorised for issue by the Board of Directors on 21 August 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

Note 10 – Business Combinations

Note 15 – Intangible Assets

Note 18 – Employee Benefits

(e) Changes in accounting policies

Presentation of transactions recognised in other comprehensive income

From 1 July 2012, the Group has applied amendments to AASB 101 *Presentation of Financial Statements*, outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share (“EPS”) or net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Controlled entities

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

Investments in controlled entities are carried at cost less impairment losses in the Company’s financial statements.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Business combinations on or after 1 July 2009

For business combinations on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- > the fair value of the consideration transferred; plus
- > the recognised amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- > the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs in relation to a business combination, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

Any deferred consideration (i.e. consideration which is contingent on the achievement of agreed future financial performance targets) payable is recognised at fair value at the acquisition date. If the deferred consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the deferred consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination.

This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to the past and/or future service.

Business combinations before 1 July 2009

For business combinations between 1 July 2004 and 30 June 2009, goodwill represents the excess of the cost of the business combination over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurred in connection with business combinations were capitalised as part of the cost of the business combination.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at average monthly exchange rates.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of in part or in full, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains or losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and recognised in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

(ii) Subsequent costs

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 the Group and the cost of an item can be measured reliably. All other costs are charged to profit or loss as an expense as incurred.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each component of an item of plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment	1-15 years
Leasehold improvements	3-10 years

The residual value, the useful life, and the depreciation method applied to an asset are reassessed at least annually.

(d) Intangible asset – goodwill

Goodwill that arises upon the acquisition of controlled entities is included in intangible assets.

For the measurement of goodwill at initial recognition, see Note 3(a) (iii). Subsequent measurement of goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGU") and is tested annually for impairment (see Note 3(e)).

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(e) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets (see Note 3(l)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment of receivables is not recognised until there is objective evidence that they are impaired. A receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Receivables are individually assessed for impairment. Receivables due in twelve months or less are not discounted.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(f) Trade and other receivables

All trade and other receivables are stated at their amortised cost less impairment losses (see Note 3(e)).

Work in progress represents unbilled revenue which is recognised at the expected recoverable amount as the services are performed, based on the revenue recognition policy (see Note 3(j)).

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits with an original maturity of three months or less.

(h) Employee benefits

(i) Long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs, experience of employee departures and expected settlement dates, and is discounted using the rates attached to Commonwealth Government bonds at the reporting date which have maturity dates approximating the terms of the Group's obligations.

(ii) Share-based payment transactions

The 2009, 2010, 2011 and 2012 Performance Rights Plans each allow certain employees to acquire shares in the Company. The fair value of performance rights granted under each Performance Rights Plan is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the performance rights at the end of the performance period. The fair value of the performance rights granted is measured using a Monte Carlo simulation model for total shareholder return ("TSR") hurdles and a closed form Black Scholes model for EPS hurdles, taking into account the terms and conditions upon which the performance rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest into shares except where market conditions are not achieved. All performance rights plans provide for equity-settled share-based payments. Refer to Note 18 for further details.

(iii) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within twelve months of the reporting date represent present obligations resulting from employees' services provided to the reporting date. The liabilities are calculated at undiscounted amounts based on remuneration rates that the Group expects to pay as at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iv) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit in profit or loss in the periods during which services are rendered by employees.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Provisions

A provision is recognised in the consolidated statement of financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(j) Revenue

Revenue from services is recognised in profit or loss when the services are performed, net of volume discounts and is matched against related costs incurred. Where fixed price contracts are used, revenue recognition is based on the stage of completion of the project at the reporting date. The stage of completion is measured by reference to either labour hours incurred to date as a percentage of estimated total labour hours, or labour costs incurred to date as a percentage of estimated total labour costs.

(k) Operating leases

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

(l) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is SMS Management & Technology Limited.

Current tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial records of the members of the tax consolidated group using the 'stand-alone taxpayer' approach by reference to the carrying amounts of assets and liabilities in the separate financial records of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the controlled entities in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to, or distribution from the controlled entity.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability assumed from controlled entities are recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing agreements

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(m) Goods and services tax

Revenue, expenses, assets and liabilities are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST payable to tax authorities is included as a current liability in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, tax authorities are classified as operating cash flows.

(n) Earnings per share

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated in the same manner after adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise performance rights granted to employees and shares to be issued as deferred consideration in business combinations.

(o) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share-based payment transactions

The fair value of performance rights granted under the Company's Performance Rights Plans is measured using a Monte Carlo simulation model for TSR hurdles and a closed form Black Scholes model for EPS hurdles. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on historical volatility from the period preceding the grant date, equal to the expected life of the performance rights), weighted average expected life of the instruments (based on historical experience and general rights holder behaviour), expected dividends, and the risk-free interest rate (based on the three-year Australian Bank Bill Swap Rate). Service conditions attached to the transactions are not taken into account in determining fair value.

(ii) Deferred consideration

The fair value of deferred consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Where the deferred consideration is long-term in nature, it is discounted to present value.

(p) Comparatives

Where applicable, comparatives have been adjusted to disclose them on the same basis as in the current financial year.

(q) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2013, but have not been applied in preparing this financial report.

AASB 9 *Financial Instruments* includes requirements for the classification and measurement of certain classes of financial assets and liabilities. AASB 9 will become mandatory for the Group's 30 June 2016 financial statements and is not expected to have a significant impact on the Group's financial statements.

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities (2011)* and AASB 13 *Fair Value Measurement* will become mandatory for the Group's 30 June 2014 financial statements and are not expected to have a significant impact on the Group's financial statements.

AASB 10 introduces a single control model to determine whether an entity should be consolidated. AASB 11 modifies the accounting for joint arrangements. AASB 12 provides disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. AASB 13 provides guidance on how fair value is measured.

AASB 119 *Employee Benefits (2011)* changes the definition of short-term and other long-term employee benefits. AASB 119 will become mandatory for the Group's 30 June 2014 financial statements, and the potential impact has not yet been assessed.

4. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- > credit risk
- > liquidity risk
- > market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

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

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash held with financial institutions.

4. FINANCIAL RISK MANAGEMENT (continued)

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group minimises concentrations of credit risk by undertaking transactions with a large number of reputable customers in various industries, performing due diligence procedures on major new customers and closely monitoring past due payments.

(ii) Cash and cash equivalents

The Group held cash and cash equivalents of \$36,998,000 at 30 June 2013 (2012:\$29,979,000), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA-, based on Standard & Poor's agency ratings.

(iii) Guarantees

The Group policy is to provide financial guarantees only with respect to wholly-owned controlled entities. Details of cross guarantees are provided in Note 26.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's financial performance or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to foreign currency risk on revenue, expenses and borrowings that are denominated in a currency other than Australian dollars. The currency giving rise to this risk is primarily Hong Kong dollars.

(ii) Interest rate risk

At the reporting date, the Group is not exposed to significant interest rate risk.

(d) Capital management

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

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

5. OPERATING SEGMENTS

(i) Determination and presentation of operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance.

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

>> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. OPERATING SEGMENTS (continued)

(ii) Reportable segments

The Group has two reportable segments, which offer different services and are managed separately because they require different resources and marketing strategies. For each of the operating segments, the CEO reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Under the SMS Consulting brand, the Group offers a range of value added management and technology related business services including:

- > Business Performance Improvement
- > Business Process Management
- > Customer Relationship Management
- > Information and Data Management
- > Infrastructure Consulting and Managed Services
- > Operational Learning and Change
- > Program and Project Services
- > Systems Integration.

Under the M&T Resources brand, the Group offers:

- > Recruitment and Contract Labour (predominantly in the information technology ("IT") sector).

	SMS Consulting		M&T Resources		Other		Total	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Revenue from services	214,561	262,460	63,921	73,011	–	–	278,482	335,471
Inter-segment revenue	–	–	9,651	12,020	–	–	9,651	12,020
Reportable segment EBITDA*	37,273	52,181	2,748	4,269	–	–	40,021	56,450
Unallocated amounts:								
Other income	–	–	–	–	1,314	366	1,314	366
Corporate expenses	–	–	–	–	(11,862)	(12,478)	(11,862)	(12,478)
Consolidated EBITDA*	–	–	–	–	–	–	29,473	44,338
Net finance income	–	–	–	–	784	276	784	276
Depreciation	–	–	–	–	(809)	(1,114)	(809)	(1,114)
Profit before income tax	–	–	–	–	–	–	29,448	43,500
Income tax expense	–	–	–	–	(8,331)	(12,898)	(8,331)	(12,898)
Net profit after tax	–	–	–	–	–	–	21,117	30,602
Reportable segment assets	100,254	113,156	7,021	10,278	42,406	34,610	149,681	158,044

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

5. OPERATING SEGMENTS (continued)

(iii) Geographical segments

The Group operates predominantly within Australia, with operations in Hong Kong, Singapore and Vietnam.

(iv) Major customers

Revenue from one customer of the Group's two segments represents approximately 11% (2012: 15%) of the Group's total revenue. There is significant diversity of revenue from this customer in terms of geographic location, range of services provided and operating divisions.

6. AUDITORS' REMUNERATION

	2013 \$	2012 \$
Audit services		
Auditors of the Group – KPMG		
Audit and review of financial reports	178,000	171,000
Other services		
Auditors of the Group – KPMG		
Accounting and tax advisory services	21,649	22,000
	199,649	193,000

7. OTHER INCOME

	Note	2013 \$'000	2012 \$'000
Re-measurement of deferred consideration related to previous business combinations	10	900	359
Gain on disposal of other assets		372	–
Other		42	7
		1,314	366

8. INCOME TAX EXPENSE

	2013 \$'000	2012 \$'000
Current tax expense		
Current year	11,023	12,121
Adjustments for prior years	(432)	90
	10,591	12,211
Deferred tax expense		
Origination and reversal of temporary differences	(2,228)	689
Adjustments for prior years	(32)	(2)
	(2,260)	687
Total income tax expense	8,331	12,898

Reconciliation of effective tax rate

	2013 \$'000	2012 \$'000
Profit before income tax	29,448	43,500
Income tax using the domestic tax rate of 30% (2012: 30%)	8,834	13,050
Increase in tax expense due to:		
Non-deductible expenses	228	346
Effect of tax rate in foreign jurisdictions	156	–
Other items	137	247
	521	593
Decrease in tax expense due to:		
Effect of tax rate in foreign jurisdictions	–	(589)
Non-taxable gain on re-measurement of deferred consideration	(270)	(108)
Other deductible expenses / non-taxable gains	(290)	(136)
	(560)	(833)
(Over) under provided in previous year	(464)	88
Total income tax expense	8,331	12,898

9. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic EPS at 30 June 2013 was based on the profit attributable to ordinary shareholders of \$21,116,745 (2012: \$30,602,324) and the weighted average number of ordinary shares outstanding during the financial year ended 30 June 2013 of 68,929,161 (2012: 68,253,015), calculated as follows:

	2013 \$'000	2012 \$'000
Profit attributable to ordinary shareholders	21,117	30,602
	Number '000	Number '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	68,416	67,765
Effect of shares issued during the year	513	488
Weighted average number of ordinary shares at 30 June	68,929	68,253

Diluted earnings per share

The calculation of diluted EPS at 30 June 2013 was based on profit attributable to ordinary shareholders of \$21,116,745 (2012: \$30,602,324) and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 70,151,648 (2012: 70,462,893), calculated as follows:

	2013 \$'000	2012 \$'000
Profit attributable to ordinary shareholders (diluted)	21,117	30,602
	Number '000	Number '000
Weighted average number of ordinary shares (diluted)		
Issued ordinary shares at 1 July	68,416	67,765
Effect of shares issued during the year	513	488
Effect of shares to be issued in relation to Performance Rights Plans	1,223	1,496
Effect of shares to be issued in relation to business combinations	–	714
Weighted average number of ordinary shares (diluted) at 30 June	70,152	70,463

For the purposes of calculating the dilutive effect of Performance Rights Plans, the number of shares to be issued was based on the actual balance of performance rights outstanding at 30 June adjusted for the likely vesting outcome of the 2010 Plan. For business combinations, the closing share price of the Company's shares on 30 June was used to determine the number of shares to be issued.

10. BUSINESS COMBINATIONS

Business combinations accounted for under AASB 3 (2010)

Renewtek

In October 2010, the Group acquired all of the shares in Renewtek Pty Ltd and its controlled entities ("Renewtek") for \$1,858,692 in cash and \$3,141,308 in shares, subject to earn-out arrangements. Renewtek did not meet EBITDA targets in the first year of ownership, accordingly, no anniversary payment was made in October 2011.

A second and final payment of \$2,500,050 in shares was made on 5 November 2012, being the contingent amount of the purchase price paid upon meeting EBITDA targets to October 2012.

All payments in excess of net assets for the business have been included within goodwill. The difference between the final payment made and the deferred consideration provided for at the time of acquisition was \$899,950. This amount was taken to profit or loss as a gain arising on re-measurement of deferred consideration and is included in other income.

Business combinations accounted for under AASB 3 (2004)

Pelion

In May 2009, the Group acquired all of the shares in Pelion Group Pty Ltd ("Pelion") for \$329,250 in cash and \$270,750 in shares, subject to earn-out arrangements. A second payment of \$3,045,099 in cash and \$270,750 in shares was made in July 2011, based on achieving established performance criteria. A third and final payment of \$2,020,839 in cash and \$270,750 in shares, which was provided for at 30 June 2012, was made on 9 August 2012, based on achieving established performance criteria.

11. CASH AND CASH EQUIVALENTS

	2013 \$'000	2012 \$'000
Cash at bank and on hand	36,998	29,979

The Group's exposure to currency and interest rate risk is disclosed in Note 23(c).

12. TRADE AND OTHER RECEIVABLES

	2013 \$'000	2012 \$'000
Current		
Work in progress	21,494	30,167
Trade receivables	23,491	31,045
Less: Impairment losses	–	(78)
	44,985	61,134
Other receivables	76	17
	45,061	61,151

The Group's exposure to credit risk and impairment losses related to trade and other receivables is disclosed in Note 23(a).

13. OTHER ASSETS

	2013 \$'000	2012 \$'000
Current		
Prepayments	1,751	932
Security deposits	199	358
Other	218	120
	2,168	1,410
Non-current		
Other	–	276

14. PLANT AND EQUIPMENT

	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Cost			
Balance at 1 July 2011	5,328	154	5,482
Additions	319	105	424
Disposals	(599)	(47)	(646)
Foreign exchange movements	(26)	–	(26)
Balance at 30 June 2012	5,022	212	5,234
Balance at 1 July 2012	5,022	212	5,234
Additions	930	91	1,021
Foreign exchange movements	17	6	23
Balance at 30 June 2013	5,969	309	6,278
Depreciation and impairment losses			
Balance at 1 July 2011	1,743	50	1,793
Depreciation charge for the year	1,079	35	1,114
Disposals	(552)	(34)	(586)
Foreign exchange movements	(25)	–	(25)
Balance at 30 June 2012	2,245	51	2,296
Balance at 1 July 2012	2,245	51	2,296
Depreciation charge for the year	780	29	809
Foreign exchange movements	9	–	9
Balance at 30 June 2013	3,034	80	3,114
Carrying amounts			
At 1 July 2011	3,585	104	3,689
At 30 June 2012	2,777	161	2,938
At 1 July 2012	2,777	161	2,938
At 30 June 2013	2,935	229	3,164

15. INTANGIBLE ASSETS

	Goodwill \$'000
Cost	
Balance at 1 July 2011	395,889
Re-measurement of deferred consideration for business combinations accounted for under previous AASB 3 (2004)	(408)
Balance at 30 June 2012	395,481
Balance at 1 July 2012	395,481
Balance at 30 June 2013	395,481
Amortisation and impairment losses	
Balance at 1 July 2011	(333,191)
Balance at 30 June 2012	(333,191)
Balance at 1 July 2012	(333,191)
Balance at 30 June 2013	(333,191)
Carrying amounts	
At 1 July 2011	62,698
At 30 June 2012	62,290
At 1 July 2012	62,290
At 30 June 2013	62,290

The SMS Consulting reportable segment is the only segment containing goodwill. The recoverable amount of the CGU is based on its value in use, which is determined using cash flow projections relating to actual operating results and the five-year forecast. Cash flow projections beyond the five-year forecast were calculated using the forecast cash flow of the fifth year, increased by a steady growth rate going forward. The pre-tax discount rate applied of 15.00% was derived from an estimate of the long-term weighted average cost of capital.

16. TRADE AND OTHER PAYABLES

	2013 \$'000	2012 \$'000
Trade and other payables	5,547	6,710
Accrued expenses	4,035	8,343
	9,582	15,053

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 23(b).

17. CURRENT TAX LIABILITIES

The current tax liabilities for the Group of \$3,098,000 (2012: \$2,469,000) represent the amount of income tax payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company (as the head entity of the Australian tax consolidated group) has assumed the current tax liabilities initially recognised by the members of the tax consolidated group.

18. EMPLOYEE BENEFITS

	2013 \$'000	2012 \$'000
Current		
Liability for annual leave	6,517	6,868
Liability for long service leave	2,573	2,664
	9,090	9,532
Non-current		
Liability for long service leave	765	712

As explained in Note 3(h)(i), the amounts for long service leave are measured at their present values.

18. EMPLOYEE BENEFITS (continued)

(a) Share-based payments

(i) Share options

Various option plans

In prior years, certain employees were granted option entitlements as part of their contract of employment with the Company or the Group. All outstanding options lapsed during the financial year.

2013

Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2012	Granted
1 Jul 00	1 Jul 01	30 Jun 12 to 11 Oct 12	\$9.55	800	–
				800	–
				\$9.55	

Weighted average exercise price

** Issued at various dates throughout previous financial years*

2012

Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2011	Granted
1 Jul 00	1 Jul 01	30 Jun 12 to 11 Oct 12	\$9.55	52,400	–
				52,400	–
				\$13.72	

Weighted average exercise price

** Issued at various dates throughout previous financial years*

18. EMPLOYEE BENEFITS (continued)

	Lapsed	Exercised	Number as at 30 June 2013		Proceeds received \$	Date issued	Number of shares issued
			On issue	Vested			
	800	–	–	–	–	*	–
	800	–	–	–	–	–	–
	\$9.55						

	Lapsed	Exercised	Number as at 30 June 2012		Proceeds received \$	Date issued	Number of shares issued
			On issue	Vested			
	51,600	–	800	800	–	*	–
	51,600	–	800	800	–	–	–
	\$13.78		\$9.55	\$9.55			

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18. EMPLOYEE BENEFITS (continued)

(a) Share-based payments (continued)

(ii) Performance Rights Plans

2009, 2010, 2011 and 2012 Executive Performance Rights Plans

During 2009, 2010, 2011 and 2012, certain employees were eligible to participate in the respective year's Performance Rights Plan. Each performance right granted under these Plans is subject to a vesting period of three years commencing from the date of grant. Each performance right is subject to performance criteria, with the Plans subject to both market (TSR) and non-market conditions (EPS).

2013

Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2012	Granted
1 Jul 09	1 Jul 12	n/a	\$0.00	507,000	–
1 Jul 10	1 Jul 13	n/a	\$0.00	452,856	–
1 Jul 11	1 Jul 14	n/a	\$0.00	535,869	–
1 Jul 12	1 Jul 15	n/a	\$0.00	–	696,870
				1,495,725	696,870
				\$0.00	\$0.00

Weighted average exercise price

2012

Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2011	Granted
1 Jul 08	1 Jul 11	n/a	\$0.00	515,378	–
1 Jul 09	1 Jul 12	n/a	\$0.00	616,500	–
1 Jul 10	1 Jul 13	n/a	\$0.00	566,770	–
1 Jul 11	1 Jul 14	n/a	\$0.00	–	621,864
				1,698,648	621,864
				\$0.00	\$0.00

Weighted average exercise price

18. EMPLOYEE BENEFITS (continued)

Unvested performance rights lapse on the employee's termination, subject to Board discretion. Each performance right has a nil consideration, with each performance right converting to one share subject to satisfaction of the performance criteria. These performance rights are non-transferable and unquoted. There are voting and dividend rights attached to the shares once converted, but not to the performance rights. All Plans provide for equity-settled share-based payments.

	Lapsed	Exercised	Number as at 30 June 2013		Proceeds received \$	Date issued	Performance rights converted to shares
			On issue	Vested			
	70,980	436,020	–	–	–	1 Jul 12	436,020
	82,910	10,150	359,796	–	–	22 Feb 13	10,150
	108,293	–	427,576	–	–	–	–
	74,661	–	622,209	–	–	–	–
	336,844	446,170	1,409,581	–	–	–	446,170
	\$0.00	\$0.00	\$0.00				

	Lapsed	Exercised	Number as at 30 June 2012		Proceeds received \$	Date issued	Performance rights converted to shares
			On issue	Vested			
	–	515,378	–	–	–	1 Jul 11	515,378
	109,500	–	507,000	–	–	–	–
	113,914	–	452,856	–	–	–	–
	85,995	–	535,869	–	–	–	–
	309,409	515,378	1,495,725	–	–	–	515,378
	\$0.00	\$0.00	\$0.00				

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18. EMPLOYEE BENEFITS (continued)

(a) Share-based payments (continued)

(ii) Performance Rights Plans (continued)

The fair value of the performance rights granted under the 2010, 2011 and 2012 Performance Rights Plans was assessed using the following parameters:

	2012 Plan EPS	2012 Plan TSR	2011 Plan EPS	2011 Plan TSR	2010 Plan EPS	2010 Plan TSR
Grant date	1 Jul 12	1 Jul 12	1 Jul 11	1 Jul 11	1 Jul 10	1 Jul 10
Share price at grant date	\$5.06	\$5.06	\$6.24	\$6.24	\$5.88	\$5.88
Fair value at measurement date (i)	\$4.25	\$2.91	\$5.26	\$3.08	\$5.09	\$3.02
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Expected volatility (ii)	31%	31%	47%	47%	50%	50%
Performance right life	3 years	3 years	3 years	3 years	3 years	3 years
Expected dividend yield p.a. (iii)	5.82%	5.82%	4.94%	4.94%	4.90%	4.90%
Risk free interest rate (iv)	3.28%	3.28%	4.73%	4.73%	4.41%	4.41%

- (i) To allow for the TSR hurdle, a Monte Carlo simulation was used to value the performance rights
To allow for the EPS hurdle, a closed form Black Scholes model was used to value the performance rights
(ii) Expected volatility based on historical daily share price for the three-year period preceding the grant date
(iii) Expected dividend yield % p.a. is based on historic yield and expected future yield at the grant date
(iv) Risk free interest rate is based on the three-year Australian Bank Bill Swap Rate

(b) Employee expenses

	2013 \$'000	2012 \$'000
Performance rights – equity-settled	1,270	1,505
Total expense recognised as employee costs	1,270	1,505

(c) Superannuation

All directors and employees of the Group are members of accumulation funds of their choice and there are no directors or employees who are members of defined benefit superannuation schemes. Total superannuation expense in profit or loss for the year was \$14,219,000 (2012: \$15,479,000).

19. DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Trade and other receivables	–	–	5,981	8,212	5,981	8,212
Plant and equipment	–	–	89	44	89	44
Trade and other payables	(428)	(531)	–	–	(428)	(531)
Provisions	(330)	(316)	–	–	(330)	(316)
Employee benefits	(2,868)	(3,015)	–	–	(2,868)	(3,015)
Other items	(1,396)	(1,042)	–	–	(1,396)	(1,042)
Tax (assets)/liabilities	(5,022)	(4,904)	6,070	8,256	1,048	3,352
Set-off of tax	5,022	4,904	(5,022)	(4,904)	–	–
Net tax liabilities	–	–	1,048	3,352	1,048	3,352

Movement in temporary differences during the year

	Balance 1 July 2012 \$'000	Recognised in profit or loss \$'000	Recognised in equity \$'000	Acquired in business combinations \$'000	Balance 30 June 2013 \$'000
Trade and other receivables	8,212	(2,231)	–	–	5,981
Plant and equipment	44	45	–	–	89
Trade and other payables	(531)	103	–	–	(428)
Provisions	(316)	(14)	–	–	(330)
Employee benefits	(3,015)	147	–	–	(2,868)
Other items	(1,042)	(310)	(44)	–	(1,396)
Net tax (assets) / liabilities	3,352	(2,260)	(44)	–	1,048

	Balance 1 July 2011 \$'000	Recognised in profit or loss \$'000	Recognised in equity \$'000	Acquired in business combinations \$'000	Balance 30 June 2012 \$'000
Trade and other receivables	7,482	730	–	–	8,212
Other current assets	67	(67)	–	–	–
Plant and equipment	–	44	–	–	44
Trade and other payables	(477)	(54)	–	–	(531)
Provisions	(267)	(49)	–	–	(316)
Employee benefits	(2,920)	(95)	–	–	(3,015)
Other items	(1,220)	178	–	–	(1,042)
Net tax (assets) / liabilities	2,665	687	–	–	3,352

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20. OTHER LIABILITIES

	2013 \$'000	2012 \$'000
Current		
Revenue received in advance	777	903
Deferred consideration	–	5,612
Provisions	–	78
	777	6,593
Non-current		
Accrued rent	1,183	1,055
	1,183	1,055

21. FINANCING FACILITIES

Information relating to the contractual terms of the Group's financing facilities is as follows:

	2013 \$'000	2012 \$'000
Total facilities		
Bank indemnity/guarantee facility	4,028	4,027
Facilities utilised at reporting date		
Bank indemnity/guarantee facility	3,065	3,557
Facilities not utilised at reporting date		
Bank indemnity/guarantee facility	963	470

22. EQUITY

Issued capital

	The Company	
	2013 Number '000	2012 Number '000
On issue at 1 July	68,416	67,765
Shares issued in relation to business combinations	526	170
Shares issued in relation to Performance Rights Plans	436	481
On issue at 30 June – fully paid	69,378	68,416

The Company has also issued share options and performance rights (see Note 18).

The holders of ordinary shares are entitled to receive dividends, as declared from time to time, and are entitled to one vote per share at meetings of the Company. Ordinary shares have no par value.

22. EQUITY (continued)

Issue of ordinary shares

526,544 ordinary shares were issued in the year ended 30 June 2013 (2012: 169,688), forming part of deferred consideration paid relating to previous business combinations. The issue of shares amounted to \$2,771,000 of non-cash investing activities (2012: \$916,000).

Additionally, 436,020 ordinary shares were issued upon the conversion of vested performance rights arising from the 2009 Plan (2012: 481,107).

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, where their functional currency is different to the presentation currency of the Group.

Equity compensation reserve

This represents the cumulative value of share options and performance rights issued for employee services rendered, net of tax. The movement for the year is represented by \$1,270,000 of equity-settled share-based payments (see Note 18), the associated permanent tax difference of \$287,000, and \$53,000 for shares bought on-market to satisfy the vesting of performance rights.

Dividends**(i) Dividends declared and paid during the year**

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

	Cents per share	Total amount \$'000	Franked/unfranked	Date of payment
2013				
Final 2012 ordinary	17.0	11,713	Franked	26 Oct 12
Interim 2013 ordinary	13.5	9,366	Franked	28 Mar 13
Total	30.5	21,079		
2012				
Final 2011 ordinary	16.5	11,268	Franked	28 Oct 11
Interim 2012 ordinary	13.5	9,219	Franked	30 Mar 12
Total	30.0	20,487		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

(ii) Dividend declared after the end of the year

On 21 August 2013, the directors declared the payment of a final 2013 ordinary (fully franked) dividend of 12.0 cents per share (\$8,390,384) to be paid on 25 October 2013.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2013 and will be recognised in subsequent financial statements.

22. EQUITY (continued)

(iii) Dividend franking account

	The Company	
	2013 \$'000	2012 \$'000
30% franking credits available to shareholders of the Company for subsequent financial years	26,282	25,019

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- > franking credits that will arise from the payment of the current tax liabilities;
- > franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
- > franking credits that the entity may be prevented from distributing in subsequent years.

The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by \$3,595,879 (2012: \$5,025,364). In accordance with the tax consolidation legislation, the Company (as the head entity in the tax consolidated group) has also assumed the benefit of \$26,282,000 (2012: \$25,019,000) franking credits.

23. FINANCIAL INSTRUMENTS

(a) Credit risk

Exposure to credit risk arises in the normal course of the Group's business.

Impairment losses

The ageing of the Group's trade receivables at the reporting date was:

	2013 \$'000	2012 \$'000
0-90 days	23,075	30,384
Greater than 90 days	416	661
	23,491	31,045

The movement in the allowance for impairment in respect of trade receivables during the year was:

	2013 \$'000	2012 \$'000
Balance at 1 July	78	–
Impairment loss recognised	–	78
Reversal of impairment loss	(78)	–
Balance at 30 June	–	78

The allowance in respect of trade receivables is used to record impairment losses, unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written-off against the financial asset directly.

23. FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The following are the contractual maturities of financial liabilities:

	Carrying amount \$'000	2013 contractual cash flows			
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000
Financial liabilities					
Trade and other payables	9,582	(9,582)	(9,582)	–	–
	9,582	(9,582)	(9,582)	–	–

	Carrying amount \$'000	2012 contractual cash flows			
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000
Financial liabilities					
Trade and other payables	15,053	(15,053)	(15,053)	–	–
Deferred consideration	5,612	(5,691)	(5,691)	–	–
	20,665	(20,744)	(20,744)	–	–

(c) Market risk**(i) Currency risk**

The Group's cash exposure to material foreign currency risk at the reporting date was:

	HKD	
	2013 AUD \$'000	2012 AUD \$'000
Cash and cash equivalents	5,053	2,974
	5,053	2,974

23. FINANCIAL INSTRUMENTS (continued)

Currency risk sensitivity analysis

The Group has no significant exposure in relation to Vietnam dong, New Zealand or U.S. dollars. In relation to Hong Kong dollars, a strengthening or weakening of the Australian dollar at 30 June 2013 would have (decreased) or increased profit by the amounts shown below. The analysis is based on foreign currency exchange rate variances that the Group considered reasonable at year end. The analysis assumes that all other variables, in particular interest rates, remain constant. Any foreign exchange exposures deemed to be translation risk exposures have been excluded from the analysis. This analysis excludes the potential impact of commercial decisions that may mitigate the full extent of the foreign currency exposure.

	Strengthening AUD impact on profit after tax	Weakening AUD impact on profit after tax
	AUD \$'000	AUD \$'000
2013		
HKD (3 per cent movement)	(27)	29

Exchange rates

The following exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
HKD	8.0043	8.0648	7.1946	7.9040
NZD	1.2571	1.2844	1.1871	1.2771
VND	21,549	21,618	19,668	21,304
SGD	1.2801	1.3020	1.1725	1.2940
USD	1.0320	1.0372	0.9275	1.0191

(ii) Interest rate risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the reporting date and the periods in which they will reprice.

	Note	2013			2012		
		Effective interest rate %	Total \$'000	6 months or less \$'000	Effective interest rate %	Total \$'000	6 months or less \$'000
Financial assets							
Cash	11	3.4%	36,998	36,998	2.0%	29,979	29,979

All amounts are stated at their carrying amount, which is the same as fair value.

23. FINANCIAL INSTRUMENTS (continued)

Interest rate risk sensitivity analysis

At the reporting date, the Group had the following interest rate profile on interest-bearing financial assets:

	2013 \$'000	2012 \$'000
Fixed	5,023	10,016
Variable	31,975	19,963

The Group does not have any fixed rate financial liabilities.

A change of 100 basis points in interest rates applied to finance income and finance costs for the year would have increased or decreased the Group's profit by \$257,000 (2012: \$274,000).

(d) Fair values**Fair values versus carrying amounts**

The fair values of financial assets and liabilities are materially the same as the carrying amounts shown in the consolidated statement of financial position.

24. OPERATING LEASES**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

	2013 \$'000	2012 \$'000
Within one year	4,237	4,559
One year or later and no later than five years	11,138	12,120
Later than five years	2,467	4,042
	17,842	20,721

Total operating lease expense in profit or loss for the year was \$4,585,000 (2012: \$6,638,000).

25. CONTINGENCIES

Details of contingent liabilities are as follows:

Disputes and minor claims

Minor claims have been made against the Group during the year. The directors consider these claims to be immaterial, and part of the normal course of doing business. No amounts have been provided in relation to any of these matters. No material losses are anticipated in respect of these claims.

Cross guarantees

Certain entities in the wholly-owned group have entered into a Deed of Cross Guarantee, full details of which are provided in Note 26.

Bank guarantees

Bank guarantees of \$3,065,000 (2012: \$3,557,000) have been provided as security for performance of property rental covenants.

26. DEED OF CROSS GUARANTEE

SMS Management & Technology Limited, SMS Consulting Group Limited, SMS Employees Pty Ltd, SMS Defence Solutions Pty Ltd, M&T Resources Pty Ltd, SMS Management & Technology Asia Pty Ltd and SMS Management & Technology Singapore Pty Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

By entering into the Deed of Cross Guarantee, the participating wholly-owned entities have been relieved of the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321 and 01/1087) issued by ASIC.

The above entities represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by SMS Management & Technology Limited, they also represent the 'Extended Closed Group'. Those wholly-owned entities which are not included in the Deed of Cross Guarantee are exempt from preparing a financial report and Directors' Report under the terms of the Corporations Act 2001.

Given that the Closed Group for the years ended 30 June 2013 and 30 June 2012 includes all of the trading entities either individually or by way of consolidation of the results and balances of their wholly-owned entities, both domestic and overseas, the results and balances of the Closed Group as at 30 June 2013 and 30 June 2012 effectively comprise the full consolidated statement of comprehensive income and consolidated statement of financial position included in this financial report.

27. CONTROLLED ENTITIES

(a) Summary of controlled entities

	Country of incorporation	Class of shares	Ownership interest	
			2013 %	2012 %
Parent entity				
SMS Management & Technology Limited	Australia			
Entities under control of SMS Management & Technology Limited				
SMS Consulting Group Limited	Australia	Ordinary	100	100
Entities under control of SMS Consulting Group Limited				
SMS Employees Pty Ltd	Australia	Ordinary	100	100
SMS Consulting Unit Trust	Australia		100	100
SMS Defence Solutions Pty Ltd	Australia	Ordinary	100	100
Avoga Pty Ltd	Australia	Ordinary	–	100
M&T Resources Pty Ltd	Australia	Ordinary	100	100
Pelion Group Pty Ltd	Australia	Ordinary	100	100
SMS Management & Technology Asia Pty Ltd	Australia	Ordinary	100	100
SMS Management & Technology Singapore Pty Ltd	Australia	Ordinary	100	100
SMS Management & Technology Vietnam Pty Ltd	Australia	Ordinary	100	100
SMS Management & Technology Malaysia Pty Ltd	Australia	Ordinary	100	100
ACN 153 806 645 Pty Ltd	Australia	Ordinary	100	100
Entities under control of SMS Management & Technology Vietnam Pty Ltd				
Cocoon People Pty Ltd	Australia	Ordinary	100	100
Mibento Pty Ltd	Australia	Ordinary	–	100
SMS Management & Technology Vietnam Company Limited	Vietnam	Ordinary	100	100

(b) Incorporation of controlled entities in 2013

During the financial year, there have been no new entities incorporated.

(c) Deregistration and disposal of controlled entities in 2013

During the financial year, Avoga Pty Ltd and Mibento Pty Ltd were deregistered.

(d) Class order relief

For all wholly-owned Australian corporate entities (other than those mentioned in (c) above, SMS Management & Technology Vietnam Pty Ltd and its controlled entities, Pelion Group Pty Ltd, SMS Management & Technology Malaysia Pty Ltd and ACN 153 806 645 Pty Ltd), relief has been granted from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by ASIC. For further information, refer to Note 26.

28. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2013 \$'000	2012 \$'000
Cash flows from operating activities		
Profit after income tax	21,117	30,602
<i>Adjustments for:</i>		
Depreciation	809	1,114
Loss on disposal of plant and equipment	–	39
Gain on disposal of other assets	(372)	–
Re-measurement of deferred consideration related to previous business combinations	(900)	(359)
Equity-settled share-based payment transactions	1,217	1,505
Finance expense	84	278
Income tax expense	8,331	12,898
	30,286	46,077
Decrease in trade and other receivables	16,226	2,401
(Increase) decrease in other assets	(489)	82
(Decrease) increase in trade payables, prepaid revenue, other current liabilities and provisions	(6,057)	66
Borrowing costs paid	(4)	(21)
Income taxes paid	(9,687)	(13,180)
Net cash from operating activities	30,275	35,425

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were Key Management Personnel (“KMP”) of the Group at any time during the reporting period and unless otherwise indicated were the KMP for the entire period:

Non-executive directors

Laurence Cox	Chairman, Independent Non-Executive
Bruce Thompson	Independent Non-Executive
Nicole Birrell	Independent Non-Executive
Kerry Smith	Independent Non-Executive
Derek Young	Independent Non-Executive

Executive director

Thomas Stianos	Chief Executive Officer
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Executives

Rick Rostolis	Chief Financial Officer
Graham Lanphier	Managing Director, SMS Consulting (ceased employment 11 February 2013)
Chris Sandham	Managing Director, M&T Resources
Shaneen Argall	Director, Human Resources
David Moodie	Director, Clients & Markets

Key management personnel remuneration

The KMP remuneration included in ‘employee benefits expense’ is as follows:

	2013 \$	2012 \$
Short-term employee benefits	2,363,664	2,554,627
Post-employment benefits	181,679	186,187
Other long-term benefits	5,140	35,300
Termination benefits	250,000	–
Equity remuneration benefits	544,286	539,823
	3,344,769	3,315,937

Individual directors’ and executives’ remuneration disclosures

Information regarding individual directors’ and executives’ remuneration and some equity instrument disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors’ Report on pages 51 to 60.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors’ interests existing at year-end.

Loans to key management personnel and their related parties

There were no loans to or from KMP, or their related parties, during the reporting period.

Other key management personnel transactions with the Company or its controlled entities

There were no other transactions with KMP, or their related parties, during the reporting period.

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29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Options and rights over equity instruments

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

Name	Held at 1 July 2012	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2013	Vested and exercisable at 30 June 2013
Directors						
Laurence Cox	–	–	–	–	–	–
Bruce Thompson	–	–	–	–	–	–
Nicole Birrell	–	–	–	–	–	–
Kerry Smith	–	–	–	–	–	–
Derek Young	–	–	–	–	–	–
Thomas Stianos	254,300	98,232	92,020	14,980	245,532	–
Executives						
Rick Rostolis	22,792	19,647	–	–	42,439	–
Graham Lanphier (i)	71,414	27,505	37,670	61,249	–	–
Chris Sandham	32,138	19,647	–	–	51,785	–
Shaneen Argall	53,560	19,647	20,640	3,360	49,207	–
David Moodie	56,844	19,647	20,640	3,360	52,491	–

Name	Held at 1 July 2011	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2012	Vested and exercisable at 30 June 2012
Directors						
Laurence Cox	–	–	–	–	–	–
Bruce Thompson	–	–	–	–	–	–
Nicole Birrell	–	–	–	–	–	–
Kerry Smith	–	–	–	–	–	–
Derek Young (ii)	–	–	–	–	–	–
Thomas Stianos	277,246	79,618	102,564	–	254,300	–
Executives						
Rick Rostolis	8,460	14,332	–	–	22,792	–
Graham Lanphier	83,074	19,109	30,769	–	71,414	–
Chris Sandham	16,214	15,924	–	–	32,138	–
Shaneen Argall	49,484	14,332	10,256	–	53,560	–
David Moodie (iii)	63,997	15,924	23,077	–	56,844	–

(i) Ceased employment 11 February 2013

(ii) Appointed 22 November 2011

(iii) Appointed to KMP role 1 January 2012. Movements are for the entire reporting period

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Movement in shares

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

Name	Held at 1 July 2012	Received on exercise of performance rights	Purchases	Sales	Held at 30 June 2013	Other changes
Directors						
Laurence Cox	411,762	–	–	–	411,762	Nil
Bruce Thompson	70,499	–	–	–	70,499	Nil
Nicole Birrell	9,681	–	–	–	9,681	Nil
Kerry Smith	4,681	–	–	–	4,681	Nil
Derek Young	–	–	–	–	–	Nil
Thomas Stianos	1,725,363	92,020	–	–	1,817,383	Nil
Executives						
Rick Rostolis	–	–	–	–	–	Nil
Graham Lanphier (i)	198,923	37,670	–	–	–	Nil
Chris Sandham	–	–	–	–	–	Nil
Shaneen Argall	12,901	20,640	–	–	33,541	Nil
David Moodie	23,077	20,640	–	43,717	–	Nil

Name	Held at 1 July 2011	Received on exercise of performance rights	Purchases	Sales	Held at 30 June 2012	Other changes
Directors						
Laurence Cox	411,762	–	–	–	411,762	Nil
Bruce Thompson	70,499	–	–	–	70,499	Nil
Nicole Birrell	9,681	–	–	–	9,681	Nil
Kerry Smith	4,681	–	–	–	4,681	Nil
Derek Young (ii)	–	–	–	–	–	Nil
Thomas Stianos	1,622,799	102,564	–	–	1,725,363	Nil
Executives						
Rick Rostolis	–	–	–	–	–	Nil
Graham Lanphier	168,154	30,769	–	–	198,923	Nil
Chris Sandham	–	–	–	–	–	Nil
Shaneen Argall	2,645	10,256	–	–	12,901	Nil
David Moodie (iii)	25,000	23,077	–	25,000	23,077	Nil

(i) Ceased employment 11 February 2013. Closing balance held at date of departure was 236,593

(ii) Appointed 22 November 2011

(iii) Appointed to KMP role 1 January 2012. Movements are for the entire reporting period

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Changes in key management personnel

Mr Darren Stanley, Managing Director, SMS Consulting Australia, was appointed as KMP effective 1 July 2013. Mr David Moodie, Director Clients & Markets, vacated his KMP role from 1 July 2013.

30. NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The classes of non-KMP related parties are:

- > wholly-owned controlled entities;
- > partly-owned controlled entities;
- > commonly controlled entities;
- > associated entities;
- > joint venture entities;
- > directors of related parties and other related entities.

The wholly-owned group consists of SMS Management & Technology Limited and its controlled entities as set out in Note 27. The ultimate parent entity of the Group is SMS Management & Technology Limited.

All transactions with non-KMP related parties are on normal terms and conditions. These transactions consisted of amounts advanced by and repaid to the Company and the Group for the provision of services on normal commercial terms and conditions and at market rates. There are no fixed terms for the repayment of principal on loans advanced by and to the Company and the Group.

31. PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ended 30 June 2013, the parent entity of the Group was SMS Management & Technology Limited. A summary of the financial performance and financial position of the parent entity is detailed below:

	The Company	
	2013 \$'000	2012 \$'000
Summary of the financial performance of the parent entity		
Profit for the year	21,079	20,487
Total profit and other comprehensive income for the year	21,079	20,487

	The Company	
	2013 \$'000	2012 \$'000
Summary of the financial position of the parent entity at year end		
Current assets	12,777	7,806
Non-current assets	82,402	82,401
Total assets	95,179	90,207
Current liabilities	2,978	2,285
Total liabilities	2,978	2,285
Net assets	92,201	87,922
Total equity of the parent entity comprising of:		
Issued capital	65,596	62,825
Reserves	9,546	8,038
Retained earnings	17,059	17,059
Total equity	92,201	87,922

31. PARENT ENTITY DISCLOSURES (continued)

Parent entity guarantees

	The Company	
	2013 \$'000	2012 \$'000
GST liabilities of other entities within the GST Group	2,208	2,666
Tax liabilities of other entities within the Group	119	184

The contingent liabilities above are recognised in the consolidated statement of financial position of the Group.

Parent entity guarantees in respect of debts of its controlled entities

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain controlled entities.

Further details of the Deed of Cross Guarantee and the controlled entities subject to the Deed, are disclosed in Note 26.

32. SUBSEQUENT EVENTS

On 4 July 2013, SMS Consulting Group Limited, a controlled entity, acquired 100% of the shares in Indicium Technology Group Pty Ltd and 100% of the units in Access Networks and Communications Unit Trust (together "Indicium") for \$22,000,000. Indicium is a managed services provider, specialising in Business Cloud and Infrastructure Management solutions for the corporate market.

The purchase consideration is subject to earn-out arrangements over a two-year period and is comprised of:

- > An up-front payment of \$9,680,000 in cash and \$2,420,000 in shares;
- > A second payment of \$4,400,000 (due in September 2014), being the contingent amount of the purchase price to be paid after meeting expected earnings before interest and tax ("EBIT") targets for the financial year ending 30 June 2014;
- > A third payment of \$5,500,000 (due in September 2015), being the contingent amount of the purchase price to be paid after meeting expected EBIT targets for the financial year ending 30 June 2015.

The vendors of Indicium may be entitled to payments over and above the amounts stated above should EBIT targets for the financial years ending 30 June 2014 and 30 June 2015 be exceeded.

Due to the timing of the acquisition, it has not been practical to complete the initial accounting for the acquisition.

Other than the acquisition of Indicium, no matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

1. In the opinion of the directors of SMS Management & Technology Limited ("the Company"):
 - a) the consolidated financial statements and notes that are set out on pages 68 to 108 and the Remuneration Report on pages 51 to 60 in the Directors' Report are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
 - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the Group entities identified in Note 27 will be able to meet any obligations or liabilities which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2013.
4. The directors draw attention to Note 2(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

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



Laurence G Cox
Director



Thomas Stianos
Director

Signed at Melbourne on this 21st day of August 2013.



Independent auditor's report to the members of SMS Management & Technology Limited

Report on the financial report

We have audited the accompanying financial report of SMS Management & Technology Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 51 to 60 of the directors' report for the year ended 30 June 2013. 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of SMS Management & Technology Limited for the year ended 30 June 2013 complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Penny Stragalinos
Partner

Melbourne

21 August 2013

DISTRIBUTION OF HOLDINGS

Range	No. of Holders	No. of Shares	% of Issued Capital
1 to 1,000	3,860	2,035,060	2.91%
1,001 to 5,000	3,518	9,067,764	12.97%
5,001 to 10,000	774	5,732,682	8.20%
10,001 to 100,000	460	11,169,214	15.97%
100,001 and Over	32	41,915,145	59.95%
Total	8,644	69,919,865	100.00%

The number of shareholders holding less than a marketable parcel of 94 securities (based on the closing share price of \$5.27 on 12 August 2013) is 288 and they hold 11,876 shares.

TWENTY LARGEST REGISTERED SHAREHOLDERS (as at 12 August 2013)

Rank	Name of Shareholder	No. of Shares	% of Issued Capital
1	HSBC Custody Nominees (Australia) Limited	9,394,372	13.43%
2	National Nominees Limited	9,255,608	13.23%
3	JP Morgan Nominees Australia Limited	8,726,592	12.47%
4	JP Morgan Nominees Australia Limited	2,010,244	2.88%
5	Citicorp Nominees Pty Limited	1,915,277	2.74%
6	BNP Paribas Noms Pty Ltd	1,608,110	2.30%
7	Citicorp Nominees Pty Limited	1,581,848	2.26%
8	Larison Pty Ltd	1,406,502	2.01%
9	Glennfield Pty Ltd	904,891	1.29%
10	Pacific Custodians Pty Limited	786,470	1.12%
11	RBC Investor Services Australia Nominees Pty Limited	624,653	0.89%
12	Warbont Nominees Pty Ltd	304,675	0.44%
13	Mr Michael Phillip Thompson & Mrs Tracie Jane Thompson	301,312	0.43%
14	Mr Stephen Ashley Hurst & Mrs Helen Hurst	277,497	0.40%
15	Stylianou Enterprises Pty Ltd	270,694	0.39%
15	M Goklaney Enterprises Pty Ltd	270,694	0.39%
16	QIC limited	234,604	0.34%
17	Pacific Custodians Pty Limited	206,514	0.30%
18	Mr Thomas Stianos	192,317	0.28%
19	Navigator Australia Ltd	164,586	0.24%
20	Nulis Nominees (Australia) Limited	159,782	0.23%
Total		40,597,542	58.06%
Balance of Register		29,322,323	41.94%
Grand Total		69,919,865	100.00%

SUBSTANTIAL SHAREHOLDERS (as at 12 August 2013)

Holder	No. of Shares	% of Issued Capital*
BT Investment Management Limited	5,100,676	7.35%
Celeste Funds Management Limited	4,514,181	6.51%

* percentages are disclosed in substantial holding notices given to SMS Management & Technology Limited

ESCROW SHARES

There are 125,733 shares in escrow to 4 May 2014


There are 541,388 shares in escrow to 4 July 2014

There are 48,523 shares in escrow to 9 August 2014

VOTING RIGHTS FOR ORDINARY SHARES

The Constitution provides for votes to be cast:

- > on a show of hands, one vote for each shareholder; and
- > on a poll, one vote for each fully paid ordinary share.



TIMES CHANGE, TECHNOLOGIES CHANGE, BUSINESS PRACTICES CHANGE, BUT
AT SMS OUR THREE CORE PRINCIPLES HAVE REMAINED THE SAME: ADD VALUE,
MAINTAIN UNITY AND ENHANCE REPUTATION. THEY CONTINUE TO GUIDE US
AND ENSURE WE CONTINUE TO DELIVER EXCELLENCE IN EVERYTHING WE DO.

>> YOUR VISION. DELIVERED.

DIRECTORS

Laurence G Cox Chairman
Thomas Stianos Chief Executive Officer
Bruce Thompson
Nicole Birrell
Kerry Smith
Derek Young

COMPANY SECRETARIES

Rick Rostolis
Anna Gorton

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of SMS Management & Technology Limited will be held at RACV Club, Level 2, Club Pavilion room, 500 Bourke Street, Melbourne, Victoria 3000 at 10.00am 22nd October 2013.

Registered Office

Level 41, 140 William Street, Melbourne, Victoria 3000
Telephone 1300 842 767
Facsimile 1300 329 767
Email investors@smsmt.com

Share Register

Link Market Services Limited
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Locked Bag A14, Sydney South, NSW 1235
Telephone (within Australia) 1300 554 474
Telephone (outside Australia) +61 2 8280 7111
Facsimile +61 2 9287 0303

Auditor

KPMG
147 Collins Street, Melbourne, Victoria 3000

Stock Exchange

SMS Management & Technology Limited shares are quoted on the Australian Securities Exchange (ASX code: SMX)

Website Address

www.smsmt.com

SMS MANAGEMENT & TECHNOLOGY LIMITED
www.smsmt.com

