

# ANNUAL REPORT 2018



Inspiring you to live your passion

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Super Retail Group Limited and its subsidiaries. The financial report is presented in Australian dollars.

Super Retail Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its principal registered office and principal place of business is 751 Gympie Road, Lawnton, Queensland, 4501.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 45 to 72.

The financial report was authorised for issue by the Directors on 20 August 2018. The Directors have the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on our Investors and Media page on our website: [www.superretailgroup.com](http://www.superretailgroup.com)





**Super Retail Group is one of Australasia's largest retailers and is listed on the Australian Securities Exchange (ASX).**

We have over 670 stores, an annualised turnover of more than \$2.5 billion, and operations in Australia, New Zealand and China.

Our retail portfolio includes BCF Boating Camping Fishing, Macpac, Rebel and Supercheap Auto. Our online and digital presence complements our physical store footprint to enable our customers to shop whenever and however they prefer.

In addition to our extensive retail network, our commercial entities – Supercheap Auto Trade Direct, Infinite Retail and Super Retail Commercial – offer opportunities for businesses to use our sourcing and supply chain capabilities to buy the products they need, when they need them.

We have a clear view of the future, a solid strategic roadmap and a passionate team of more than 12,000 members – all committed to delivering solutions that engage and inspire our customers.

# OUR BUSINESS

## OUR VALUES



PASSION



OPENNESS



INTEGRITY



CARE



DISCIPLINE

### OUR PURPOSE

To provide solutions and engaging experiences that inspire our customers to make the most of their leisure time.

### OUR VISION

Inspiring you to live your passion.

## OUR STRATEGY

Customer engagement, inspiring customer solutions, a world class supply chain and an engaged and capable team are critical to our future.

We remain focused on our strategy to ensure we continue to foster sustainable value creation in a changing retail environment.

1 

Growing businesses in high involvement categories

2 

Engaging capable team members who share our customers' passions

3 

Building a world class omni-retail organisation

## OUR GOALS

Super Retail Group has a strong portfolio of retail businesses, each with strong potential for organic growth.

We recognise the imperative of turning this potential into growth in total Group earnings.



HEALTHY,  
PASSIONATE AND  
HIGH PERFORMING  
TEAM MEMBERS



INSPIRED,  
ENGAGED AND  
SATISFIED  
CUSTOMERS



SUSTAINABLE  
OMNI-RETAIL  
CAPABILITIES



TOP  
QUARTILE  
SHAREHOLDER  
RETURNS

## OUR CUSTOMER PROMISE

At the core of our strategy is our Group-wide Customer Promise, which ensures we have a clear and common view of the standards customers can expect us to deliver. These standards guide the capabilities

we need to build as a world class omni-retailer and align to our purpose of providing solutions and engaging experiences that inspire our customers to make the most of their leisure time.



## OUR CORE BRANDS

Super Retail Group is one of Australasia's largest retailers, and is proud to provide solutions and engaging experiences that inspire

our customers to live their leisure passions as the owner of iconic Australian brands including:

### AUTO



Supercheap Auto is a thriving specialty retail business, specialising in automotive parts and accessories. Supercheap Auto stocks a wide range of tools and accessories for the DIY home handyman, as well as products for travel, touring, outdoors, garage and the shed.

### OUTDOOR



With stores across every state of mainland Australia, BCF is the largest outdoor retailer in the country. We sell quality brands from trusted manufacturers and are committed to offering the widest product range to our customers, who are as passionate about boating, camping and fishing as we are.



Macpac has designed apparel and equipment that has inspired a life outdoors since 1973. Designed, tested and proven in the ultimate outdoor test lab - New Zealand, Macpac's wide range of products are made for adventurers, by adventurers.

### SPORTS



Rebel offers a wide range of the latest quality, branded sporting and leisure goods for the casual enthusiast and serious competitor, including fitness equipment, sports equipment, apparel and associated accessories.

# 2018 PERFORMANCE HIGHLIGHTS

## TEAM

**~12,000**  
TEAM MEMBERS



**670** STORES

**5** SUPPORT OFFICES

**7** DISTRIBUTION CENTRES

**3** COUNTRIES OF OPERATION: AUSTRALIA, NZ & CHINA



**70%**  
TEAM ENGAGEMENT

2016  
**71%**

2017  
**71%**



**SAFETY**  
**6.4**

LTIFR – Lost Time Injury Frequency Rate

2016  
**8.8**

2017  
**6.5**



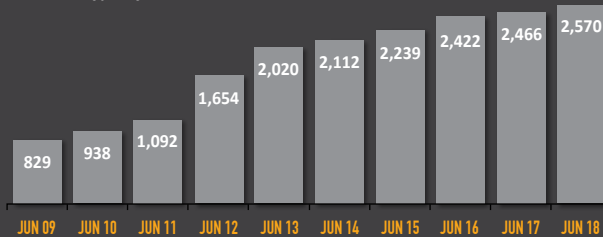
**74%**  
TEAM RETENTION

2016  
**75%**

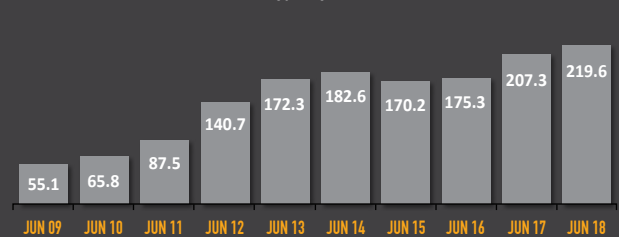
2017  
**74%**

## FINANCIAL

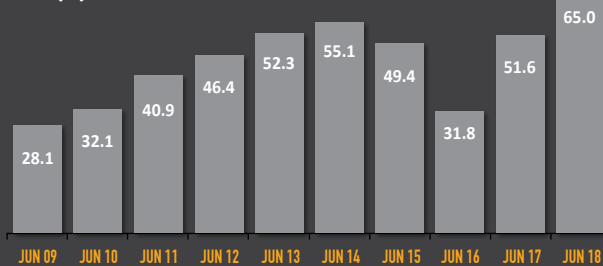
### SALES (\$M)



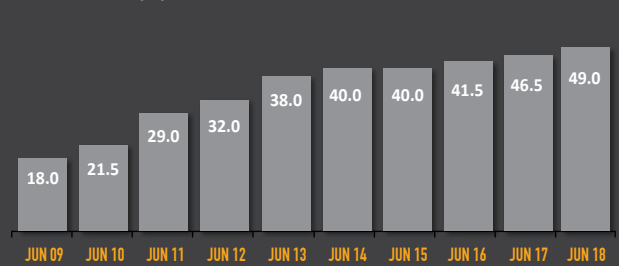
### TOTAL SEGMENT EBIT (\$M)



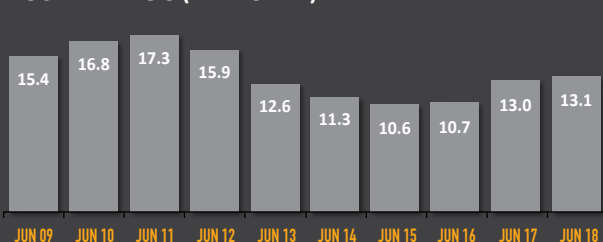
### EPS (c)



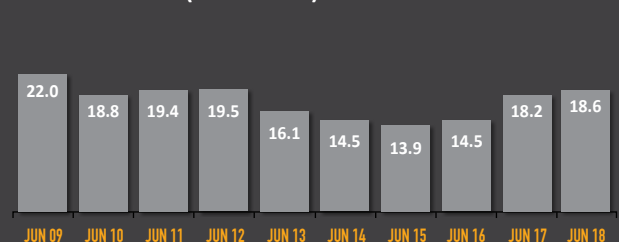
### DIVIDEND (c)



### POST TAX ROC ( PER CENT)



### POST TAX ROE ( PER CENT)\*



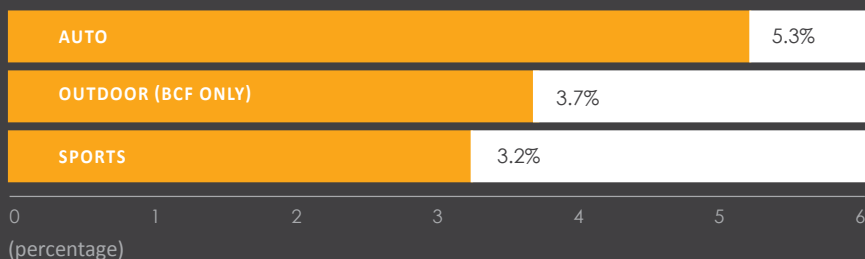
\* Normalised

# 2018 PERFORMANCE HIGHLIGHTS

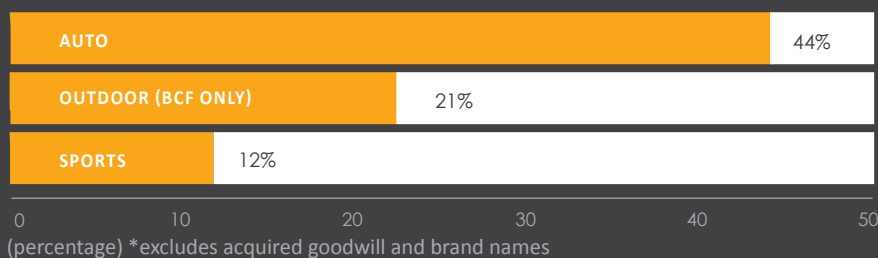
## DELIVERING OUR FINANCIAL TARGETS

### 5 YEAR TARGETS

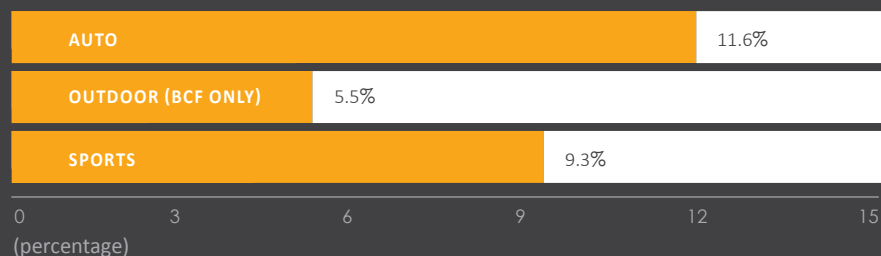
#### SALES GROWTH PER CENT



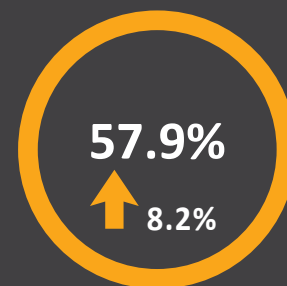
#### PRE TAX ROC PER CENT\*



#### EBIT MARGIN



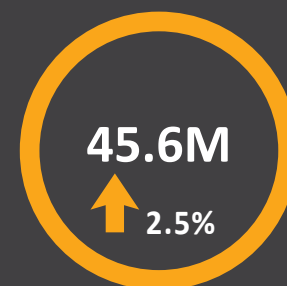
## CUSTOMER



AVERAGE NPS



ACTIVE CLUB MEMBERS



CUSTOMER TRANSACTIONS

## OMNI-RETAIL TRANSFORMATION



TOTAL ONLINE  
SALES GROWTH



STORE  
NUMBERS



CLICK &  
COLLECT %

Category	Total Online Sales Growth	Store Numbers	Click & Collect %
AUTO	85%	319	>50%
OUTDOOR (BCF)	76%	134	>50%
SPORTS	152%	159	>30%







# CHAIR'S MESSAGE



**DEAR SHAREHOLDER,**

**It is a honour to be able to write my first message to you as the Chair of Super Retail Group.**

Good governance provides the foundation for all our activities, and is essential to the realisation of our goals. Your Board is committed to sound governance practices, based on an ethical approach to decision making, and a healthy organisational culture that values engagement, transparency, diversity and inclusion. We recognise that what we do as a Group affects our team members, our customers, our suppliers, our investors, and the communities we are connected with. By engaging with our stakeholders, and being transparent about our approach and our actions, we aim to make good decisions which will support the continued success of the Group.

The Group's financial results for the year were strong, with growth in sales and earnings before interest and tax in all divisions. Our financial performance and effective capital management supported the Board's decision to declare a final dividend of 27.5 cents per share fully franked, bringing the full year dividend to 49 cents per share fully franked, an increase of 5.4 per cent on the prior year. The dividend was in line with the Group's Dividend Policy to maintain

a dividend payout ratio of between 55 per cent and 65 per cent of underlying net profit after tax.

Super Retail Group has a clear purpose, and a capable team led by Peter Birtles. We will continue to execute on our omni-retail strategy, responding to the dynamic retail environment and striving to provide solutions and experiences for customers so they can make the most of their leisure time.

Your Board has a deep understanding of the Group's businesses, and spends time outside Board and Committee meetings engaging with stakeholders and visiting stores, support offices, distribution centres and other parts of our supply chain. This understanding enables the Board to provide effective support to the senior leadership team, and have effective oversight of business operations.

During the year, my predecessor, Robert Wright, retired after leading the Board for eight years. John Skippen also retired as a Non-Executive Director after nine years of service. I thank Robert and John for

their significant and long-standing service to the Board and the Group, and wish them the best for the future. In line with our planned and rigorous approach to Board succession planning, Peter Everingham was appointed to the Board as a Non-Executive Director in December 2017, bringing his extensive executive experience in the digital sector to the Board.

I thank my Board colleagues for their commitment and guidance. I welcome the Macpac team to the Group, and thank the entire Super Retail Group team for their tireless efforts to inspire and support our customers, and engage with our stakeholders. I look forward to continuing to work with them as we strive for long-term value creation for you, our shareholders.

Thank you for your continuing support of Super Retail Group.

A handwritten signature in black ink, appearing to read 'Sally Pitkin'. The signature is fluid and cursive, written in a professional style.

Sally Pitkin  
Independent Non-Executive Chair



# CEO'S MESSAGE



## DEAR SHAREHOLDER,

2018 has been a highly successful year for Super Retail Group and we are pleased to report a record result. We measure our overall performance against four Group goals, which provide a broader perspective on the progress of the Group.

The scorecard at June 2018 read as follows:

### Healthy, passionate and high performing team

- Top quartile team engagement at 70 per cent
- Team retention at 73.8 per cent – significantly higher than the industry average
- Lost Time Injury Frequency Rate (LTIFR) at 6.4 – a more than 50 per cent improvement since 2015
- Net Promoter Score (NPS) highlights a positive trend in team expertise and service.

### Inspired, engaged and satisfied customers

- 5.50 million active club members as at June 2018 (up from 4.0 million at June 2015)
- Club members NPS of 57.9 as at June 2018 (up from 36.9 at June 2015)
- 45.6 million customer transactions in the 12 months to June (up 2.5 per cent on the PCP)
- 9.8 million active website visits as at June 2018 (up 26 per cent on the PCP).

### Sustainable omni-retail capabilities

- Supercheap Auto, BCF and Rebel websites relaunched on Salesforce Commerce Cloud
- Core information systems migrated to new platform to be more flexible, scalable and secure
- Investment in supply chain delivering productivity and working capital savings
- Focus on enhancing direct-to-customer delivery and customer management.

### Top quartile shareholder returns

- Compound Annual Growth Rate (CAGR) in normalised EPS of 5 per cent (five years to June 2018)
- Average post-tax Return On Capital of 11.7 per cent (five years to June 2018)
- Average Group normalised Earnings Before Interest and Tax (EBIT) margin of 8.1 per cent (five years to June 2018)
- Average Group like-for-like sales growth of 3.3 per cent (five years to June 2018).

Operating cash flow performance was again strong, demonstrating the Group's ability to generate working

capital savings to fund its investment in new and refurbished stores and to build its omni-retail capabilities. As a result, net debt increased by only \$42.2 million, even with the debt-funded \$133.8 million acquisition of Macpac.

Performance against the non-financial measures that we use as an indicator of the Group's health was also strong. From the customer perspective, we saw an increase in customer traffic online and an increase in average club NPS. From a team member perspective, there was a strong improvement in our safety performance and we have maintained engagement levels within the top quartile of all Australian businesses.

In addition, we are increasingly challenging ourselves to adopt a sustainable approach to all aspects of Group operations. Further details on our environmental and social initiatives and performance will be available in our 2018 Sustainability Report. In addition, please refer to the Corporate Governance Statement on page 41 for details about our governance practices.

# OPERATING CASH FLOW PERFORMANCE WAS AGAIN STRONG, DEMONSTRATING THE GROUP'S ABILITY TO GENERATE WORKING CAPITAL SAVINGS TO FUND ITS INVESTMENT IN NEW AND REFURBISHED STORES AND TO BUILD ITS OMNI-RETAIL CAPABILITIES.

## DELIVERING ON OUR STRATEGY

We have made significant progress in delivering on three core elements of our strategy.

- **Growing businesses in high involvement categories:** We have strengthened our portfolio of businesses in high engagement categories with the merger of the Rebel and Amart Sports businesses, the acquisition of Macpac, and the merger of Macpac with Rays.
- **Engaging capable team members who share our customers' passions:** The introduction of new learning and recognition programs has contributed to our top quartile team member engagement and retention. Our customers have also increased their ratings of our team members' expertise and service.
- **Building a world class omni-retail organisation:** Our investment in building our omni-retail capabilities has underpinned strong growth in online sales. We

continue to extend our offering to customers through new product ranges and services, and by investing in both the online and in-store customer experience.

## GROWING BUSINESSES IN HIGH INVOLVEMENT CATEGORIES

All three of our divisions grew sales and EBIT in 2018, with the Outdoor (formerly Leisure) and Sports divisions benefitting from the transformation initiatives undertaken during the year.

The acquisition of Macpac was completed with an effective date of 31 March 2018, with the business performing strongly over the subsequent three months, contributing \$7.8 million in EBIT. We have closed six Rays stores, and will be converting the remaining nine to Macpac large format stores in the fourth quarter of FY2019. The total integration of Rays into Macpac will eliminate the losses contributed by the Rays business over recent years.

We completed the conversion of 68 Amart Sports stores to the Rebel brand and restructured the division's

support functions over a 68-day period in the first half of the year. As anticipated, the conversion process had some impact on sales and margin performance over the following six months as the Sports division consolidated the product range across all stores and relaunched the former Amart Sports stores under the Rebel brand. Pleasingly, customer NPS has improved through the transition and sales momentum rebounded strongly in the final quarter.

## ENGAGING CAPABLE TEAM MEMBERS WHO SHARE OUR CUSTOMERS' PASSIONS

On behalf of the Group leadership team, I would like to thank every one of our current and former team members for their contribution to the ongoing success of the Group. It is a clear business principle that everything starts with team.

It was therefore very disappointing that an internal investigation confirmed that we have not paid team members who worked on store set up projects in accordance with the correct modern award, and





that we have had an inconsistent approach in how time-in-lieu, overtime payments and allowances were applied to additional hours worked during store set ups.

While we believed that we were following the right approach, we were wrong, and we are very sorry for the impact on our team. We are committed to back paying all team members who have been impacted back to July 2010, and we will be adding interest to the back-payment.

It is important that we improve our approach to ensure we meet all our obligations. We have strengthened the governance of our remuneration arrangements across the Group and are increasing the training of our team and the auditing of our practices.

Despite this serious oversight, we are proud that our team engagement continues to stand within the top quartile of Australian companies. While this is a good result, we did see a one per cent decline in our score over the year. Our teams have identified a number of areas, such as change leadership and more

effective systems, in which we can improve their experience. These areas have been incorporated into our strategic program.

During the year we introduced a real-time recognition platform, accessible via app or web browser, to respond to feedback from our team that they wanted to see more immediate recognition of their achievements. We were pleased to have been the fastest Australian organisation to reach 100,000 recognitions on the platform (in less than six months), according to the service provider, which demonstrates the passion of our team.

It was also pleasing that our team recognised the strong focus on safety across the Group in our most recent engagement survey. We saw a small improvement in the rate of workplace injuries in 2018, with our LTIFR at 6.4 per million hours worked, down from 6.5 per million hours worked in the previous year. We recognise the need in the coming year to expand our focus beyond output measures, such as LTIFR, and increase the attention given to

measuring and improving our safety behaviours.

We continue to build gender diversity across the Group with 37.6 per cent of our senior leadership positions held by females which is up from 34 per cent in the prior period. We are proud that females represent 43 per cent of our directors and the number of women within the Group Executive Team is at 36.4 per cent.

#### **BUILDING A WORLD CLASS OMNI-RETAIL ORGANISATION**

Growing our share of customer spending is a key priority as the retail industry responds to the impacts of new competitors and technologies. Our omni-retail strategy aims to incrementally grow our share of customer spending in-store, while significantly increasing our share of customer spending in online channels. We are therefore pleased with the strong growth in the share of customer spending online that each division achieved this year.

We will continue to invest in the technology we need to underpin the organisation. Major programs

over the next two years include optimising our technology network, implementing improved product information management, order management and customer management systems, and continuing to strengthen our cyber security. For a more detailed overview of progress on the execution of our omni-retail strategy, please refer to the section entitled Strategic Execution and Progress.

### DELIVERING ON OUR CUSTOMER PROMISE

We believe that much of our success in 2018 stemmed from an ongoing commitment to our purpose of providing solutions and engaging experiences that inspire our customers to make the most of their leisure time. We have had the advantage of observing for a number of years now, how changes have reshaped US and European retailing, and have been able to learn from those overseas retailers which have most successfully responded.

One key lesson we have drawn is the importance of being clear on where you compete and where you win. In light of this insight, we are confident that we can win by inspiring our customer communities, through providing an outstanding customer experience, and through determining the right solutions for our customers. We compete by delivering in line with our customer expectations and through ensuring that our customers are confident that the value of our solutions is competitive. These five elements of our customer promise – Inspiration, Experience, Solutions, Delivery and Confidence – are increasingly shaping the initiatives that we implement across the Group, as outlined below:

#### INSPIRATION:

- Digital content
- Social activation
- Extending the features of our loyalty programs
- Relevant and targeted marketing.

#### EXPERIENCE:

- Flexible and engaging training to build team member knowledge
- Store refurbishments to improve layout and displays
- Improving the usability and functionality of our websites
- Extending our store network.

#### SOLUTIONS:

- Range optimisation
- Extending the product catalogue online
- Innovative and exclusive products
- Private brand development
- In-house and third-party services.

#### DELIVERY:

- Developing our omni-fulfilment capabilities
- More efficient arrangements with our delivery partners
- Supply chain optimisation
- Inventory optimisation.

#### CONFIDENCE:

- Price and promotion optimisation
- Sourcing and quality.

#### LOOKING AHEAD

Our overriding focus for the year ahead is on the execution of our strategy. In particular, we will focus on growing market share in order to sustain our position as one of Australasia's leading retailers. Supercheap Auto, BCF and Rebel are the leading businesses in their respective categories and we have a plan to grow Macpac into a leadership position. There are opportunities to grow sales and margins in BCF and Rebel through better operational execution. The management teams of those businesses will be concentrating on these opportunities.

Following a period of restructuring which is now complete, we have four strong and profitable businesses that are all generating returns above their

cost of capital. We will continue to build the capabilities we need to become a world class omni-retailer, with a particular emphasis on our omni-fulfilment capabilities.

To assist in the execution of this strategy, we have initiated a number of Group-wide programs to improve capability across the organisation. 'Our Super Team' will continue to focus on building the engagement and skills of our team members, while reinforcing safety as our number one priority. 'One Super Way' will deliver our team members increased capabilities in customer management, merchandise management, order management and data management.

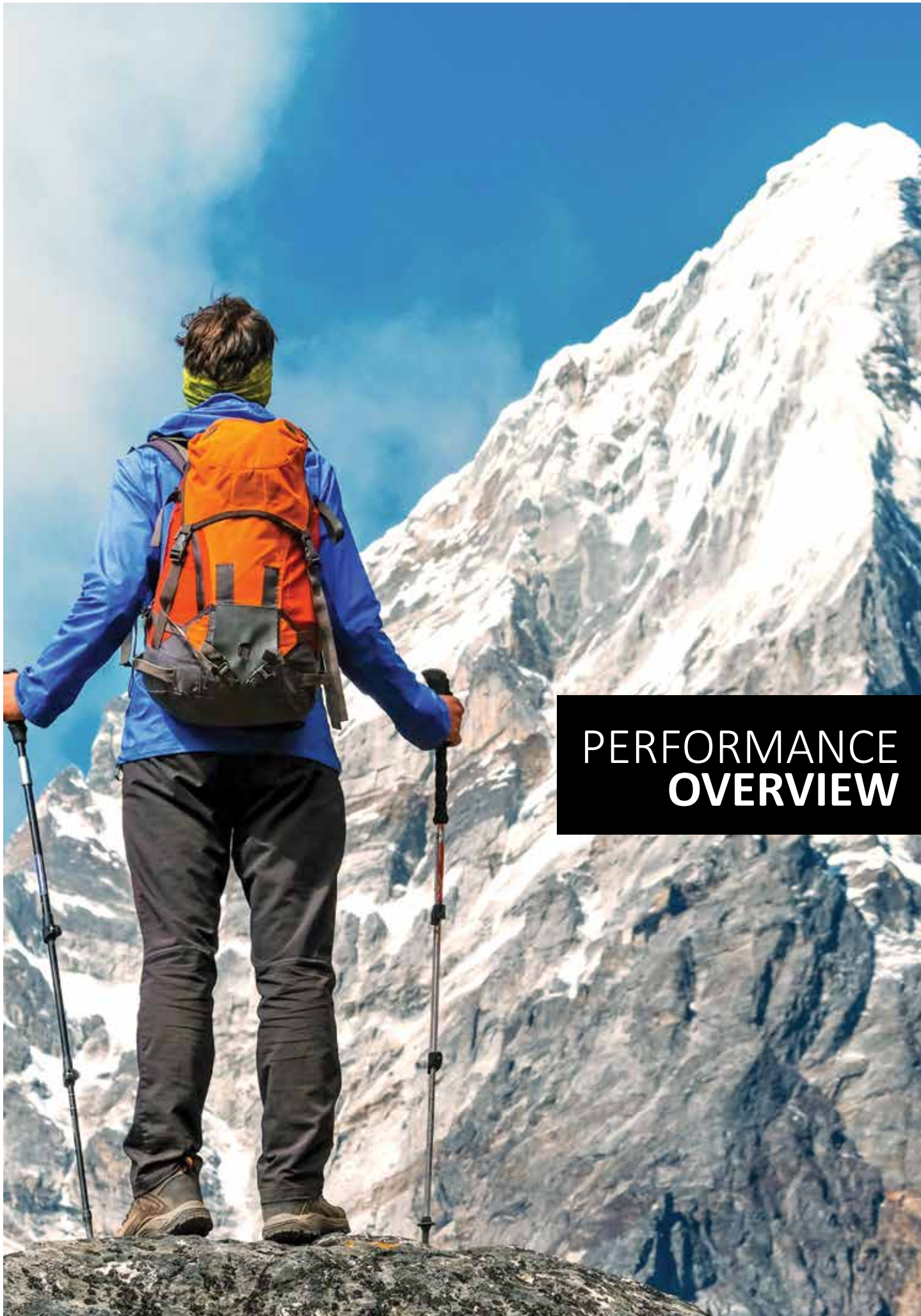
We also recognise the need to respond in the face of an increasingly competitive retail environment. While we have always been a cost-conscious company, we will review all of our core business processes to ensure our cost investments are optimised. We have commenced a 'Competitive Organisation' program to oversee this work.

We are confident that our commitment to providing solutions and engaging experiences that inspire our customers to make the most of their leisure time will ensure that we build a business that continues to prosper in a changing retail environment. We look forward to reporting on our progress.



Peter Birtles  
Group Managing Director and  
Chief Executive Officer





**PERFORMANCE  
OVERVIEW**

# STRATEGIC EXECUTION AND PROGRESS

In transitioning to an omni-retail strategy, we have drawn on the experiences of North American retailers, which were the first to face major technological disruption.

## EXECUTING OUR OMNI-RETAIL STRATEGY

Our analysis found that in almost every area of US and Canadian specialty retail, including in the Auto, Sports and Outdoor segments, an existing incumbent was able to grow market share in the face of new entrants and industry consolidation.

We are confident the retail landscape is evolving similarly in Australia. While it's true that digital innovation, increased competition and changes in consumer behaviour will create more losers than winners, the North American experience shows that retailers with leading market positions and strong free cash flows are best positioned to benefit from the opportunities that disruption inevitably presents.

Our omni-retail strategy was designed with this in mind. It allows us to take advantage of industry consolidation by shifting away from a store-based approach to one that prioritises growth of market share in all categories, focusing on growing our customer base, increasing total customer lifetime value and increasing our share of their wallet.

It recognises customers want to shop their way, and that preferences might change from day-to-day. For example, a customer might choose to browse online before purchasing through click-and-collect. On another occasion, they might purchase in-store and arrange for home delivery. Our strategic objective is to create an enjoyable and convenient shopping

experience every time, reinforced by a seamless connection between our digital channels and conveniently located stores.

We have already seen encouraging signs of traction. Supercheap Auto, Rebel and BCF have cemented their position as market leaders, and we have the right plan to grow the recently acquired Macpac business.

Key elements of the omni-strategy include:

- Inspiring our customers to live their passions by providing solutions and engaging experiences – not just selling products based on price
- Having engaged and capable team members who share our customers' passions
- Investing in our own supply chain to lower prices and control what we bring to market
- Investing in a single cloud-based platform to house all our websites
- Expanding private label ranges across our businesses
- Creating and supporting communities of like-minded customers
- Driving cost efficiencies by realising synergies in our Sports and Outdoor divisions
- Building our delivery capabilities, both internally and with partners.

## 'CUSTOMER PROMISE' AS COMPETITIVE ADVANTAGE

Price/earnings multiples compressed across the Australian retail sector earlier in 2018, as the market became increasingly concerned about the arrival of large international competitors. A number of analysts wondered how our Sports and Outdoor businesses in particular could successfully retain and grow market share in a rapidly changing environment.

While we remain competitive on price and delivery, our Group strategy has never attempted to engage in the ultimately futile task of trying to 'out-Amazon' Amazon. Our competitive advantage is based on a promise of providing inspiration, experience and solutions to our customers, and is equally applicable across all our businesses.

Deepening our knowledge of our customers will position us to fend off competition on both fronts. On one hand, we are achieving significant growth online, outperforming traditional competitors. On the other, we are focused on high involvement strategies, like in-store experiences and services, that new market entrants will find difficult to match.

Our competitive advantage – the reason we will grow and maintain our market leadership – ultimately revolves around the fact that customers want to transact with us because we provide solutions and experiences that allow them to pursue their passion, delivered





by team members who share those same passions.

Of course, our customer promise alone will not be sufficient to differentiate our offering from our competitors and therefore enhancing our digital capabilities remains critical. That's why we've recently invested in a new cloud-based web platform provided by the Salesforce Commerce Cloud. All our brand websites are now live on the platform. The new web platform also provides more flexibility for enhanced delivery options as they become available.

This ability to respond quickly to changing consumer expectations is another strategic priority, and we are already seeing the benefits of investing heavily in our delivery capabilities. Supercheap Auto recently extended their market leading 60-minute click-and-collect service by reducing pick-up times to as little as 30 minutes (see case study on page 33). Click-and-collect times for BCF currently stand at two hours – with Rebel at four hours – and there are plans to reduce these times further in future.

### **BUILDING CUSTOMER CONNECTIONS**

The omni-retail strategy will only be successful over the longer term if we retain our focus on inspiring and delighting customers. As a consequence, we are building connections with and between our customers of which over five million are club members across our different brands.

We are now taking our expertise in building communities into the digital world, through initiatives such as the Fisho app – where members of our angling community can connect; through 'how-to' videos on YouTube to assist customers make the most of their purchases; and through Supercheap Auto's partnership with Mighty Car Mods – a series for car enthusiasts which sees over three million views per week.

### **BENEFITS OF A CONSISTENT GROUP STRATEGY**

We believe there are significant advantages in taking a Group-wide approach to strategy, as opposed to individually tailored strategies for the Auto, Sports and Outdoor divisions.

A consistent Group strategy allows us to continue to invest in the growth of our individual businesses at the same time as investing in building the omni-retail capabilities all our divisions require – the timely and effective roll-out of our new cloud-based web platform being one example.

The scale and interoperability of our organisation also helps attract and retain strong talent, given the greater opportunities on offer for team member promotion and development. Finally, there is a commonality across all our brands in terms of their customer-centric vision and purpose. All are substantial businesses in their own right and share a common goal in aspiring to market leadership in their category.

In conclusion, the retail landscape is changing, and our Group strategy is changing with it. We are confident in our omni-retail capabilities and executing our customer promise will see us benefit from industry consolidation, keeping us ahead of our competition and delivering strong operating cash flows and reliable returns for shareholders.



# SUPERCHEAP AUTO

PRESENTS

Castrol



PENRITE

NULON

## VOL. 1 THE BEST PERFORMING OILS

IN ASSOCIATION WITH THE DREAMERS JAZZING DANNY TREJO FEATURING NULON, PENRITE, CASTROL & GULF WESTERN  
MUSIC BY BLISS N ESO 'FORTUNATE SON' FILM BY ALLAN HARDY COSTUME DESIGNER AMELIA FULLER & MAX DUFF PHOTOGRAPHER MATTHEW MCFERRAN STYLER BENJAMIN WARD  
STORY BY JIMMY CHRISTIANSEN EXECUTIVE PRODUCER NIGEL HARBACH EXECUTIVE PRODUCERS MARC PURNELL, JOE LANCASTER & TIM BAHRIJ EDITOR ALLAN HARDY DIRECTOR OF PHOTOGRAPHY CAMERON BATTEN  
PRODUCED BY CAMERON MARCH CREATIVE PRODUCERS ALLAN HARDY & JOSH WEIER EXECUTIVE PRODUCERS DAVID BAUER, REECE MOGER & ALLAN HARDY PRODUCED BY ARIEL VERRI DIRECTED BY ALLAN HARDY

Check the Classification



WWW.OCTANEISLAND.COM

## Octane Island campaign delivers big lift for lubes

Supercheap Auto is a thriving specialty business and Australia and New Zealand's biggest retailer of automotive parts and accessories. The business has grown off the back of DIY motoring enthusiasts – men and women who enjoy restoring, maintaining and improving their cars.

### TINKER-PROOF CARS

Due to innovations in automotive technology, cars have evolved over the last decade to be much more complicated than they once were. As far back as 2005, research from the Australian Automotive Aftermarket Association indicated that cars were becoming too sophisticated for those DIY enthusiasts who were concerned about their understanding of electronics and the complexities of modern vehicle design. As a result, the general auto market has become a more important driver of growth than repair and DIY-related products.

### THE IMPORTANCE OF 'ANCHOR' CATEGORIES

Business success is now more dependent upon the brand becoming relevant to a broader audience, who might visit the store for auto necessities but leave with much more. Engine oil is one of the most important of these 'anchor' categories for Supercheap Auto, and a key catalyst for customers to visit a store when it's time to service their vehicles. Once inside, they are much more likely to purchase other

products, including those required for completing a basic service.

### KEEPING SUPERCHEAP AUTO TOP-OF-MIND

The engine oil category is dominated by four competitive brands with wide distribution: Gulf Western, Castrol, Nulon and Penrite. Our challenge was to find a way to support the category as a whole by creating a campaign that would encourage customers to keep Supercheap Auto top-of-mind when it came to making their next engine oil purchase.

The campaign would also need to capture the perceived benefit of truly responsive performance in a way that reflected our audience's enthusiasm for cars, while allowing the featured brands to retain their individual identities.

In collaboration with The Dreamers, a film production company, we created an engaging piece of entertainment – more a mini-movie than ad – with the longer clip used on social media and digital outlets, and a more traditional 30-second piece featured on Australian free-to-air TV networks.

'Octane Island' features the iconic

American actor Danny Trejo and Australian muscle cars, prominently displaying the four oil brands, racing through the now-decommissioned Wangi Power Station in New South Wales, on Calder Raceway in Victoria, and on Hashima Island – an islet off Nagasaki in Japan.

The campaign was in the market for six weeks from mid-October to December 2017, and briefly again in the New Year.

### DRIVING STRONG SALES PERFORMANCE

The campaign was a success by every measure. It resulted in 73.1 million impressions (views on TV, social media and elsewhere), and generated a strong like-for-like sales performance in a traditionally non-elastic category.

'Octane Island' was voted as being in the top 10 Australian ads of 2017 by the publication AdNews. In addition, it was picked up by the US social media channel Hot Rod Network, the leading American automotive content hub, and the full online piece was broadcast on Channel Seven's Sunrise program as an editorial.

# STRONG CASH GENERATION THROUGH A PERIOD OF CHANGE

The Group's strong cash generation over recent years has largely contributed to our robust financial performance in 2018, enabling us to invest in our strategic initiatives and transform our business to become a world class omni-retail organisation.

This is demonstrated through the substantial increase in our net cash inflow from operating activities which lifted from \$182.0 million in 2015 to \$308.4 million in 2018.

Pre-tax cash flow after adjusting for timing benefits has consistently been near normalised EBITDA, highlighting our continuing ability to deliver consistent growth for shareholders over time. This has increased in 2018 due to improvements in working capital performance through improved supply chain efficiencies and trade partner payment terms.

## CONTINUED STRONG CASH GENERATION

The strong underlying cash flow performance for the Group provides scope for our capital management to focus on maximising shareholder returns, maintain financial strength and retain financial flexibility. This allows the Group to:

- Pay dividends to shareholders of between 55 per cent and

65 per cent of underlying Net Profit After Tax

- Invest capital above the Group's investment hurdles of 15 per cent after tax
- Invest in the strategic growth of the business.

## STRONG CASHFLOW SUPPORTED BY STRATEGIC INITIATIVES

Reshaping Super Retail Group to stay ahead of the competition and respond to changing customer expectations and preferences has required investment. But strong cash flow and good capital allocation has allowed us to reposition our business

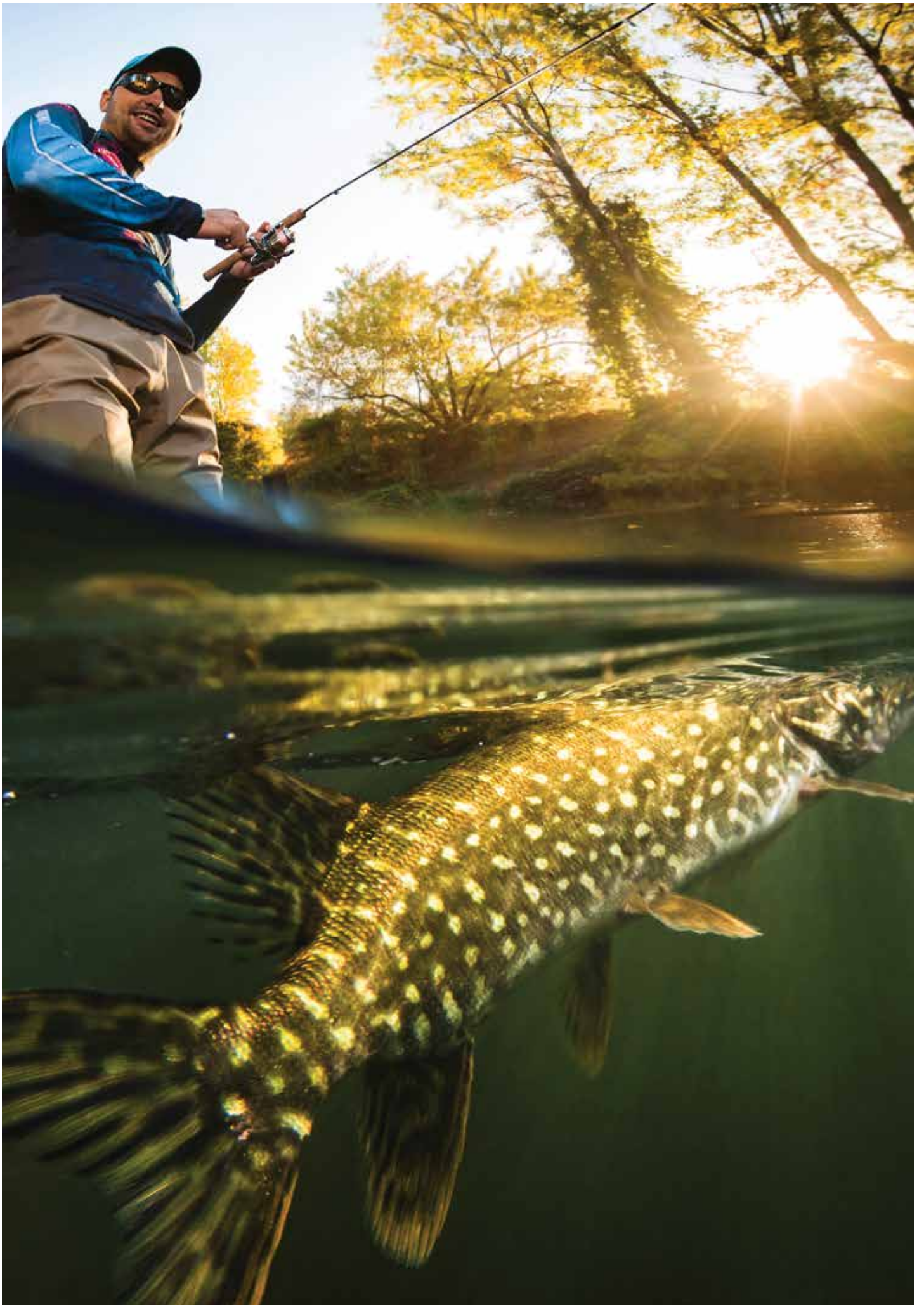
to take advantage of opportunities for future growth. These include:

- Historical investment in stores to drive revenue growth has positioned the store network to be of a high standard of presentation and an engaging customer experience
- Our investment has shifted to improve the omni-retailing experience by investing in digital capability and underlying systems.

Although debt has been taken on to fund the Macpac acquisition of NZ\$144 million, based on our track-record the Group plans to reduce our debt profile over the next few years.

CONTINUED STRONG CASH GENERATION				
\$m	2017/18	2016/17	2015/16	2014/15
Pre tax operating cash flow	352	288	203	228
Timing benefits	(17)		38	
Underlying pre tax operating cash flow	335	288	241	228
Cash conversion ratio to normalised EBITDA	114%	104%	98%	99%









## Building a legacy at Moreton Bay

How BCF and our customers are driving shellfish habitat restoration along the Pumicestone Passage.

There are few places on earth as beautiful as the Pumicestone Passage, a waterway in the Moreton Bay Marine Park that stretches for 35 kilometres from Caloundra to Deception Bay. As the oldest registered fish habitat in Queensland, the passage plays host to boaters, swimmers and anglers seeking to escape daily life in a natural wonderland of channels, sandbanks and islands. The marine park invites other visitors too – breeding fish, turtles, dolphins and migratory birds – as well as dugongs; gentle giants of the ocean who visit seasonally to feast on pastures of sea grass.

Yet under the blue waters, all was not well. Years of commercial oyster dredging had degraded the shellfish beds for which the passage was famous. Unsustainable harvesting along with pollution, has led to significant damage to habitat in the region resulting in reduced fish stocks, disruption to the food web, and so on. The ecosystem of the passage was beginning to break down.

At BCF we have always understood that waterways play a major role in the outdoor leisure activities that both our customers and team members enjoy – almost 3.5 million Australians go fishing every year. So when we heard about what was happening to the waters around Moreton Bay, we were determined to lend nature a hand.

In 2017, we partnered with fishing conservation organisation OzFish Unlimited to get to work on restoring the once-magnificent shellfish beds of the passage. Our plan involved designing three types of shellfish reefs, which would replicate ideal

growing conditions for oysters and other molluscs. One 'patch' reef was made from shell, another 'string' reef was made from steel cages filled with shell, and a third 'string' reef was fashioned from a biodegradable potato starch matrix developed in the Netherlands – the first of its kind in Australia.

The reefs were seeded with shellfish and installed in a one-hectare location, close to Bribie Island, with the aim of restoring the marine ecosystem to balance, increasing the fish population and improving water quality over time.

The project was not easy. The physical creation of the reefs and their installation required the help and cooperation of many stakeholders, including the local community and government. To ensure proper funding was in place, BCF donated \$20,000, which helped facilitate \$150,000 in cash contributions and a further \$230,000 of in-kind support from other partners. BCF also provided a further \$50,000 contribution to engage a Senior Project Manager in Dr Ben Diggles – who has since encouraged recreational anglers to become involved in this and similar initiatives in Queensland.

The Pumicestone Passage project will be monitored by the University of the Sunshine Coast marine science team to assess the effects on water quality and fish stocks, with the hope that a successful outcome can be replicated elsewhere in the Moreton Bay Marine Park.

Looking ahead, and empowered by our partnership with OzFish and the support of recreational anglers, we

are determined to build a legacy of healthy waterways for future generations. Importantly, we are committed to driving this cause, not just funding it. With this responsibility in mind, we have identified three ways through which we can implement real change: giving, raising awareness and team mobilisation.

Restoring the natural environment obviously needs funding. Our generous customers contributed \$155,902 in 2018 – donations which helped fund both the Pumicestone Passage work and the initial restoration project we coordinated with OzFish at the Merri River in Victoria last year.

Raising community awareness is also key. We believe that our customers love Aussie waterways as much as our team members do, and that initiatives such as BCF's Round Up campaign – which encourages customers to round up their purchases with the additional amount going to OzFish – help customers connect with our mission. Finally, team members will also have the opportunity to engage in the initiative through a team advocacy program. This will include a chance to get hands-on in providing practical assistance at the project sites.

Our ultimate goal is to build a community of environmental stewards who are empowered to actively manage the health of our waterways. Australia is a beautiful place, and we want to do our part to keep it that way for generations to come.



# STRENGTHS OF OUR INDIVIDUAL BUSINESSES

Supercheap Auto, Rebel and BCF cemented their positions as leaders in their categories in 2018, with the Auto, Sports and Outdoor divisions benefitting from major investments in our digital capabilities and store network.

We are confident that the continuing transition from a bricks-and-mortar strategy to an omni-retail strategy will cement the Group as a premier Australasian retailer.

## STRENGTH IN AUTO

Supercheap Auto continues to lead the automotive sector in providing omni-retail solutions for customers, growing its share of customer spending among auto retailers. In line with our consistent track record of strong financial performance, we achieved year-on-year sales growth of 5.3 per cent in 2018, an improving customer NPS and significant growth in online sales, outperforming traditional competitors.

### SUPERCHEAP AUTO: KEY STATISTICS FOR 2018

Active club members	↑	1.47m
Club members NPS	↑	59%
Club sales % total sales	↑	37%
Store numbers	↑	319
Share of online spending among auto retailers <sup>(1)</sup>	↑	24%
Online sales % total sales	↑	5%
Click-and-collect % online sales	↑	>50%
Private brand mix	↑	44%

Inspired by its motto – *Everything auto and much much more!* – Supercheap Auto continues to evolve its offer to respond to changing customer preferences. We've added to our 10,000-plus product range, which now covers everything from automotive, basic marine and motorbike parts and accessories, to handyman items, tools and equipment.

To expand the range, we are focusing on higher growth categories. This includes products related to car travel, such as roof bars and solar batteries for camping and outdoor activities. Our services offering has also been extended. Supercheap Auto stores now offer the expert fitment of lightbulbs, seat covers and roof racks, as well as more involved services like batteries, in-car stereo and windscreen repair.

Despite the view in some quarters that automotive retail is a low-growth and defensive industry, we believe there are significant opportunities to grow profits in the years ahead. For example, as internet-of-things technologies become commonplace, customers will enjoy increased visibility and control over how their car is serviced. Their smart device will connect to their car, telling them exactly what needs to be fixed and how much it should cost.

We have made some controlled investments to position ourselves for the future, allowing us to test and learn in a cost-effective and methodical way as the automotive market changes. One example is our partnership with AutoGuru, a Gold Coast-based auto mechanic

marketplace which harvests service times and parts data before combining it with a mechanic's rates to provide a quotation for service. Users can then make an instant booking through the AutoGuru app.

## STRENGTH IN SPORTS

Our Sports division experienced another strong year, with the integration of Amart and Rebel strengthening our position as Australia's largest and most successful sports retailer. The synergies created by the integration have allowed us to reinvest back into the Rebel brand, which continues to deliver on its strategy of connecting customers and their communities with

### REBEL: KEY STATISTICS FOR 2018

Active club members	↑	2.47m
Club members NPS	↑	55%
Club sales % total sales	↑	61%
Store numbers	↓	159
Share of online spending among auto retailers <sup>(1)</sup>	↑	25%
Online sales % total sales	↑	8%
Click-and-collect % online sales	↑	>30%
Private brand mix	↓	16%

<sup>(1)</sup> SOURCE: Compared to key category competitors - Quantum NAB Data: 12 months ending June 2018. Refer to page 137.

their sporting passions and an active way of life. With an unmatched store footprint, the leading share of online spending among sports retailers, the biggest range of products and services, and an innovative and constantly evolving customer offer, Rebel does not have an equivalent competitor nationally.

We consolidated this market leadership by pursuing a number of strategic opportunities during the year under review. For instance, we extended the footprint of Rebel's own range of sports apparel, Ell & Voo. Growing our running, gym/fitness and football offerings was also a priority as these are the three fastest growing categories in sporting retail, and we are determined to strengthen our leadership in each.

Finally, we continued to build Rebel's 'experience, inspiration and solutions' ecosystem, which differentiates our offering by delivering a superior customer experience both online and in-store.

We are also looking for ways to deepen our engagement with customers after purchase, and growing the number of player appearances in-store by leveraging our strong relationships with all the major sporting codes.

#### STRENGTH IN OUTDOOR

The year under review was a transformative one for our Outdoor division, with the NZ\$144 million acquisition of outdoor adventure retailer Macpac in April 2018. Macpac has a strong heritage with a pipeline of new stores and product development that will generate solid growth in the coming years. The Group will convert the remaining nine Rays stores to Macpac large format stores in the coming year.

We identified the adventure segment as a high-growth opportunity for the Group (over five per cent annualised revenue growth), and were further encouraged by our view that a comprehensive adventure solution in apparel, footwear and equipment was missing from the market. In particular, we believed an opportunity existed to target affluent urban consumers, who are interested (but currently underserved) in this category.

As a vertically integrated adventure retailer with a strong brand and compatible culture, we believe the acquisition of Macpac will accelerate our strategy to build the leading adventure outdoors retail business across Australia and New Zealand. See the section entitled Growing Businesses in High Involvement Categories for more on the rationale behind the Macpac acquisition.

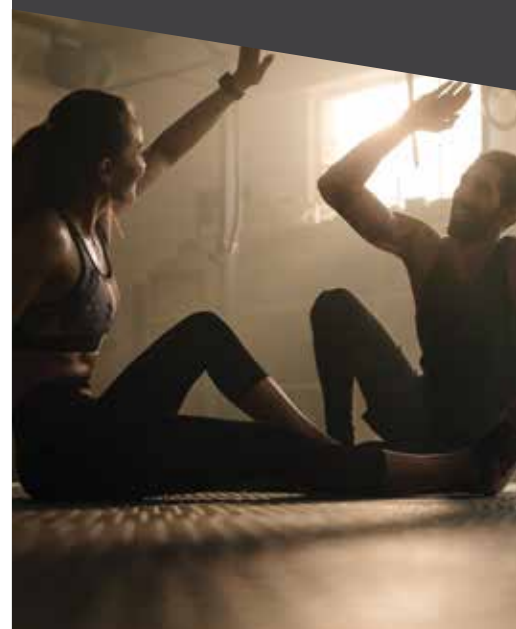
The BCF loyalty club program remains a key strength for the business with 79 per cent of total sales in 2018 generated from our 1.36 million active club members. BCF customers continue to be exceptionally loyal, as evidenced by strong attendance at club member nights.

To drive customer engagement even further, we've introduced an Experts program, which allows our team members to have better conversations with customers about their passions. The value proposition of BCF is built on a level of customer service and community engagement that cannot be faked or bought. We are confident of our ability to win in Outdoor because our team is genuinely motivated to help our customers catch the fish they've always wanted to... not just to sell them the fishing rod.

#### BCF: KEY STATISTICS FOR 2018

Active club members	↑	1.36m
Club members NPS	↑	57%
Club sales % total sales	↑	79%
Store numbers	↑	134
Share of online spending among auto retailers <sup>(1)</sup>	↑	12%
Online sales % total sales	↑	6%
Click-and-collect % online sales	↑	>50%
Private brand mix	↑	31%

**WE ARE CONFIDENT THAT THE CONTINUING TRANSITION FROM A BRICKS-AND-MORTAR STRATEGY TO AN OMNI-RETAIL STRATEGY WILL CEMENT THE GROUP AS A PREMIER AUSTRALASIAN RETAILER.**







## Delivering Rebel 2.0 and supporting women in sport

Rebel is a business that never stands still. We have always recognised that to grow and prosper, our strategy must evolve with the times.

### DELIVERING REBEL 2.0

In July 2017, we announced our decision to combine the best parts of Rebel with the best parts of Amart Sports under the Rebel brand. In less than three months, 68 Amart Sports stores were converted into Rebel stores, alongside the merging of our operations, merchandise and marketing teams.

While Rebel has long been an unchallenged market leader in its category, after merging Amart into Rebel we determined that a revitalised strategy was needed to ward off the impending arrival of new international competitors. Rebel 2.0 was our response – an ambitious, omni-retail strategy that re-imagines what it means to connect our customers and their communities with their sporting passions and an active way of life.

The strategy behind Rebel 2.0 doesn't seek to categorise customers based on age, gender, geography or income level. Instead, it specifically tailors products, services and experiences to customers based on their passion for sport. This approach, which is helping us maintain and extend our market leadership, is underpinned by four themes:

- **Customer profiling:** grouping our highest target customers (65 per cent of the total sports market) into one of four categories – All Rounders, Balancers, Competitors and Socialisers.
- **A new motto:** "start right @ Rebel" – putting our size, intelligence and care into making sure our customers start their sporting journey right, whatever their age or ability.
- **HERO categories:** a focus on the 'HERO' categories of running, gym/fitness and football with a secondary focus on 'Win' categories (netball, tennis, basketball, swimming, cricket) and 'Play' categories (e.g. golf, darts, skiing).
- **The Rebel way:** our offer is about more than product and price. For instance, we can help a football player with everything they need – from balls, to boots, to shin-pads, to training, fitness, recovery and diet advice.

### SUPPORTING WOMEN IN SPORT

Rebel is committed to women in sport. From supporting grass-roots participation to elite athletes, we've made investments across all the major codes – including cricket,

football, netball, rugby league and AFL – because we want to inspire the stars of tomorrow by lifting the profile of female stars today.

We're proud of our role in helping girls appreciate that sport is not just a hobby, but a viable career path. In October 2017, Football Federation Australia announced Rebel would be the supporting partner of the Westfield W-League as well as the naming rights partner for the Play Football campaign and Female Football week for three years. In December 2017, we extended our naming rights sponsorship of the Rebel Women's Big Bash League (WBBL), also for three years.

This large-scale financial support has been reinforced by further initiatives such as the 'Rebel Women' video series – which serves as a platform for female stars to share their sporting journey, the Rebel Young Gun Award – which promotes up-and-coming talent in the WBBL, and the Rebel Role Model Award, which recognises excellence both on and off the pitch.

Finally, Rebel doesn't just talk about female empowerment – we live it. Forty-four per cent of our leaders are women, as is our Managing Director, Erica Berchtold.

# GROWING BUSINESSES IN HIGH INVOLVEMENT CATEGORIES

One of the core elements of our Group Strategy is growing businesses in high involvement categories. We have made a clear choice to build retail businesses that supply their customers with products and services that inspire them to live their passion.

We believe that our customers will always be looking for more than the cheapest price – they value advice, service, value, ideas and innovation.

We aim to build businesses that are the market leaders in their categories. We are proud that Supercheap Auto, BCF and Rebel already hold that position and have a plan to grow the recently acquired Macpac business to also become a market leader.

## COMBINING REBEL AND AMART SPORTS

The impending entry of new international competitors into the sporting goods retail market necessitated a review of our strategy for our Sports division. We asked our customers what they valued in the Rebel and Amart Sports businesses and what improvements they would like to see. We analysed buying patterns which confirmed that much of the product range sold equally well in both stores. We also found that many Amart Sports customers also shopped in Rebel.

In order to differentiate our offer in the market and to meet our customers' expectations, it was clear we would need to add Amart Sports-style promotional offers to the Rebel business and more of the experience and innovative range of Rebel to the Amart Sports business. We also determined we could generate up to \$15 million in operational savings through merging the two businesses, which could be used to reinvest in price competitiveness and marketing the combined business.

We announced our decision to merge the Rebel and Amart Sports businesses under the Rebel brand in July 2017. Over the next three months we converted all 68 Amart Sports stores to Rebel stores and merged the supporting operations, merchandise and marketing teams. The merchandise team commenced integrating the product range with the target of presenting one consistent offer across all stores by

July 2018. We are on track to fully deliver the potential operational savings we previously identified by the end of FY2019.

Importantly, our team have embraced the change and our customer net promoter scores have improved through the year. Rebel is the clear market leader in sporting goods retail across Australia.

Now the integration is complete, the focus is on enhancing the customer experience and offer across all Rebel stores, consistent with our mission of creating Australia's most loved sporting brand. We are testing a number of new ideas at our Macquarie Centre store in North Ryde, Sydney and will be rolling out the most successful of these to other stores over the coming year.

## OUTDOOR ADVENTURE STRATEGY – ACQUISITION OF MACPAC

The acquisition of Macpac and the acceleration of the adventure outdoors retailing strategy is consistent with the Group's strategy of providing solutions and engaging experiences that inspire its customers to make the most of their leisure time.

While the Macpac business has performed extremely well over recent years, there remains a significant opportunity to grow the business in the near future through opening new stores and growing its digital and commercial channels.

The heritage of the business and the quality of its products are assets that have not yet been fully leveraged, and we believe there is an opportunity to develop an experience for customers that brings these assets to the fore. The Macpac team are passionate, knowledgeable and proud of their heritage, their brand and their products.

Importantly, they have a very similar culture to Super Retail Group. While cultural fit is not always quantifiable in the short term, we believe it to be

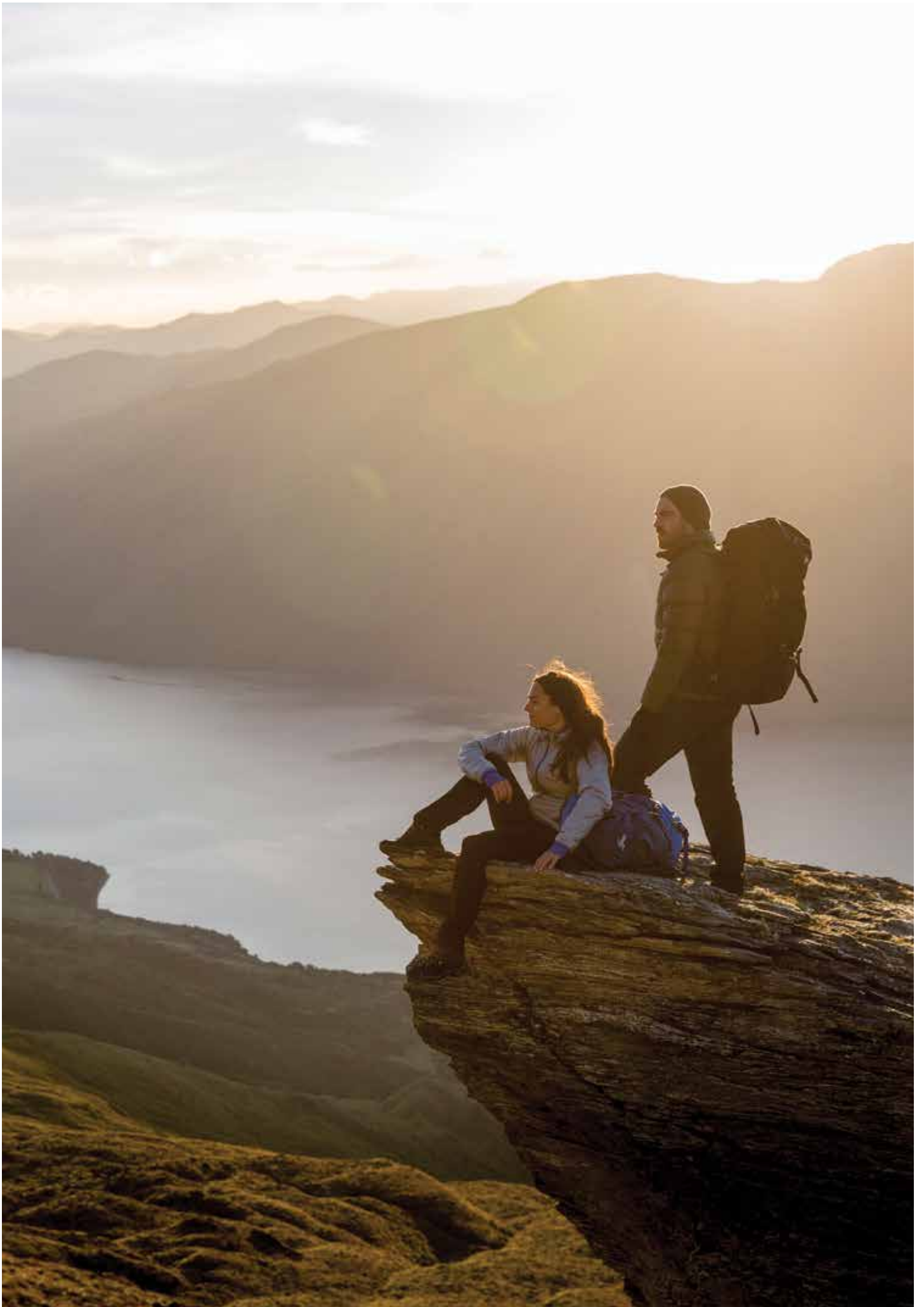
a critical factor in determining the ultimate success of an acquisition. The cultural alignment that exists between Macpac and the other Group businesses adds to our confidence that the acquisition will prove value accretive.

What's more, the integration of the business with Rays provides an opportunity to position Macpac as the leading outdoor adventure specialist across Australia and New Zealand by providing a much broader range of quality products, information and services than any other retail business.

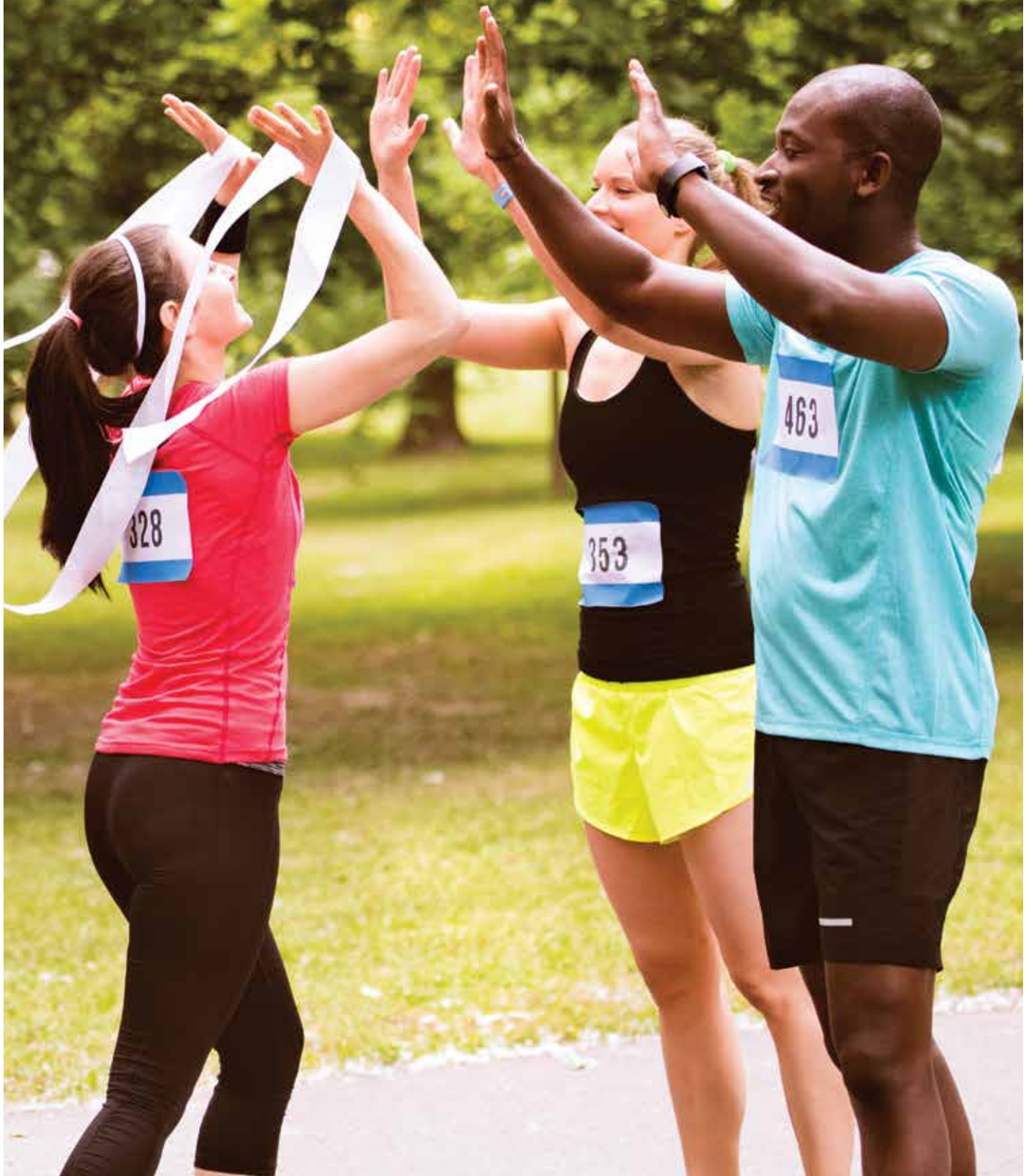
The Group intends to consolidate the Rays and Macpac businesses under the Macpac brand. The combined business will include:

- Small format stores focusing on apparel, with limited footwear, equipment and accessories. The goods sold are likely to be predominantly Macpac branded
- Large format stores retailing an extensive range of apparel, footwear, equipment and accessories under the Macpac brand. Major global brands will be included to provide a complete solution for the outdoor adventure customer
- A digital channel offering the complete product range, extensive information and advice, and access to services
- A commercial channel.

The acquisition will also help realise synergies across the Group. For instance, the Group will be able to leverage its capabilities in supply chain, marketing, procurement and retail operations to add value to Macpac, while Macpac's capabilities in design and apparel sourcing will add value to BCF and Rebel.







## Improving team member recognition... and the bottom line.

While many organisations talk of making sure their team is happy, healthy and fulfilled in their work, we knew the passion we have for our people was exceptional.

But striving for continuous improvement is a part of our Group culture, and we believed we could do even better.

In 2017, we identified 'recognition' as a potential stumbling block for higher levels of team member engagement. Indeed, only 56 per cent of our team members felt they were getting appropriately recognised for their customer service.

Their concerns weren't misplaced. With a dispersed workforce of more than 12,000 team members across Australia, New Zealand and China working across three retail divisions, we found that recognition was an inconsistent experience across the Group.

While there were formal recognition programs, they involved manual processes with no measurement of ROI. This lack of technology also caused accessibility issues for our team members who had no platform to encourage collaboration, innovation and creativity, despite this being a strategic focus across the Group.

To improve our culture of recognition, we needed a technology-based solution to support the ability to

recognise and reward the everyday behaviour of our team members, as well as regularly reinforce desired behaviours, like customer-centricity. To achieve this our Human Resources and Technology teams partnered to deliver a real-time recognition platform called SOULmoments.

Accessible via app or web browser, SOULmoments allows team members and leaders to virtually connect, collaborate and share achievements with one another across all divisions and locations. To give a practical example, a senior leader visiting a Rebel store might take a photo of an innovative store set-up and share this on the platform. Team members at other locations can then like or comment on the post, before using it as inspiration to refresh their own store set-ups.

Early adoption of the platform was encouraged by champions, who were involved in launch activities as advocates and experts. Team members were encouraged to provide feedback to ensure the platform was refined and improved as required.

Within three months, we had 70 per cent of team members activated and a recognition index above best practice. After six months, we experienced a three-

point uplift in our engagement survey recognition question, with 84 per cent of team members activated. We became the fastest Australian organisation to reach 100,000 recognitions on the platform (in less than six months), according to the service provider.

We also found the benefits of higher recognition extended beyond team member morale. We analysed the impact of recognition on average transaction values and found that stores with more recognition (i.e. top quartile) had a 21 per cent higher average transaction value than stores with less recognition (i.e. bottom quartile).

In conclusion, SOULmoments addresses an important engagement need in the Group by helping our team members stay focused, fulfilled and happy. It also strengthens our purpose by creating a community where team members can recognise and celebrate one another for providing inspiring solutions and experiences for our customers. Through the power of instant recognition, our large and geographically dispersed workforce is brought closer together, and leaders can immediately reinforce the behaviours and culture that makes us unique.

# SUSTAINABILITY

At Super Retail Group we recognise the important role we have to play in contributing to the well-being of the environment and the communities in which we operate.

Our customers expect us to do the right thing and we aim to meet their expectations by committing to high standards of governance, promoting responsible business practices across our supply chain, fostering an engaged workforce to create a diverse and high-performing team, and managing our environmental impacts to minimise our carbon footprint. Sustainability is a key strategic area for our business, and during the reporting period, our efforts were publicly recognised by the following organisations:

- **Dow Jones Sustainability Indices (DJSI):** Achieved the highest score in the Dow Jones Sustainability Index Assessment in the Australian Retail category.
- **Institutional Shareholder Services Inc. (ISS):** Achieved the highest rating on social disclosure and received a QualityScore Award Badge (June 2018).
- **Australian Council of Superannuation Investors (ACSI):** Recognised Super Retail Group's sustainability disclosure as 'Leading' among our ASX listed peers.

## MANAGING WHAT MATTERS

Understanding the issues that matter most to our business and stakeholders allows us to evolve our business strategy, manage risks and opportunities, and build the right foundations to deliver a sustainable omni-retail organisation.

We identify our most material sustainability issues through regular assessments of industry trends, research, media reports and the information we gather from stakeholder engagement.

Environmental, Social and Governance (ESG) risks are considered and included in our Group strategy and risk management frameworks. The issues identified during the 2018 reporting period remained consistent with last year's review. This reflects the fact that the issues we face remain ongoing and complex. There are no quick fixes and we are aware of the need to invest time and resources in addressing them.

These issues have been grouped into the following three focus areas, and are aligned to our vision and purpose, brand portfolio and business strategy:

- **Promoting the well-being of our team members and the broader community:** Fundamental to our success as a sustainable business is building a safe and inclusive work environment. We also want team members to feel engaged and inspired so that they can share our customers' passions and meet their needs. As well as making Super Retail Group a great place to work, we aim to provide opportunities for our people to help support their local communities and the issues that matter to them. Our commitment to positive ESG outcomes is reflected through corporate philanthropy – including through supporting community groups and other NGOs – our active participation in improving community well-being, and our provision of on-the-ground assistance during and after natural disasters, such as fires, floods and earthquakes.
- **Ensuring our business practices are responsible:** The pace of change in how we work, live,

shop and enjoy our leisure time is accelerating. In response, we must rethink the ways in which we connect with customers and address their expectations. A key customer expectation is for our products to be sourced sustainably. We maintain an ethical sourcing program that promotes better working conditions, sustainable packaging and lower environmental impacts associated with our private brand products.

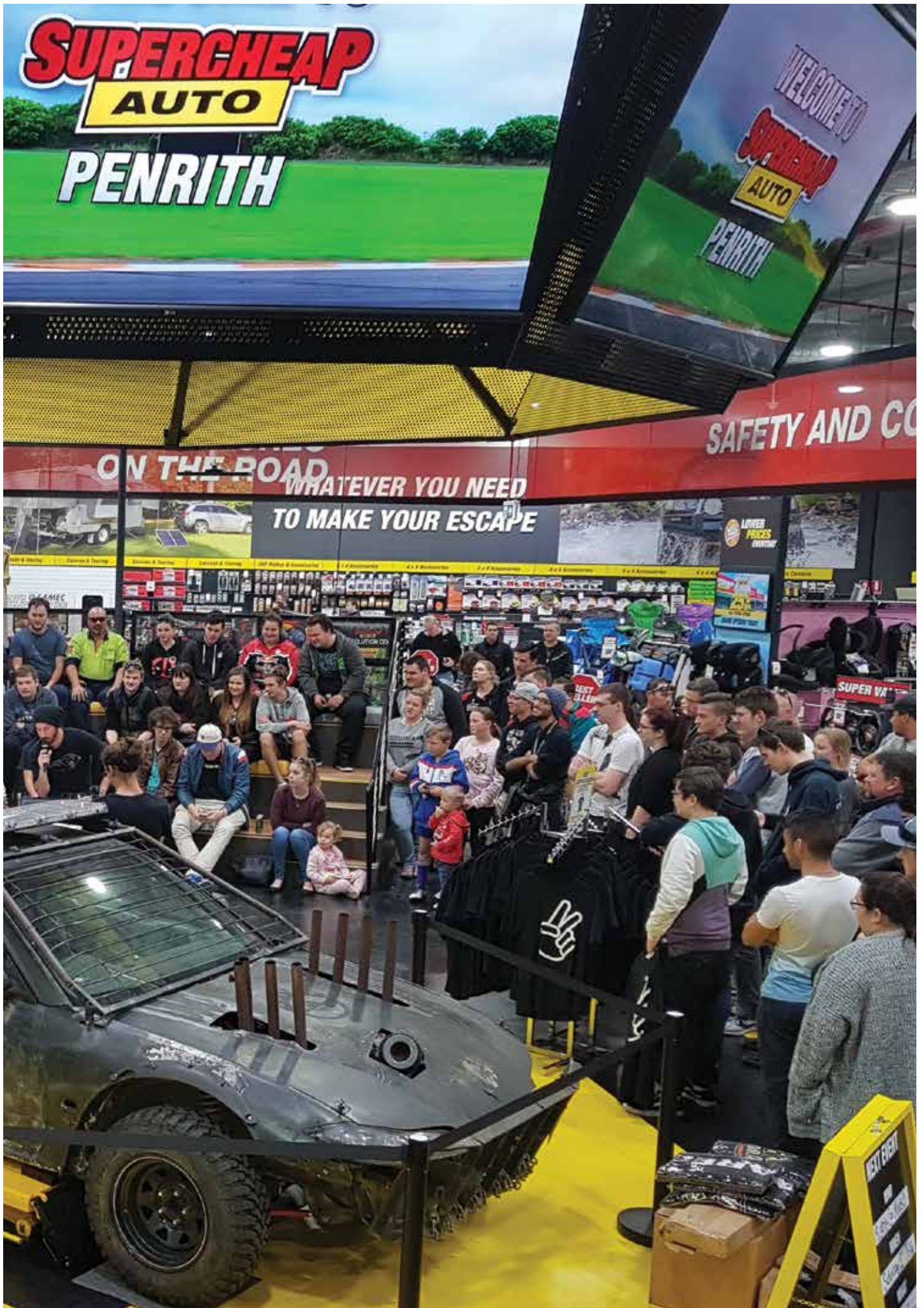
- **Reducing our environmental footprint:** We view the task of building a more sustainable business as a shared responsibility, and our focus is to work with trade partners, customers and team members to reduce the impacts of our products and activities on the environment. As a significant retailer, we are also beginning to adapt our business model to reflect the societal shift towards a circular economy. This includes building a more sustainable supply chain, strengthening initiatives already in place relating to packaging, energy use, waste production and transport emissions, and adopting programs and plans to address environmental challenges and mitigate the effects of climate change.

We remain proud of our achievements to date, but recognise there is still more we can do to embed our sustainability goals and values across the business. Detailed information on our sustainability performance will be set out in the Group's 2018 Sustainability Report, which will be published on our corporate website.











## A retail **revolution** at Supercheap Auto

In July 2017, Supercheap Auto took a major step in revolutionising automotive retail in Australia through the opening of a flagship Customer Experience Centre in Penrith.

The flagship will serve as a prototype for the next generation of stores, allowing us to test and learn before rolling out changes across our network of 319 stores.

In combining a world class in-store experience with the convenience of digital shopping channels and our industry-leading 30-minute click-and-collect, the Centre is Supercheap Auto's biggest investment yet in a single store and an example of the continued development of our physical and digital omni-retail platform.

Following the arrival of new international competitors into the Australian market, we remain confident that the future of automotive retail will be won – not just by delivering on price and convenience – but through the offering of unique services and experiences to customers that also serve to celebrate and strengthen local communities.

According to Customers 2020, a study by customer intelligence consultancy Walker, customer experience will overtake price and product as the key brand differentiator by 2020. The Walker study predicts that companies which develop strategies to anticipate the future needs of customers today are much more likely to build and maintain their competitive advantage over time.

With a suite of new services, digital experiences and unique design features to better serve customer needs, the Penrith Experience Centre was designed with the evolution of the retailer-customer relationship in mind. On approaching the store, customers are welcomed by a massive 36 square metre outdoor LED screen which provides information and advice, including on out-of-hours events.

Upon entry, shoppers are wowed by a floor-to-ceiling video wall with over 70 unique pieces of localised content which responds to their movements. Time-poor customers can use our digital wayfinder, which provides an animated map to quickly guide them to the products they need.

The undoubted centrepiece of the store is the Experience Centre's central grandstand, which serves as a focal point for increasing dwell times and engaging with the local community. Grandstand-style seating allows customers to watch and learn from over 700 product-education videos on eight 84-inch LED screens, while offering others the chance to watch live motorsport at the same time.

Below these screens is an exhibition space for hosting trade events and special appearances with motorsport professionals. The centre stage is even big enough for a vehicle to be used in live demonstrations.

Product displays feature throughout the store to showcase solutions and provide inspiration for customers. One example is the 'Dream Garage' – an area set aside to show customers what a perfect home garage might look like.

The physical innovations found within store are complemented by Supercheap Auto's unparalleled service and advice. This includes the introduction of the 'Guru Concept', which sees 'gurus' with specialised product knowledge available to help customers throughout the store.

Other services include a full-time concierge to assist with general queries, two car clinic advice bars to help customers find solutions to their automotive problems, a cafe-style lounge called the 'Pit-Stop' where shoppers can browse the online catalogue over coffee, a 24-hour parcel collection service, and new offers like Tesla electric vehicle charging, nitrogen tyre inflation, windscreen repair and baby seat fitment demonstrations.

The success of the flagship store gives us the confidence we need to accelerate the rollout of many of the elements we trialed into our broader network. It also confirms that the Experience Centre will be the next evolution of our physical footprint across our network, as we progressively refurbish all our stores over the coming years.



# BOARD OF DIRECTORS



**SALLY PITKIN**

**Independent  
Non-Executive Chair**

Dr Sally Pitkin was appointed a Director of the Company on 1 July 2010 and Chair following the 2017 Annual General Meeting. Dr Pitkin is an ex-officio member of the Audit and Risk Committee, and the Human Resources and Remuneration Committee. Sally has more than 20 years' experience as a Non-Executive Director in the listed, private, public and non-profit sectors, including experience in international markets, and over 14 years' experience as a Non-Executive Director of ASX200 companies. She is a lawyer and former partner of a national law firm with banking law, corporate law and corporate governance expertise. Sally is a Non-Executive Director and Fellow of the Australian Institute of Company Directors and is Chair of the Institute's Corporate Governance Committee. Sally is presently a Director of ASX listed companies The Star Entertainment Group Limited and Link Administration Holdings Limited. Sally holds a Doctor of Philosophy (Governance), a Master of Laws and Bachelor of Laws.



**PETER BIRTLES**

**Group Managing Director  
and Chief Executive Officer**

Peter Birtles was appointed a Director of the Company on 5 January 2006. Peter has more than 28 years' leadership experience in the retail, pharmaceutical and consumer products industries. Peter joined Super Retail Group Limited in April 2001 as Chief Financial Officer and also served as Secretary of the Company between May 2004 and January 2006. He was appointed Group Managing Director and Chief Executive Officer in January 2006. Prior to joining Super Retail Group, Peter spent 12 years working with The Boots Company in the United Kingdom and Australia in a variety of senior roles across finance, planning, operations, supply chain, human resources and information technology. Peter is a Chartered Accountant and prior to joining The Boots Company, he worked for Coopers & Lybrand. Peter is currently a Non-Executive Director of GWA Group Limited, and a member of the Australian Institute of Company Directors.



**DIANA EILERT**

**Independent  
Non-Executive Director**

Diana Eilert was appointed a Director of the Company on 21 October 2015. Diana is an experienced Non-Executive Director who brings three key skills to Super Retail Group: extensive operational experience as a Group Executive and CEO, Partner level skills in Strategy (with particular emphasis on technology customer experience and data), and, more recently, significant work in digital disruption and business models. Diana is also currently appointed to the boards of Domain, Elders and Navitas. With 25 years in executive roles, Diana was Group Executive with Suncorp and Citibank and also as a Partner with IBM, where she gained further technology experience. In her final executive role, Diana was Head of Strategy and Corporate Development for News Ltd, where her focus was on digital transformation and emerging business models.



### LAUNA INMAN

**Independent  
Non-Executive Director**

Launa Inman was appointed a Director of the Company on 21 October 2015, and chairs the Human Resources and Remuneration Committee. Launa brings to the Board extensive experience in retailing, marketing (including digital technology and social media), finance and logistics. Her diverse experience includes terms as Managing Director and CEO of Billabong International (May 2012 to August 2013), Managing Director of Target Australia Pty Ltd (2005 to 2011) and Managing Director of Office Works (2004 to 2005). Launa is a member of the Australian Institute of Company Directors and has completed the Wharton Business School executive program. Launa is a Non-Executive Director of Precinct Properties New Zealand, and a member of the boards of the Alannah and Madeline Foundation and Virgin Australia Melbourne Fashion Festival. Launa was formerly a Non-Executive Director of the Commonwealth Bank of Australia.



### PETER EVERINGHAM

**Independent  
Non-Executive Director**

Mr Peter Everingham was appointed a Director of the Company in December 2017. Mr Everingham is a member of the Audit and Risk Committee and the Human Resources and Remuneration Committee. Peter is an experienced executive with more than 25 years' corporate experience, including 18 years in senior executive roles in the digital sector experiencing and initiating disruption. He is the former Managing Director of SEEK Limited's International Division, including being the former Chairman of the China business, Zhaopin Limited, and Director of the education business, IDP Education, Online Education Services and THINK Education. Peter is a former Director of Strategy for Yahoo! in Australia and Southeast Asia. Peter is presently a Non-Executive Director of iCar Asia Limited, an ASEAN network of digital automotive portals, and WWF-Australia, Australia's largest conservation organisation. Peter holds a Master of Business Administration and a Bachelor of Economics, and is a Graduate Member of the Australian Institute of Company Directors.



### REG ROWE

**Non-Executive Director**

Reg Rowe was appointed a Director of the Company on 8 April 2004. Reg and Hazel Rowe founded an automotive accessories mail order business in 1972 which they ran from their Queensland home. In 1974 they commenced retail operations of the business which evolved into Supercheap Auto. Reg served as Managing Director until 1996 and then Chairman from 1996 to 2004. Prior to this, Reg had 13 years' experience in various retail and merchandise roles at Myer department stores. Reg brings to the Board extensive retail industry and general management expertise and skills in retail and merchandise operations, property and strategy. Reg is a Director of a number of private family companies.



### HOWARD MOWLEM

**Independent  
Non-Executive Director**

Howard Mowlem was appointed a Director of the Company on 13 June 2017, and is Chair of the Audit and Risk Committee. Howard is experienced in many segments of the Australian and international retail industry. From 2001 to 2010, he was Chief Financial Officer and a Board member of Dairy Farm International Holdings, a Hong Kong-based pan-Asian retailer operating over 5,000 stores predominantly in the Fast-Moving Consumer Goods (FMCG) sector. Prior to that, he held a range of financial management positions with the Coles Myer Group, including as Finance Director for Coles Supermarkets, for over 12 years. Howard brings extensive experience in corporate finance, mergers and acquisitions, financial reporting, treasury, tax, audit and governance. He holds a Bachelor of Economics (Hons), Master of Business Administration and Securities Industry Diploma. He is a Fellow of CPA Australia. Howard was formerly a Non-Executive Director of Billabong International Ltd.

# GROUP EXECUTIVE TEAM



**DAVID AJALA**

**Managing Director – Super Retail Commercial**

David Ajala joined Super Retail Group in July 2005 as General Manager of Merchandise and Marketing, before serving as the Chief Operating Officer and Managing Director of the Auto division for nine years. David is currently Managing Director of our Commercial Division. Prior to joining Super Retail Group, he held a number of senior management roles with Coles Supermarkets, including in merchandise and retail operations.



**ERICA BERCHTOLD**

**Managing Director – Sports Retailing**

Erica Berchtold joined Super Retail Group in November 2011 as Managing Director – Sports Retailing, following the acquisition of Rebel Group, and continues to lead the Rebel business. She has over 15 years of Australian retail experience and has served in a number of senior management positions, including General Manager of two women's apparel businesses for Speciality Fashion Group and National Product Management roles at Harvey Norman.



**DAVID BURNS**

**Chief Financial Officer**

David Burns joined Super Retail Group in December 2012 as Chief Financial Officer (CFO). He has overall responsibility for the finance, risk management and customer relationship management functions for the Group. David has over 25 years of finance experience in a number of industries, including in senior management positions at Qantas, Spotless and Lend Lease. He holds a degree in Economics from the University of Sydney, and is a FCPA.



**ANTHONY HERAGHTY**

**Managing Director – Outdoor Retailing**

Anthony Heraghty joined Super Retail Group in April 2015 and is responsible for leading BCF and the recently acquired Macpac. Prior to joining the Group, he served as Group General Manager of Underwear at Pacific Brands Limited. Anthony was also the Global Marketing Director for Foster's Group Limited and spent more than ten years at advertising agencies George Patterson and McCannErickson, where he served as Managing Director.



**JANE KELLY**

**Chief Human Resources Officer**

Jane Kelly joined Super Retail Group in July 2016 as Chief Human Resources Officer (CHRO) and is responsible for advancing our strong focus on team engagement, culture and capability development. She was previously the Human Resources and Corporate Affairs Director at BT Financial Group, and also held senior roles as Head of Reward at St George Bank and Head of HR Australian Financial Services at Westpac. Jane holds a Masters of Commerce and Employee Relations with honours from the University of Melbourne, and a Bachelor of Commerce from the University of New South Wales.



**DEANNA LOMAS**

**Chief Supply Chain Officer**

Deanna Lomas joined Super Retail Group in 2016 as Chief Supply Chain Officer. She was previously the Director of Supply Chain at Telstra, and also held senior roles with MMG, Carlton United Breweries and BP. Deanna is a Graduate of the Australian Institute of Company Directors, a Fellow and Engineering Executive with Engineers Australia and has completed executive programs in the US at the Kellogg School of Management and the Massachusetts Institute of Technology, as well as with the WHU School of Management in Germany. She holds bachelor's degrees in Engineering, Business and Arts and a MBA.





**ROBERT DAWKINS**

**Company Secretary,  
Chief Legal & Property Officer**

Robert Dawkins joined Super Retail Group in 2001 as Property Manager and was appointed the Group Company Secretary in December 2010. He also leads the Group's Legal, Compliance, Sustainability and Property Services functions. Prior to joining Super Retail Group, Robert was Property Manager for Bank of Queensland Limited. Robert is a Chartered Secretary and a Director of the Large Format Retail Association, and holds a Bachelor of Business from QUT and a Postgraduate Diploma in Applied Corporate Governance.



**AMANDA FLEMING**

**Chief Transformation  
Officer**

Amanda Fleming was appointed Chief Transformation Officer (CTO) in June 2017 from Coles Supermarkets, where she was Director of Human Resources. Other previous senior roles include Chief Operations Officer and Chief People Officer for Pizza Hut USA, and Human Resources Director for Mars in Australia (where she also served as European Organisational Development Manager for Mars in the UK and Europe). Amanda has a Masters of Organisational Change from Hult International Business School and a Bachelor of Business from Deakin University.



**PAUL HAYES**

**Chief Information Officer**

Paul Hayes was appointed Chief Information Officer (CIO) in December 2015 from UK retailer, John Lewis, where he served for a number of years as Head of Information Systems Delivery. He was previously a senior IT consultant with IBM, leading multi-million dollar projects for premier retailers including Tesco, Argos and Woolworths. Prior to that Paul held a variety of roles with British Home Stores.



**STEVE TEWKESBURY**

**Managing Director –  
International Operations**

Steve Tewkesbury joined Super Retail Group in 2004 as Supply Chain Manager and in 2006 was appointed as General Manager – Overseas Sourcing. Prior to Super Retail Group, Steve worked in Global Supply Chain and E-Commerce Strategy for Reckitt & Colman, then as a Supply Chain Consultant within the Australian FMCG sector. He holds a degree qualification in e-Commerce from Monash University. Steve has been based in China since August 2006, managing our overseas sourcing, shipping and logistics operations in Hangzhou and Shanghai.



**CHRIS WILESMITH**

**Managing Director –  
Auto Retailing**

Chris Wilesmith joined Super Retail Group in 2007 and is responsible for running the Supercheap Auto Retail Stores, Trade, Online and Auto Trade Direct and AutoCrew businesses. He has over 25 years retail and wholesale experience across Australasia, US and the greater Asia Pacific region. Chris was previously General Manager at Toys 'R' Us, and spent 13 years with Woolworths, where he held senior management roles in merchandise, as well as in retail operations within Dick Smith and Big W. He is a graduate of the Australian Graduate School of Management.

**WE AIM  
TO BUILD  
BUSINESSES  
THAT ARE  
THE MARKET  
LEADERS  
IN THEIR  
CATEGORIES.**

# OUR TEAM

At Super Retail Group, everything starts with our team. Having healthy, happy and passionate team members is a key organisational priority and essential to providing inspiring solutions and experiences for our customers.

## ENGAGEMENT

We are proud of the high levels of team member engagement across the Group. Results from the 2018 Pulse Engagement Survey revealed that 70 per cent of our team members are engaged – which places Super Retail Group in the top quartile for Australian and New Zealand (ANZ) organisations.\*

The engagement levels of retail team members remains particularly high, and we continue to see the benefits that flow from working with brands that both our team and customers are passionate about. Increasing team engagement scores will remain a focus over the coming year, with a specific focus on senior leadership capability and visibility.

*\* Aon's Global Engagement Research Database 2018*

## RECOGNITION

In 2017, team members told us they wanted more recognition for delivering excellent customer service and living our values. In direct response to this feedback, we created SOULmoments.

This recognition platform addressed a critical engagement need at Super Retail Group. Through the power of 'instant recognition', a geographically dispersed workforce can now be instantly recognised and rewarded for living our values and passionate service to our customers, and leaders can instantly reinforce desired behaviours and culture.

Within three months of launching SOULmoments, we had 70 per cent of team members active on the platform and achieved a recognition index above best practice (53,000+). In less than six months we reached 100,000 recognitions.

Our 2018 Pulse Engagement Survey results indicate that this platform is

clearly meeting a need, resulting in a three point uplift in our key recognition question. We will continue to enhance and evolve the SOULmoments platform over the next year (see the case study on page 29 for more).

## CAPABILITY

Developing the skills and knowledge of our team members has been a key focus over the last year. We know how important team member capability is to the organisation: our highly capable and dedicated team members deliver the customer experience; help us gain market share; drive innovation; develop new products and experiences; and remain critical to building and maintaining our unique organisational culture.

In 2017, we established the School of Ultimate Learning and Leadership (SOUL). This broad program of work is a three-year strategy that will ensure we attract, retain and develop our talent. It will invest in our team by growing their skills and knowledge, and reward and recognise them for living our values, passionate service and performance. It will also include targeted strategies that keep our team members safe, encourage diversity of thought and opinion, and build pride in what we do and who we are.

This program of work started with a specific focus on the capability of our senior leaders. We knew that our senior leaders are the organisation's narrators of change and need to drive our strategy. At the same time, the execution of our organisation's strategy and the delivery of our customer promise relies on our team members' expertise and knowledge.

That's why, in 2017, SOUL started rolling out a targeted senior leadership development program. It included three specific group-wide learning experiences that focused

on commercial acumen across the value chain, leading with customer-focus, and what it means to be an adaptive leader at Super Retail Group.

The SOUL leadership development program delivered more than 4,500 organisational training hours to our senior leaders in 2018. Other initiatives to promote and improve leadership capabilities across the Group include programs for high-potential team members, inclusive leadership sessions, and our women in leadership program.

Our Learning and Development commitment extends to our Accredited Learning programs where we partner with a Registered Training Organisation that facilitates training and conducts assessments for a range of nationally-recognised qualifications for retail team members.

Over the last three years approximately 15 per cent of trainees who completed the program have progressed into higher duty roles. Of the trainees who completed the Certificate III program and have progressed into higher roles, over 60 per cent have been female team members.

In the year ahead, we will continue to prioritise investment in our team by delivering more contemporary learning to our team. This focus on 'continuous learning' will continue to build leadership capability while also building the knowledge and skills of all our team members so they can deliver our customer promise.

## DIVERSITY AND INCLUSION (D&I)

At Super Retail Group we believe in fostering an inclusive work culture and maintaining an environment that embraces the diversity of our people.

We believe that an ability to build and maintain a talented and diverse



workforce is a key competitive advantage and essential to our organisation's growth. We achieve diversity by creating an inclusive environment; a workplace where all different kinds of people can thrive and succeed by bringing their 'whole self' to work.

We are firmly committed to ways of working, policies and practices that support D&I. Examples include an improved parental leave offering for both primary and secondary carers launched in March 2018, which provides better support for all types of growing families: primary and secondary carers, female and male. We also launched the Support for Victims of Domestic and Family Violence Policy in November 2017 and offer flexible working arrangements to support our team members to pursue their leisure passions and meet personal and family needs.

#### GENDER DIVERSITY

In 2018, the Group achieved a higher participation of women than ever before, with a total team mix of 47 per cent women and 53 per cent men. Pleasingly, overall levels of women in leadership increased from 34 per cent in 2017 to 37.6 per cent in 2018 for key senior management roles (Bands 1-3), with a rise of 4.3 per cent (to 38.4 per cent) for management roles (Band 1-4).

Female representation on our Board remained consistent with the previous year's level of 43 per cent, while the number of women within the Group Executive Team is at 36.4 per cent. We remain committed to further advancing gender diversity at all levels, in line with our target of having 40 per cent female representation at Board and senior management level by 2020. Workplace diversity continues to be fostered through a monthly Achieving Women in Leadership Targets forum, Divisional Diversity committees and the Group's learning and development programs.

We encourage all team members across the Group to be strong advocates for D&I in the business and retail sectors. This is led by our CEO Peter Birtles, who is an active member of the Queensland Male Champions of Change and a regular speaker on gender diversity and inclusion. Super Retail Group's 2018 Workplace Gender Equality Agency (WGEA) report is available via the WGEA website: <https://www.wgea.gov.au>.

#### TEAM MEMBER SAFETY AND WELLBEING

We are committed to providing a healthy and safe work environment for all our team members, contractors, customers and visitors.

In 2018, the Group renewed its focus on a holistic safety measure of Total

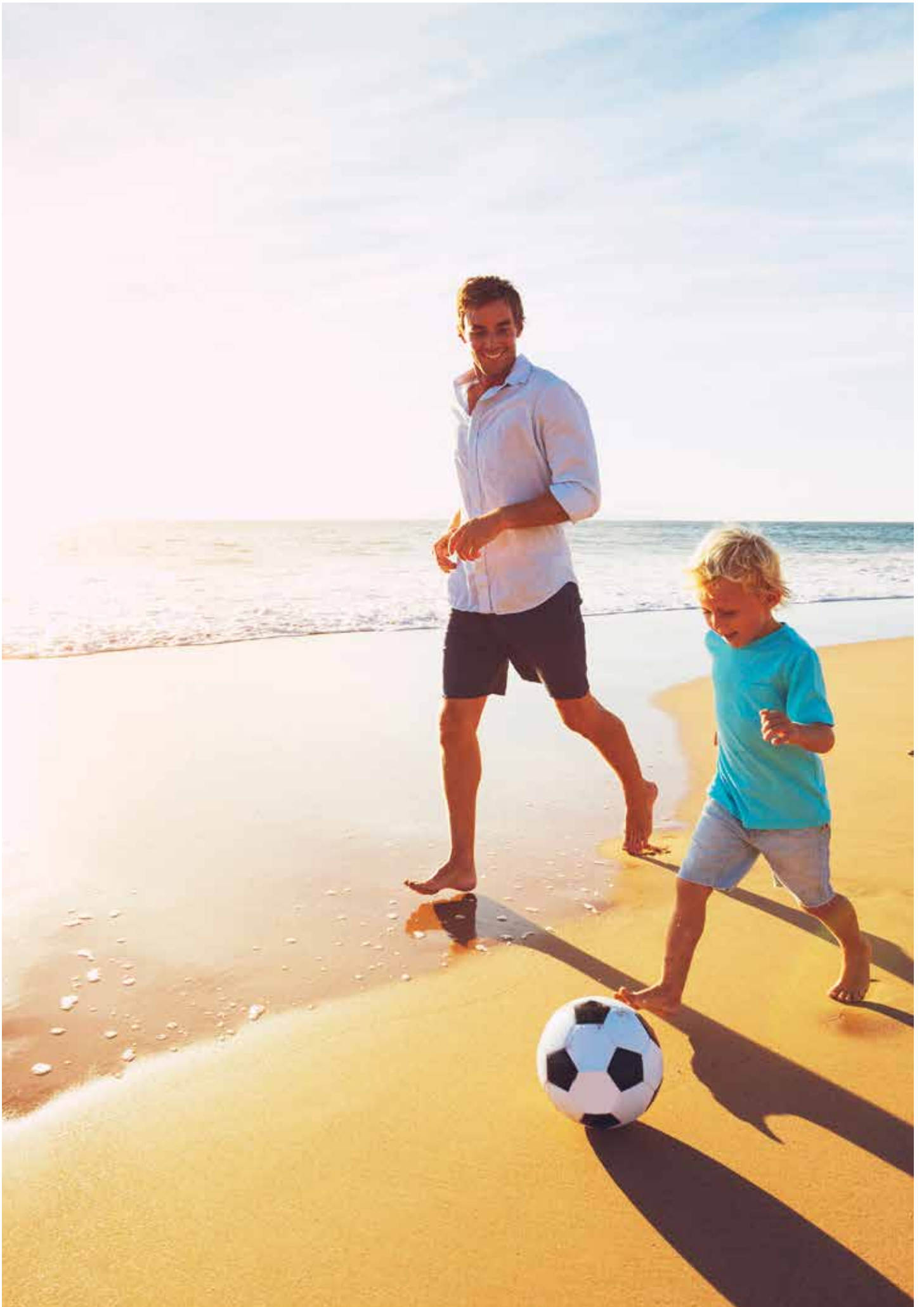
Recordable Injury Frequency Rate (TRIFR). TRIFR describes a work-related injury or illness which results in medical treatment (including any attendance at a medical facility, regardless of treatment provided), restricted duties and/or hours, lost time injury or fatality. We are pleased to report that TRIFR reduced 21.2 per cent this year with a measure of 23.84 incidents per million hours worked.

In 2018, our Lost Time Injury Frequency Rate (LTIFR) was 6.4 per million hours worked, down from 6.5 per million hours worked in the previous year. Our LTIFR result for the 2017 financial year was adjusted from the previous report to reflect the clarification of key definitions and the ongoing maturation of our data measurement.

There were no work-related fatalities recorded during the reporting period. The continued decrease in TRIFR and LTIFR was supported by a whole-of-business focus on safety leadership, a more proactive approach to risk management, and increasing team member awareness and education.

Our focus in the year ahead is on mental health support, with a continued focus on safety awareness and education for our team members. We will enhance proactive safety leadership and risk management to provide a healthy and safe work environment.





Super Retail Group is committed to adopting and implementing rigorous corporate governance policies and practices that protect and enhance the long-term performance of the Group and to generate appropriate levels of shareholder value and financial return, taking proper account of other stakeholder interests.

The Group supports this commitment through the transparent and informative reporting of its governance framework. The Group has followed the recommendations of the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition) throughout the reporting period. Further details are set out in the Group's Appendix 4G and Corporate Governance Statement, authorised for issue by the Directors on 20 August 2018, which are available on the Australian Securities Exchange (ASX) and the Group's website at [www.superretailgroup.com/investors-and-media/corporate-governance](http://www.superretailgroup.com/investors-and-media/corporate-governance).

## ACT ETHICALLY AND RESPONSIBLY

We recognise that long-term and sustainable value creation is founded on the trust that the Group has earned from a broader range of stakeholders and that the trust can be lost or seriously damaged if the Group, its Directors or team members are perceived to have acted unlawfully, unethically or irresponsibly.

This trust is an essential component of our relationship with our customers, supporting the realisation of our mission to provide solutions and engaging experiences that enable our customers to make the most of their leisure time.

## GROUP VALUES

To preserve this trust, the Group is committed to the development of a culture that:

- Promotes ethical and responsible behaviour;
- Engages and inspires its team members to live their passions; and

- Underpins a successful customer and team member centric retail organisation.

Our culture is built around a set of five values that define the type of company that we aspire to be and what is required of all Directors and team members to achieve that aspiration.

- **Passion:** We create an environment in which we share our passion for what we do, and our contributions and successes are recognised.
- **Openness:** We are committed to open and constructive communication.
- **Integrity:** We act with honesty and we deliver on our commitments.
- **Care:** We value our team, our customers, our trade partners and the communities in which we operate.
- **Discipline:** We commit to the plan, resource effectively and follow the agreed processes and standards.

For more information visit: [www.superretailgroup.com/about-us/our-values](http://www.superretailgroup.com/about-us/our-values).

## CODE OF CONDUCT

Our customers, trade partners, shareholders and the communities in which we operate all have expectations of how we behave as a business. It's important to protect those relationships, our reputation and the Group's ability to continue to be part of those communities. Our reputation influences so many aspects of our business including how our team members, customers and investors feel about Super Retail Group.

The Group's Code of Conduct applies to all Directors and

team members and sets out the responsibilities and standards of behaviour that apply to daily business activities and help our team members to carry out our legal and ethical obligations. It also provides guidance as to how to conduct our activities in a manner consistent with the Group's Values and achieving our aim to provide a safe, fair and equitable working environment and to empower our teams to fulfil their potential and achieve the best outcomes for our customers and shareholders.

The Code is supported by the Group's Whistleblowing Policy and practices that encourages our team members to raise concerns about suspected unethical, illegal or fraudulent activity and seeks to safeguard those persons who make a report in good faith to do so without fear of disadvantage or reprisal.

## CONFLICTS OF INTEREST

Our conflicts of interest framework comprises a number of components, including our Anti-Corrupt Practices Policy and various supporting procedures and registers, including in respect of the disclosure and appropriate management of related party transactions and the material personal interests and other relevant interests of Directors.

The framework seeks to encourage all actual, perceived or potential conflicts of interest are identified and disclosed, and then avoided or effectively managed, as appropriate. In addition, our team members may make disclosures directly to a regulator at any time.

## SECURITIES TRADING

Consistent with the legal prohibitions

on insider trading, our Securities Trading Policy prohibits our Directors and team members from dealing in the Group's securities at any time while in possession of price sensitive information not available to the market.

The Policy prohibits Directors, Senior Executives and other designated team members from dealing in the Group's securities except during specified trading windows and only upon receipt of approval in accordance with the Policy. There are also prohibitions in respect of margin lending, short-term trading, short selling and the hedging of economic risk of options or other unvested entitlements.

#### BOARD COMPOSITION, PERFORMANCE AND COMMITTEES

The Board's role, as set out in the Board Charter, includes responsibility to set and to oversee the strategic direction of the Group, to select and appoint the CEO/Managing Director and to oversee the overall management, performance and governance of the Group.

The Board delegates responsibility for the day to day management of the Group to the CEO/Managing Director. The CEO/Managing Director manages the Group in accordance with the strategy, business plans and delegations approved by the Board and is accountable to the Board for the exercise of the delegated authority.

#### BOARD COMPOSITION

The Board is comprised of highly experienced business leaders who each meet the fundamental requirements necessary to govern an ASX listed company in the retail industry.

Our Board utilises a board skills matrix, together with the policy and procedure for selection and appointment of new Directors and re-election of Directors when reviewing Board succession plans, including succession of the Chair, in order to maintain an appropriate balance of skills, knowledge, experience, independence and diversity on the Board.

#### INDEPENDENCE

A Director is considered to be independent if they are free of any interest or relationship that might influence, or reasonably be perceived to influence, in a material respect their capacity to exercise

independent judgement on issues before the Board and to act in the best interests of the Group and its shareholders generally.

It is the Board Policy that it shall be composed of a majority of Independent Non-Executive Directors and that the Chair shall be an Independent Non-Executive Director. As at the date of this report, the Board comprised six non-executive directors (five of whom were considered to be independent) and the CEO/Managing Director.

#### BOARD COMMITTEES

Whilst retaining ultimate responsibility for the affairs of the Group, throughout the reporting period and as at the date of this report, the Board has established three standing Board Committees to perform certain functions and provide it with recommendations and advice.

Each Committee has its own Charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to

operate. All matters determined by Committees are submitted to the full Board as recommendations for Board decision.

#### PERFORMANCE REVIEW

The Board undertakes an annual performance evaluation of the Board and its Committees. Matters covered by the review include the role, structure, procedures, behaviours, performance, Directors' understanding of the strategy, objectives and key risks to the business and achievement of those objectives, succession planning and the effectiveness of the Chair.

#### SHAREHOLDER ENGAGEMENT

The Group is committed to maintaining high standards of disclosure, providing shareholders and the investment community with the same access to full and accurate information about its activities in an accessible and timely manner. Further, we are committed to the provision of facilities to allow shareholders to effectively exercise their rights as owners.

#### SHAREHOLDER COMMUNICATION

The Group's investor relations program facilitates two-way communication with investors and fosters participation of shareholders in shareholder meetings. The program aims to allow investors and other financial market participants to gain a greater understanding of the Group's business, governance, financial performance and prospects and to provide an opportunity for the Group to note their views on matters of concern or interest to them.

#### PERIODIC AND CONTINUOUS DISCLOSURE

The Group releases all material information, including our Annual Report, full-year and half-year financial results, to the ASX in compliance with our continuous disclosure obligations under the ASX Listing Rules and the Corporations Act 2001. Material information released to the ASX is also made available on the Group's website.

Our Continuous Disclosure Policy supports the Group's compliance with its disclosure obligations to make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities, in addition to the Group's periodic disclosure obligations.

#### AN OVERVIEW OF COMMITTEE RESPONSIBILITIES:

##### NOMINATION COMMITTEE

- Board size and composition
- Director recruitment and re-election
- Director induction and ongoing development
- Board and Committee performance evaluation

##### AUDIT & RISK COMMITTEE

- Financial management and reporting
- Risk management and internal control systems
- External audit performance and independence
- Compliance systems and disclosure
- Corporate Governance

##### HUMAN RESOURCES & REMUNERATION COMMITTEE

- Human Resources strategy
- Remuneration governance and strategy
- Development and succession
- Diversity strategy
- Workplace Health & Safety



## GENERAL MEETINGS

The Group conducts its general meetings in accordance with its constitution, the Corporations Act and the Listing Rules. General meetings are used to communicate with shareholders and allow an opportunity for informed shareholder participation. Shareholders are encouraged to attend and participate fully at its general meetings and shareholders will have a reasonable opportunity to ask questions or make comments about each motion in the notice of meeting, the annual report, and the management of the Group.

Shareholders are, unless specifically stated in a notice of meeting, eligible to vote on all resolutions. If shareholders are unable to attend the Annual General Meeting they are able to vote on the proposed motions, by appointing a proxy or using any other means included in the notice of meeting. Online proxy voting is available to shareholders.

The external auditor attends the annual general meeting and is available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

## RISK MANAGEMENT

The Group recognises that risk is characterised by both threat and opportunity, and manages risk in order to enhance opportunities. The Group fosters a risk aware culture in decision making through the application of integrated risk analysis and management.

## RISK MANAGEMENT FRAMEWORK

The risk management framework (RMF) is an essential component of the Group's corporate governance framework and consideration of strategic risks and the adequacy of the RMF is integral to the development of the Group's strategy and the decision-making process for key business initiatives.

The Board reviews the RMF in conjunction with the annual strategic planning process and has regard for the RMF in endorsing the Group's strategic direction and approving the annual Operating and Financial Review.

The Group's RMF describes our chosen approach to risk management and is comprised of three key components:

- A Board approved Risk Appetite Statement, linked to strategic and financial plans.
- The Three Lines of Defence Model outlining accountabilities and governance arrangements for risk management.
- The Group's risk management policy, processes and strategy.

## RISK APPETITE STATEMENT

The risk appetite statement defines the type and degree of risk that our Board is prepared to tolerate in order to meet our strategic objectives and the maximum level of risk for each risk type within which we must operate.

## THE THREE LINES OF DEFENCE MODEL

Within the Three Lines of Defence Model:

- The First line means the Functions that own and manage risk.
- The Second line means the Functions that oversee or specialise in risk management and compliance.
- The Third line means the Internal Audit Function.

## RISK MANAGEMENT STRATEGY

The risk management strategy describes each material risk and our approach to managing those risks, including the applicable policies and procedures.

There are a number of material risks, including economic and environmental, faced by the Group that may have a material effect on the Group's financial prospects. Those risks and an overview of the Group's mitigating actions are described in the Directors' Report, Operating and Financial Review on pages 52 to 53 of this Report.

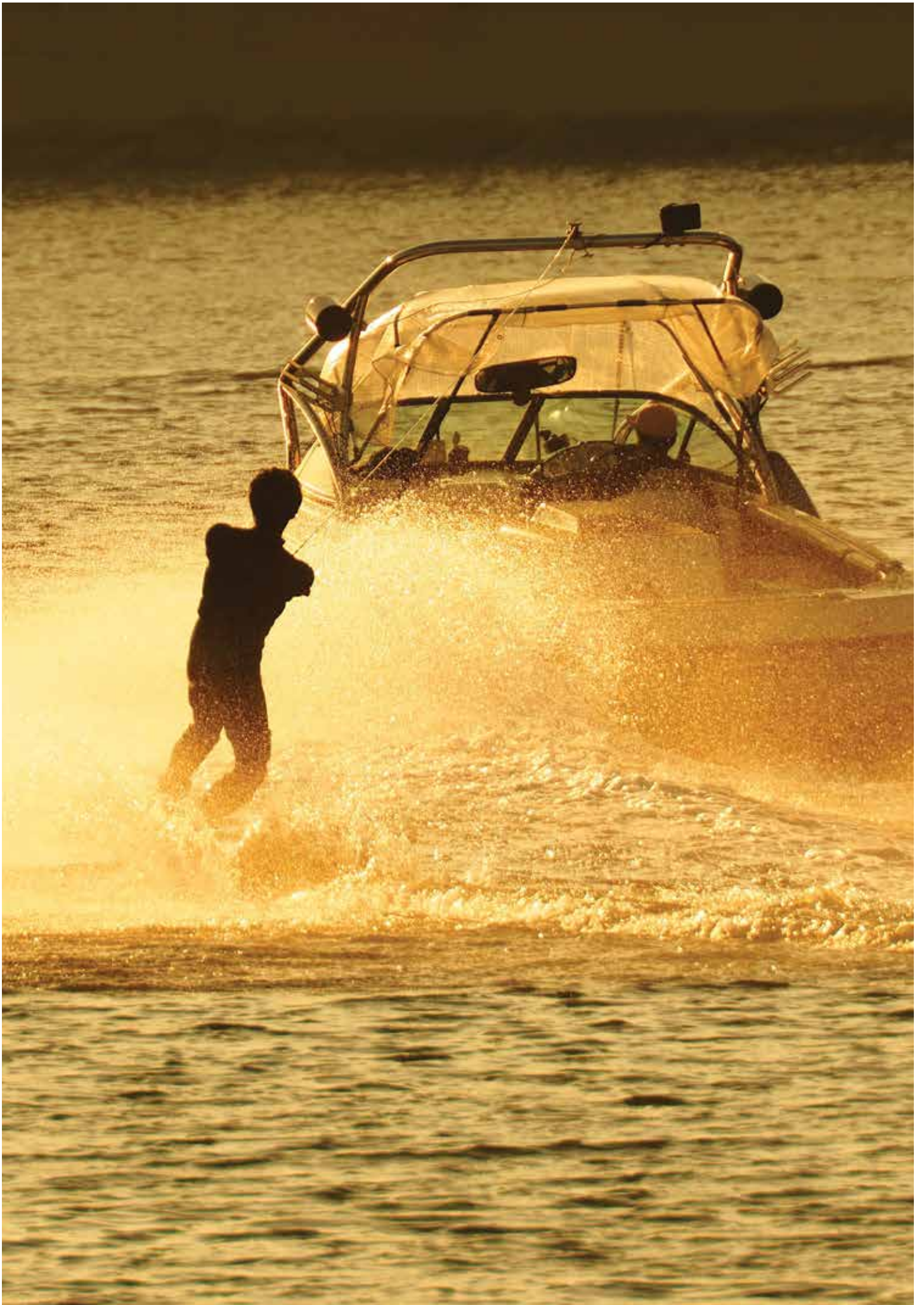
In addition, further information regarding economic and environmental matters is available in the Sustainability section on page 30 of this Report.

## INTERNAL AUDIT

The role of Internal Audit as part of the Group's RMF is to understand the key risks of the Group and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal controls used by management. Internal Audit carries out regular systematic monitoring of control activities and reports to both relevant business unit management and the Audit and Risk Committee.

**WE RECOGNISE  
THAT LONG-  
TERM AND  
SUSTAINABLE  
VALUE CREATION  
IS FOUNDED ON  
THE TRUST THAT  
THE GROUP HAS  
EARNED.**







**2018**

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**DIRECTORS' AND  
FINANCIAL REPORTS**



# DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of the Group comprising Super Retail Group Limited (SUL) (the Company) and its subsidiaries for the period ended 30 June 2018.

## 1. Directors

The Directors of the Company at any time during or since the end of the period, up to the date of this report are:

### Directors:

S A Pitkin  
(Independent Non-Executive Chair) (appointed as Chair 23 October 2017)  
P A Birtles  
(Group Managing Director and Chief Executive Officer)  
R A Rowe  
(Non-Executive Director)  
D J Eilert  
(Independent Non-Executive)  
L K Inman  
(Independent Non-Executive)  
H L Mowlem  
(Independent Non-Executive)  
P D Everingham  
(Independent Non-Executive) (appointed 19 December 2017)

### Former:

R J Wright  
(Independent Non-Executive Chair) (retired 23 October 2017)

Details of the qualifications, experience and responsibilities of the Directors are on pages 34 to 35 of this annual report.

### Special Responsibilities of Directors:

Director	Audit & Risk Committee	Nomination Committee	Human Resources & Remuneration Committee
S A Pitkin <sup>(2)</sup>	✓	✓ <sup>(1)</sup>	✓
P A Birtles	n/a	✓	n/a
R A Rowe	n/a	✓	n/a
D J Eilert	✓	✓	✓
L K Inman <sup>(3)</sup>	✓	✓	✓ <sup>(1)</sup>
H L Mowlem <sup>(4)</sup>	✓ <sup>(1)</sup>	✓	✓
P D Everingham <sup>(5)</sup>	n/a	✓	n/a

<sup>(1)</sup> Denotes Chair of Committee.

<sup>(2)</sup> Appointed as Chair of Nomination Committee 23 October 2017

<sup>(3)</sup> Appointed as Chair of Human Resources & Remuneration Committee 23 October 2017

<sup>(4)</sup> Appointed as Chair of Audit & Risk Committee 23 October 2017

<sup>(5)</sup> Appointed 19 December 2017.

### 1.1 Directorships of listed companies held by members of the Board

Current directors:

Director	Listed Company	Directorship	Key Dates
S A Pitkin	Super Retail Group Limited	Independent Non-Executive Chair	Current, appointed 23 October 2017
	Star Entertainment Group Limited	Independent Non-Executive Director	Appointed 01 July 2010
	Link Administration Holdings Limited	Independent Non-Executive Director	Current, appointed 31 July 2014
	<i>Former directorships:</i>		
	IPH Limited	Independent Non-Executive Director	Former, appointed 23 September 2014 and ceased 20 November 2017
	Billabong International Limited	Independent Non-Executive Director	Former, appointed 28 February 2012 and ceased 15 August 2016
P A Birtles	Super Retail Group Limited	Group Managing Director and Chief Executive Officer	Current, appointed 05 January 2006
	GWA Group Limited	Independent Non-Executive Director	Current, appointed 24 November 2010
R A Rowe	Super Retail Group Limited	Non-Executive Director	Current, appointed 08 April 2004

# DIRECTORS' REPORT (continued)

## 1. Directors (continued)

### 1.1 Directorships of listed companies held by members of the Board (continued)

Current directors:

Director	Listed Company	Directorship	Key Dates
D J Eilert	Super Retail Group Limited	Independent Non-Executive Director	Current, appointed 21 October 2015
	Navitas Limited	Non-Executive Director	Current appointed 28 July 2014
	Elders Domain Holdings	Non-Executive Director Non-Executive Director	Current appointed 14 November 2017 Current appointed 16 November 2017
<i>Former directorships:</i>			
	Veda Group Limited	Non-Executive Director	Former, appointed 4 October 2013 and delisted 26 February 2016
L K Inman	Super Retail Group Limited	Independent Non-Executive Director	Current, appointed 21 October 2015
	Precinct Properties New Zealand Limited	Independent Non-Executive Director	Current, appointed 28 October 2015
	<i>Former directorships:</i>		
	Commonwealth Bank of Australia	Non-Executive Director	Former, appointed 16 March 2011 and ceased 16 November 2017
	Bellamy's Australia Limited	Non-Executive Director	Former, appointed 15 February 2015 and ceased 28 February 2017
H L Mowlem	Super Retail Group Limited	Independent Non-Executive Director	Current, appointed 13 June 2017
	<i>Former directorships:</i>		
	Billabong International Limited	Independent Non-Executive Director	Former, appointed 24 October 2012 and delisted 26 April 2018
P D Everingham	Super Retail Group Limited	Independent Non-Executive Director	Current, appointed 19 December 2017
	iCar Asia Limited	Independent Non-Executive Director	Current, appointed 1 July 2017

Former director:

Director	Listed Company	Directorship	Key Dates
R J Wright	Super Retail Group Limited	Independent Non-Executive Chair	Former, appointed 28 October 2009 and ceased 23 October 2017
		Independent Non-Executive Director	Former, appointed 19 May 2004 and ceased 23 October 2017
	APA Ethane Limited	Chair and Non-Executive Director	Former, appointed 10 July 2008 and ceased September 2016
	Australian Pipeline Limited	Independent Non-Executive Director	Former, appointed 10 Feb 2000 and ceased October 2015

### 1.2 Directors' Meetings

The number of meetings of the Company's Board of Directors and each Board Committee held during the period ended 30 June 2018 is set out below:

	Meetings of Committees							
	Board Meetings		Audit and Risk		Nomination		Human Resources and Remuneration	
	Attended	Held <sup>(1)</sup>	Attended	Held <sup>(1)</sup>	Attended	Held <sup>(1)</sup>	Attended	Held <sup>(1)</sup>
R J Wright	4	4	1	1	n/a	n/a	3	3
S A Pitkin	13	13	4	4	1	1	5	5
P A Birtles	13	13	4	4	1	1	5	5
R A Rowe	13	13	4	4	1	1	5	5
D J Eilert	13	13	4	4	1	1	5	5
L K Inman	13	13	4	4	1	1	5	5
H L Mowlem	13	13	4	4	1	1	5	5
P D Everingham	8	8	2	2	n/a	n/a	1	1

<sup>(1)</sup>Number of meetings held during the time the Director held office during the year.

# DIRECTORS' REPORT (continued)

## 1. Directors (continued)

### 1.3 Directors' Interests

The relevant interest of each Director in shares and options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the Directors to the Australian Securities Exchange (ASX) in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Number of Ordinary Shares	Options over Ordinary Shares
S A Pitkin	39,153	-
P A Birtles	1,392,596	-
R A Rowe	59,925,001	-
D J Eilert	8,500	-
L K Inman	22,175	-
H L Mowlem	10,000	-
P D Everingham	10,000	-

## 2. Company Secretary

The Company Secretary (and Chief Legal and Property Officer) is Mr R W Dawkins, B.Bus (Acct), Grad. Dip. AppCorpGov, ACIS, ACSA. Mr Dawkins commenced with Super Retail Group Limited as the Property Services Manager in July 2001 and was appointed Company Secretary in December 2010.

## 3. Operating and Financial Review

### 3.1 Overview of the Group

The Group is a for-profit entity and is primarily involved in the retail industry. Founded in 1972, as an automotive accessories mail order business which evolved into Supercheap Auto, the Group has grown through both organic growth and mergers and acquisitions evolving its principal activities to include:

- retailing of auto parts and accessories, tools and equipment;
- retailing of boating, camping, outdoor equipment, fishing equipment and apparel; and
- retailing of sporting equipment and apparel.

### 3.2 Review of Financial Condition

#### (a) Group Results

	2018 \$m	2017 \$m
Revenue from continuing operations	<b>2,570.4</b>	2,465.8
Segment earnings before interest, taxes, depreciation and amortisation (EBITDA)	<b>294.1</b>	278.0
Segment earnings before interest and taxes (EBIT)	<b>219.6</b>	207.3
Normalised NPAT	<b>145.3</b>	135.8
Profit for the period attributable to owners	<b>128.3</b>	101.8
Profit for the period	<b>127.3</b>	100.5
Operating cash flow	<b>308.4</b>	234.5
EPS – basic (cents)	<b>65.0</b>	51.6
Dividends per share (cents)	<b>49.0</b>	46.5

The Group has delivered another robust result for the financial year with a 7.0% increase in normalised net profit after tax. Profit for the period increased by 26.7% and operating cash flows increased by 31.5%. The financial results reflect an improvement in underlying divisional performance, the successful acquisition of Macpac and the benefits of working capital initiatives.

During the 2017 year the Group undertook a strategic review of the Sports Retailing Division. The existing strategy since acquisition, to leverage two brands with distinct identities had been successful in delivering growth for the Sports Division. The review though identified that changes in customer expectations would result in the two brand strategy becoming less distinctive over time. A decision was made and announced in July 2017 to operate a single brand strategy for Sports. During 2018, the Group completed the program of converting all the Amart Sports stores to Rebel in line with the strategy to sustain the Group's position as the market leader in sports retailing.

The Group recognised after tax costs of \$34.0 million in the 2017 financial period associated with the Sports business transformation. A further \$2.7 million of after tax restructuring costs have been incurred during the current reporting period consistent with the announcement made to the market on 25 July 2017.

During the current year the Group acquired the Macpac group of companies as announced to the market on 20 February 2018. Following the acquisition of Macpac, the Group has completed the trial of the Rays business and will integrate its profitable stores into the Macpac business in the fourth quarter of the coming financial year. Costs associated with the business restructuring and integration incurred to date total \$9.1 million after tax. Transaction costs to complete the acquisition of Macpac total \$3.9 million after tax.



# DIRECTORS' REPORT (continued)

## 3. Operating and Financial Review (continued)

### 3.2 Review of Financial Condition (continued)

#### (a) Group Results (continued)

Net profit after tax (NPAT) attributable to owners was \$128.3 million compared to \$101.8 million in the prior period. Normalised NPAT was \$145.3 million compared to \$135.8 million in the prior period, an increase of 7.0%. The table below provides the reconciliation to the statutory profit.

	2018 \$m	2017 \$m
<b>Profit for the period</b>	<b>127.3</b>	100.5
Loss for the period attributable to non-controlling interests	1.0	1.3
Profit for the period attributable to owners of Super Retail Group Limited from continuing operations	<b>128.3</b>	101.8
Macpac acquisition costs <sup>(1)</sup>	<b>3.9</b>	-
Business restructuring costs <sup>(1)</sup>	<b>11.8</b>	7.8
Prior year store set-up costs <sup>(1)</sup>	<b>6.0</b>	-
Autoguru net gain on divestment <sup>(2)</sup>	<b>(4.7)</b>	-
Impairment of Amart Sports and Goldcross Cycles brand names <sup>(1)</sup>	-	26.2
<b>Normalised net profit after tax</b>	<b>145.3</b>	135.8
Other items not included in normalised net profit comprise (refer note 4):		
- Macpac acquisition costs	<b>4.0</b>	-
- Outdoor business restructuring	<b>13.0</b>	-
- Sports business restructuring	<b>3.9</b>	48.5
- Prior year store set-up costs	<b>8.6</b>	-
- Autoguru net gain on divestment	<b>(4.7)</b>	-
- Tax effect	<b>(7.8)</b>	(14.5)
Total other items not included in normalised net profit (after tax)	<b>17.0</b>	34.0

<sup>(1)</sup> Net of tax

<sup>(2)</sup> Net of tax and share of trading losses

Basic earnings per share (EPS) was 65.0 cents compared to 51.6 cents in the prior comparable period, an increase of 26.0%.

Total sales have increased 4.2% to \$2,570.4 million on the prior comparative period. Included in the sales result for the first time is \$31.4 million of Macpac revenue for the period 1 April 2018 to 30 June 2018. The increase excluding Macpac was 3.0% compared to the prior comparative period driven by new store sales and sound like for like growth in all divisions. Sales growth was strongest in the on-line channel as customers shift to the omni-channel experience allowing them to shop online and receive their purchases either in store or at the location of their choice.

The Group remains focused on increasing market share through growing the customer base, increasing customer lifetime value and increasing customer share of wallet. To achieve this the Group continues to invest in omni-retailing capability through investment in new stores, refurbishment of the store network and developing customer solutions and experiences in both the physical and digital networks.

#### (b) Division Results

	Sales		EBITDA		EBIT	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Auto	1,006.4	955.9	148.2	139.4	116.4	111.0
Outdoor	579.8	553.5	47.9	43.1	29.6	25.4
Sports	979.2	949.2	115.7	115.1	91.5	91.3
Unallocated	5.0	7.2	(17.7)	(19.6)	(17.9)	(20.4)
	<b>2,570.4</b>	2,465.8	<b>294.1</b>	278.0	<b>219.6</b>	207.3

#### Auto Retailing

Divisional sales at \$1,006.4 million were 5.3% higher than the prior comparative period, supported by new store growth and strong like for like growth of 3.6%. Segment EBIT at \$116.4 million was 4.9% higher than the prior comparative period.

The like for like sales growth of 3.6% was driven by increased average item value, increased average units per transaction and an increase in transactions. Gross margins improvements were driven by ranging and sourcing benefits plus benefits from supply chain efficiencies. Operating costs increased due to an investment in store services and solutions and digital initiatives to improve customer experience and engagement.

All major categories were in growth in the financial period and increased gross margin performance. Strong growth was achieved in Auto Accessories and Auto Maintenance, and pleasingly the Tools and Outdoors category was also in growth.

Sales growth was achieved in all Australian states. New Zealand also delivered strong growth.

# DIRECTORS' REPORT (continued)

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## 3. Operating and Financial Review (continued)

### 3.2 Review of Financial Condition (continued)

#### (b) Division Results (continued)

##### Auto Retailing (continued)

The Supercheap Auto Club Plus membership increased during the year with 1.47 million active members. Sales attributable to club members increased to 37% and customer lifetime value increased by 5.2%. Club customers continue to have a higher average transaction value than non-club members.

The business opened five new Supercheap Auto Stores and closed two stores in the financial period. The store refurbishment program completed 23 refurbishments, relocations and closures plus an additional 15 layout changes. The network of stores total 275 stores in Australia and 44 stores in New Zealand at 30 June 2018, with store growth planned for the next 5 years.

Customer traffic to the Supercheap Auto website grew significantly in the financial period combined with an improvement in on-line conversion, resulting in on-line sales growing 85%. This represents an increase of over 80% over the last two financial periods to now represent just under 5% of total sales. Supercheap Auto has extended its on-line offering by introducing market leading click and collect performance as low as 30 minutes. During the period the business prepared to transition from the legacy website to a new platform which went live on the 14 August 2018.

On the 21 August 2017, the Group announced a partnership with Bosch to establish a new business, Autocrew, to provide car servicing within the Australian market place. The first site in Narellan, western Sydney, has opened on the 18 June 2018 with a further 3 sites expected to open in the next financial year.

##### Outdoor Retailing

Divisional sales of \$579.8 million were 4.8% higher than the prior comparative period. Included in the sales result for the first time was \$31.4 million of Macpac revenue for the period 1 April 2018 to 30 June 2018. Sales excluding Macpac decreased by 0.9% compared to the prior comparative period due to the reduced size of the Rays business which delivered \$50.1 million of sales, a reduction of \$23.0 million on the prior comparative period.

Segment EBIT at \$29.6 million was an increase on the prior comparative period of 16.5% due to the inclusion of \$7.8 million of Macpac EBIT. The divisional EBIT excluding Macpac declined by \$3.6 million.

BCF sales of \$498.3 million increased 3.7% on the prior comparative period. Sales growth was delivered through new stores and like for like growth of 1.1%. Sales growth was driven by an increase in average transaction value and transactions.

Key categories of Camping, Fishing and Apparel were in growth for the financial period and Boating declined due to the reduction in range and store space allocated to it. Victoria, Tasmania and New South Wales were in growth. The most challenging state was Western Australia followed by Queensland which experienced increased competitive intensity and unfavourable weather conditions.

BCF gross margins declined slightly due to the increased competitive environment driving a higher mix of promotional sales. Operating cost increases at a store level were partially mitigated by lower support costs, however at a margin level, cost leverage declined due to the lower like for like sales delivery. Overall, operating margin declined from 6.5% to 5.5%.

BCF opened two new stores and closed three stores in the period. As at 30 June 2018, BCF had 134 stores. All stores were 'relayed' in the first half of the year to reduce space allocation to Boating and increase space allocation to Apparel and Camping.

The BCF club loyalty program continued to grow in the financial year with active club members totalling 1.36 million. BCF Club members' sales represent 79% of total sales and club members have significantly higher average transaction value than non-club members.

BCF has continued to invest in developing omni-retailing capability including improving click and collect delivery to within two hours and launching a new web platform in April 2018. We have seen a significant increase in on-line traffic and conversion to support an increase in online sales of 76% above the prior comparative period. Total on-line sales now represent 6% of total sales.

Macpac was effectively acquired on 31 March 2018. The period from 1 April 2018 to 30 June 2018 is one of its busiest quarters representing one third of sales for the year ended 30 June 2018. The business has traded well with sales of \$31.4 million 17.7% higher than the same period last year. Sales growth was supported by new stores, like for like growth of 4.4% in New Zealand and 6.2% in Australia and webstore growth of 52%. Underlying gross margins increased and operating expenses increased resulting in no net improvement on operating margin. Operating expenses for the current reported period are higher due to elevated sales activity in the quarter. Macpac has 54 stores as at 30 June 2018.

# DIRECTORS' REPORT (continued)

## 3. Operating and Financial Review (continued)

### 3.2 Review of Financial Condition (continued)

#### (b) Division Results (continued)

##### Outdoor Retailing (continued)

The Rays trial was operating during the financial reporting period and has now been completed. At balance date there are nine Rays stores which have traded well through the year and will be transitioned to Macpac in the fourth quarter of the next financial year. The Rays business delivered sales of \$50.1 million and contributed an EBIT loss of \$5.5 million in the financial reporting period. The loss was in line with the prior comparative period loss.

##### Sports Retailing

Divisional sales at \$979.2 million were 3.2% higher than the prior comparable period supported by new stores and like for like sales growth of 2.0%. Segment EBIT at \$91.5 million was 0.2% higher the prior comparative period.

On the 25 July 2017, the Group announced a decision to convert the Amart Sports stores to Rebel bringing a single national brand under Rebel which was completed by the end of October 2017. The division converted 68 Amart Sports stores to Rebel stores within 68 days. This resulted in some business disruption through the key Christmas trading period through to the end of the financial year when the range for all stores was able to be aligned.

The sound sales growth in the financial period has been supported by increased transaction growth offset by lower average transaction value attributable to increased promotional activation to support the brand transition undertaken in the year.

The key categories of clothing and footwear delivered strong growth in the financial period offset by a small decline in hard goods and cycling which has been significantly reduced as a result of the Amart Sports integration.

Rebel has continued to invest in developing omni-retailing capability in the year including launching click and collect in October 2017. Click and collect sales for the financial period represent 25% of total on-line sales. In the financial period website visits have increased 36%, conversion has increased by a third and on-line sales have increased by 152% to represent 8% of total sales. In the financial period Rebel invested in a new web platform which went live in July 2018.

The Rebel Active club program continued to grow this financial period with active club members totalling 2.47 million. Sales to club members represent 61% of total sales.

As a result of the Amart Sports integration to Rebel the RebelFit stores were closed and the RebelFit brand has been brought within the store platform to showcase the fitness category. In the financial period the business has opened three stores and closed eight stores. The total store network at 30 June 2018 was 159 stores.

Infinite Retail operated consistently with the prior reported period delivering a break even result.

##### Group Costs

Group costs for the period were \$17.9 million, down 12.3% compared to the prior period. The Group costs include Corporate costs of \$10.4 million, \$3.1 million of un-allocated distribution centre costs, \$4.1 million of omni-retail development costs and digital investment of \$0.3 million.

#### (c) Financial Position and Cash Flow

	2018 \$m	2017 \$m
<b>BALANCE SHEET</b>		
Trade and other receivables	23.8	42.6
Inventories	545.5	481.5
Trade and other payables	(391.4)	(297.9)
Current tax (liabilities) / assets	(9.6)	(1.5)
Total working capital	168.3	224.7
Cash and cash equivalents	15.2	19.9
Borrowings	(438.1)	(400.6)
Net debt	(422.9)	(380.7)
Property, plant and equipment	270.4	264.5
Intangible assets	891.6	750.1
Other financial assets	9.3	-
Derivatives	5.3	(3.1)
Provisions	(92.7)	(83.8)
Deferred taxes	(30.1)	(17.1)
<b>NET ASSETS</b>	<b>799.2</b>	<b>754.6</b>



# DIRECTORS' REPORT (continued)

## 3. Operating and Financial Review (continued)

### 3.2 Review of Financial Condition (continued)

#### (c) Financial Position and Cash Flow (continued)

##### CASH FLOW

Net cash inflow from operations	308.4	234.5
Net cash (outflow) from investing	(241.2)	(101.2)
Net cash (outflow) from financing	(71.8)	(129.0)
<b>Net increase / (decrease) in cash</b>	<b>(4.6)</b>	<b>4.3</b>
Cash at the beginning of the period	19.9	15.6
Effects of exchange rates on cash	(0.1)	-
<b>Cash at the end of the period</b>	<b>15.2</b>	<b>19.9</b>

Net assets for the Group increased \$44.6 million as a result of strong profitability and the acquisition of Macpac.

Group Net Debt was \$422.9 million, which was a \$42.2 million net increase on 2017, impacted by additional amounts borrowed to fund the acquisition of Macpac. The Group remains comfortably within its banking covenants.

Cash flow from operations of \$308.4 million was \$73.9 million higher than the prior year. This is due to both higher sales and working capital initiatives.

Group capital expenditure cash flow was \$107.1 million which included \$46.6 million in new and refurbished store fit out, and \$60.5 million in building omni-retail capabilities (new web platform, data and cyber), inventory management projects and other information technology projects.

#### (d) Dividends

Super Retail Group has declared a 27.5 cents per share fully franked final dividend for 2018. This will result in a full year dividend of 49.0 cents per share fully franked, an increase of 5.4% over the prior year. This represents a dividend payout ratio of 65.4% of underlying NPAT.

#### (e) Material Business Risks

The Group recognises that all of its businesses operate in an environment of change and uncertainty and is committed to managing the potential risks associated with this uncertainty in a continuous, proactive and systematic way. The Group regularly reviews the possible impact of these risks and seeks to minimise this impact through a commitment to its corporate governance principles and its risk management functions.

The business risks faced by the Group that are likely to have a material effect on its financial prospects are listed below, including an overview of the Group's mitigating actions:

- **Competition intensity** - The growth and intensity of competition in the increasingly globalised retail market continues to impact the Group. By focussing on our Customer Promise, notably Inspiration, Experience and Solutions, the Group will continue to build an emotional connection with the customer that will differentiate each Brand in market. The Group sees the risk increasing in the future as competitors continue to enter the market.
- **Customer expectations** - Customer expectations have changed significantly over the last few years and will continue to do so in the future. The Group recognises significant changes to consumer behaviour and the way in which consumers want to be engaged and this will require the Group to 'earn the right' to meet a customer's need. There is an increasing expectation of engaging experiences, solutions rather than products and 'do it for me' rather than 'do it yourself'. The Group has an established Customer Promise across all Brands with a focus on inspiration, experience and solutions. The Group believes that this will remain a consistent risk in the retail market for years to come and if not adequately managed will result in loss of sales to alternative suppliers.
- **Omni-retail transformation** - Traditional retail business models are being disrupted and the cost of doing business is increasing. The Group Operating Model and the strategic investment must support the required capability uplift and project delivery. The Group expects the risk to continue to develop in the short and medium term, aligned to changes in the retail market.
- **Supply chain and inventory agility for omni-retail** - Supply Chain and inventory agility are critical requirements of a world class omni-retailer in order to meet evolving customer expectations. The Group has made substantial investments in an updated supply chain network and supporting information systems to improve agility and meet changing customer expectations. The Group continues to pursue opportunities to reduce the cost of the supply chain and capital employed through improved delivery models with its major trade partners including the development of mutual business opportunities. Risks associated with the supply chain and inventory management remain constant in the current retailing environment, and increased flexibility is key to future success.
- **Compliance** - The Group is required to maintain compliance with all applicable regulations, including product, ethical sourcing and product transport regulations. Where the Group is found to be non-compliant with regulations, the Group would be exposed to financial and non-financial penalties. The Group has in place compliance programs to mitigate the associated risks and a Compliance Team to provide oversight.

# DIRECTORS' REPORT (continued)

## 3. Operating and Financial Review (continued)

### 3.2 Review of Financial Condition (continued)

#### (e) Material Business Risks (continued)

- **Cyber and information security** - The digital economy and associated transformation in retail delivery creates new challenges for all companies in relation to maintaining a strong cyber resilience program. The Group is implementing strategies to provide protection against deliberate exploitation of computer systems, technology-dependent enterprises and networks by internal and external parties. Cyber security is an evolving and significant risk to all retailers and the Group will need to maintain ongoing vigilance and adopt appropriate responses (technological / physical / other) to protect its information assets. The Group has made and will continue to make a significant investment in Information Management Systems to meet the challenges of the digital economy and evolving technology landscape. The Group believes that this will remain a consistent and increasing risk requiring proactive management.
- **Organisation structure, culture and capabilities** - Attraction, retention, engagement, safety and succession of team members are key risks to be managed to maximise financial growth in the retail sector and support our transition to becoming an omni-retailer. A review of the Group's operating model is underway and will identify the design requirements and transformation to a new way of working to support the Group's strategy to be a world class omni-retailer. Transitioning the organisation to a new operating model will increase risk in the near term, however reduce risk in the medium to long term.
- **Breach of industrial practices** - The Group, like all retailers is exposed to industrial relations risk that can impact the reputation and financial performance of the business. There are dedicated programs of work in place to mitigate these risks.
- **Financial risk** - The Group's activities expose it to a number of financial risks. The Group adopts a financial risk management program which seeks to minimise the potential adverse impacts on financial performance of the Group. Financial risks and specific risk management approaches are reported in more detail in the Notes to the Consolidated Financial Statements.

#### 3.3 Dividends

Dividends paid or declared by the Group to members since the end of the previous financial year were:

	Cents per share	Total amount \$m	Payment date
<i>Declared and paid during the year:</i>			
2017 final fully franked dividend	25.0	49.3	6 October 2017
2018 interim fully franked dividend	21.5	42.4	3 April 2018
<i>Declared after end of year:</i>			
2018 final fully franked dividend	27.5	54.2	2 October 2018

#### 3.4 Significant Changes in the State of Affairs

There were no significant changes in the Group's state of affairs during the period other than that described in section 3.5 below.

#### 3.5 Matters Subsequent to the End of the Financial Year

Since 30 June 2018 Super Retail Group limited does not have any matters subsequent to the end of the financial year to be disclosed.

#### 3.6 Likely Developments and Future Prospects

Information on likely developments in the operations of the Group is set out in this report under the section Review of Financial Condition. Further information on the expected results of operations has not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

#### 3.7 Environmental Regulation

The Group's environmental obligations are regulated under State, Territory and Federal Law. The Group has an Environmental Management System in place and a policy of complying with its environmental performance obligations. All material environmental performance obligations are monitored by the Board. No environmental breaches have been notified to the Group during the period ended 30 June 2018.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited

The Directors of Super Retail Group present this Remuneration Report for the period ended 30 June 2018. The Remuneration Report outlines the Group's remuneration philosophy and practices, explains how the Group's 2018 performance has driven executive remuneration outcomes, and provides the details of specific remuneration arrangements that apply to Key Management Personnel (executive KMP) in accordance with section 300A of the *Corporations Act 2001 (Cth)* (*Corporations Act*) and applicable accounting standards.

The structure of the Remuneration Report is outlined below.

### Contents

Section 1	Remuneration Governance
Section 2	Key Management Personnel
Section 3	Remuneration Strategy and Policy
Section 4	Executive KMP Remuneration Structure
Section 5	Non-Executive Directors Remuneration Structure
Section 6	Relationship of Remuneration to Group Performance
Section 7	Remuneration Outcomes for 2018
Section 8	Remuneration Changes for 2019
Section 9	Service Agreements
Section 10	Period of Restraint
Section 11	Additional Information

### Section 1: Remuneration Governance

#### 1.1 Role of the Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee (the Committee) has the delegated responsibility from the Board to review and make recommendations to the Board in relation to the overall human resources and remuneration practices of the Company. This includes, but is not limited to, supporting and advising the Board in relation to the Company's human resources strategy including human resource policies; remuneration policies; health and safety; talent management; and otherwise assisting the Board to comply with legal and statutory requirements in respect of human resources and remuneration matters.

Without limiting its role, the remuneration responsibilities of the Committee include the following:

#### Remuneration Policy

- a) Reviewing and making recommendations to the Board regarding the Company's remuneration policy objectives.
- b) Subject to amendment, the Committee shall have regard to the following policy objectives:
  - To align remuneration policy with the achievement of Company strategy and objectives;
  - To attract, retain and motivate skilled Directors and Management;
  - To provide an equitable remuneration framework, providing a reasonable balance between fixed, short-term and long-term remuneration components;
  - To align remuneration to individual and Company performance, including incentive programs that are challenging and are linked to the creation of value for Shareholders;
  - To align remuneration to Company values; and
  - To align remuneration with prudent risk taking and the Company's long term financial soundness.
- c) Reviewing and making recommendations to the Board regarding the Company's remuneration policy including but not limited to, in respect of:
  - Alignment of the Company's remuneration framework with the Company's business strategy and objectives;
  - The remuneration framework, including alignment with industry standards and trends in remuneration policy;
  - The structure of short-term and long-term incentive plans, including equity plans, performance targets, and an assessment of the effectiveness of rewarding the achievement of Company and individual objectives;
  - Performance based remuneration and the reduction, cancellation, or claw-back of performance based remuneration in the event of serious misconduct or material misstatement in the financial statements;
  - The broad level and nature of participation by senior executives and other management in incentive plans, including equity plans;
  - The administration of an equity plan, including amendments to terms of existing equity plans and/or any trust deed applying in relation to an equity plan; and
  - Compliance with legislative and regulatory requirements.

#### Chief Executive Officer and Executive Director Remuneration

- a) Reviewing and making recommendations to the Board regarding the remuneration arrangements and terms of appointment for the Chief Executive Officer [CEO], including contract term, annual remuneration adjustments and participation in the Company's short-term and long-term incentive plans.
- b) Reviewing and making recommendations to the Board regarding the objectives and performance assessments of the CEO, including development plans.
- c) Advising the legal and regulatory requirements, including any shareholder approvals which are necessary to obtain in respect of Executive Director remuneration.



# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

### Senior Executive Remuneration

- a) Reviewing and making recommendations to the Board, having regard to the CEO's recommendations, regarding the remuneration arrangements and terms of appointment for senior executives, including contract term, annual remuneration adjustments and participation in the Company's short-term and long-term incentive plans.
- b) Reviewing and making recommendations to the Board regarding the objectives and performance assessments of senior executives, including development plans.

### Non-Executive Directors Remuneration

- a) Reviewing and making recommendations to the Board on remuneration of Non-Executive Directors of the Company, including but not limited to Director fees, Committee fees, travel and other expense reimbursement, and other benefits.
- b) Advising the legal and regulatory requirements, including any shareholder approvals which are necessary to obtain in respect of non-executive Director remuneration.

### Disclosure and Reporting

- a) Reviewing and making recommendations to the Board in relation to disclosures applicable to the Committee's Charter, processes and activities during each reporting period, including but not limited to in respect of:
  - The Remuneration Report for inclusion in the annual Directors' Report;
  - Diversity reporting, including as required under ASX Listing Rules and the Workplace Gender Equality Act; and
  - The existence and terms of any scheme for retirement benefits (other than statutory superannuation) for Non-Executive Directors.
- b) Review and facilitate shareholder engagement in relation to the Company's remuneration policies and practices.

The Committee reviews its Charter at least once in each financial year. The Corporate Governance Statement (available in the Investor Centre, Corporate Governance section of the Group's website at [www.superretailgroup.com](http://www.superretailgroup.com)) provides further information on the role of the Committee. The membership of the Committee is noted in section 1 of the Directors' report, as is the number of meetings and individual attendance during the period ended 30 June 2018.

### 1.2 Involvement of Independent Advisors

The Committee operates independently of senior executives and engages directly with remuneration consultants. The requirements for external consultants' services are assessed annually in the context of remuneration matters that the Committee requires to address. During 2018, external advice was received from Ernst & Young related to market remuneration benchmarking, and market remuneration practices for remuneration structures.

No remuneration recommendations as defined by the *Corporations Act 2001* were provided.

### 1.3 Remuneration Report approval at 2017 Annual General Meeting (AGM)

The Remuneration Report for the 2017 financial year received positive shareholder support at the 2017 AGM, with 98.57% of votes in favour of the resolution.

### 1.4 Gender Pay Equity

The Group is committed to remunerating all employees fairly and equitably. The Group conducts annual gender pay equity reviews that are presented to the Committee. No significant gaps were identified at the point of last review.

## Section 2: Key Management Personnel (KMP)

The names and titles of the Group's KMP, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, are set out below.

### 2.1 Non-Executive Directors

#### Current:

S A Pitkin	Chair and Independent Non-Executive Director (appointed as Chair 23 October 2017)
R A Rowe	Non-Executive Director
D J Eilert	Independent Non-Executive Director
L K Inman	Independent Non-Executive Director
H L Mowlem	Independent Non-Executive Director
P D Everingham	Independent Non-Executive Director (appointed 19 December 2017)

#### Former:

R J Wright	Chair and Independent Non-Executive Director (retired 23 October 2017)
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# DIRECTORS' REPORT (continued)

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## 4. Remuneration Report – Audited (continued)

### 2.2 Executive Director

P A Birtles            Group Managing Director and Chief Executive Officer

### 2.3 Other executive KMP

#### Current:

D J Burns            Chief Financial Officer  
E A Berchtold        Managing Director – Sports Division  
A M Heraghty        Managing Director – Outdoor Division  
C D Wilesmith        Managing Director – Auto Division

### Section 3: Remuneration Strategy and Policy

One of the Group's core principles is that the attraction, development, engagement and retention of passionate team members provides a competitive advantage which is fundamental to the long term success of the Group. The maintenance of a workplace culture and the development of people practices that support this principle are strategic priorities for the Group.

The development of people practices covers a number of areas including attraction, diversity, learning and development, engagement, workplace health and safety, talent and succession management, and remuneration and benefits.

Remuneration and benefits practices are set in the context of an overall policy to provide market competitive remuneration arrangements which support the attraction, development, engagement and retention of passionate team members, and that are aligned with the interests of shareholders.

The Group is committed to creating a high performance culture. The philosophy is to provide flexible and competitive market based total remuneration arrangements that are linked to the performance of the Group and its businesses and support services.

The key elements of the Remuneration Policy are:

- To provide competitive total remuneration arrangements that enable the Group to attract and retain high performing team members, and to reward them for their contribution to the success of the Group;
- To align remuneration arrangements with the delivery of sustainable value to the Group's shareholders;
- To maintain a pay for performance environment through linking incentive pay opportunities to the achievement of specific, measurable business goals;
- To position base salaries at or around the median and performance incentives in the 3rd quartile of relevant market remuneration levels, subject to individual performance;
- To provide gender pay equity across the Group through regular analysis and review;
- To provide arrangements with the flexibility to recognise individuals based on performance, experience and qualifications;
- To provide equitable, fair and consistent pay arrangements across the Group through a systematic methodology involving job value and market positioning;
- To align remuneration to Company values; and
- To align remuneration with prudent risk taking and the Company's long term financial soundness.

Remuneration can include a number of different elements such as base pay, superannuation, short term incentives, long term incentives, tools of trade, study and relocation assistance, share plans and novated lease arrangements. The elements of the total remuneration package may vary according to the job role, team members' experience and performance and market practice. The Group Managing Director and Chief Executive Officer, and his direct reports (senior executives) are remunerated under a Total Target Remuneration structure.

For the 2018 financial year, remuneration benchmarking for all executive KMP was sourced from Ernst & Young (EY) Remuneration Consultants. The Board referenced two sets of comparator groups to benchmark remuneration, being:

- Market Capitalisation comparator group: S&P/ASX 200 companies within 50% to 150% of Super Retail Group's 12 month average market capitalisation; and
- Market Capitalisation and GICS comparator group: S&P/ASX 200 companies within the 'Consumer Discretionary Sector' Global Industry Classification Standard (GICS).

The intent for the 2018 financial year was to use S&P/ASX 200 companies within 50% to 150% of Super Retail Group's 12 month average market capitalisation as one of two referenced sets of comparator groups. However, due to sample size returning insufficient data, EY's assessment of the comparator groups showed that the market capitalisation (50% - 200%) comparator group included a broader set of companies which aids ongoing remuneration management and provides balance in the peer group (between companies with larger, and those with lower, market capitalisation). For this reason, the market capitalisation (50% - 200%) comparator group was also referenced during the 2018 financial year.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

### Section 4: Executive KMP Remuneration Structure

The executive KMP remuneration structure is reviewed annually by the Committee against the Remuneration Policy, external remuneration practices, market expectations and regulatory standards.

The Group Managing Director and Chief Executive Officer, together with the other executive KMP, are remunerated under a Total Target Remuneration (TTR) structure consisting of three elements:

- Base Salary Package (inclusive of superannuation contributions, car allowance and other non-monetary benefits);
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

In line with the Group's Remuneration Policy, these remuneration categories are illustrated in Table 1 below:

**Table 1:**

<b>Super Retail Group's Remuneration Policy</b>				
Market Competitive	Aligned to Shareholders' Sustainable Value	Pay-for-Performance Environment – Specific and Measurable	Equitable, fair and consistent across the Group	Flexible – Recognise Performance, Experience and Qualifications
<b>Super Retail Group's Executive Remuneration Objectives</b>				
Attract, motivate, and retain executive talent	Differentiate reward to drive performance including values and behaviours	An appropriate balance of fixed and 'at-risk' components focused on long-term strategy and short-term milestones	Alignment to shareholder interests and value creation through equity components	
<b>Group Managing Director &amp; Chief Executive Officer and Senior Executive Remuneration Structure</b>				
	<b>Fixed</b>		<b>At Risk</b>	
	<b>Base Salary Package</b>		<b>Short Term Incentive (STI)</b>	<b>Long Term Incentive (LTI)</b>
<b>Determination</b>	Base salary package is set based on relevant market data relativities, reflecting responsibilities, performance, qualifications and experience.		STI performance criteria are set by reference to the Group PBT, divisional EBIT, working capital efficiency and individual performance targets relevant to the specific position.	LTI targets are linked to both Earnings per Share (EPS) and Return on Capital (ROC) performance measures, over a three year vesting period.
<b>Delivery</b>	Base pay, superannuation, and may include prescribed non-financial benefits at the executives' discretion on a salary sacrifice basis.		Cash only with no deferral.	Equity in performance rights. All equity is held subject to service and performance conditions for 3 to 5 years from grant date. The equity is at risk until vesting. Performance is tested once at the vesting date (3 years after the grant date).
<b>Strategic Intent and Market Positioning</b>	Base salary package will generally be positioned at the median compared to relevant market-based data, taking into account expertise and performance in the role.		Performance incentive is directed to achieving Board approved targets, in support of the execution of the Group's strategy during the performance period. Combined, base salary package and STI is intended to be positioned within the 3 <sup>rd</sup> quartile of relevant benchmark comparisons.	LTI is intended to reward executive KMP for sustainable long-term growth aligned to shareholders interests. Combined, base salary package, STI and LTI is intended to be positioned within the 3 <sup>rd</sup> quartile of relevant benchmark comparisons.

#### **Total Target Remuneration (TTR)**

TTR is positioned to achieve the remuneration objectives outlined above. Outperformance generates higher reward. The remuneration structure is designed to ensure third quartile executive KMP remuneration and is only achieved if Super Retail Group outperforms against stated targets.

#### *Target Remuneration Mix*

The mix of remuneration between fixed and variable components is determined having regard to the seniority of the role, the responsibilities of the role for driving business performance, developing and implementing business strategy, and external remuneration practices.

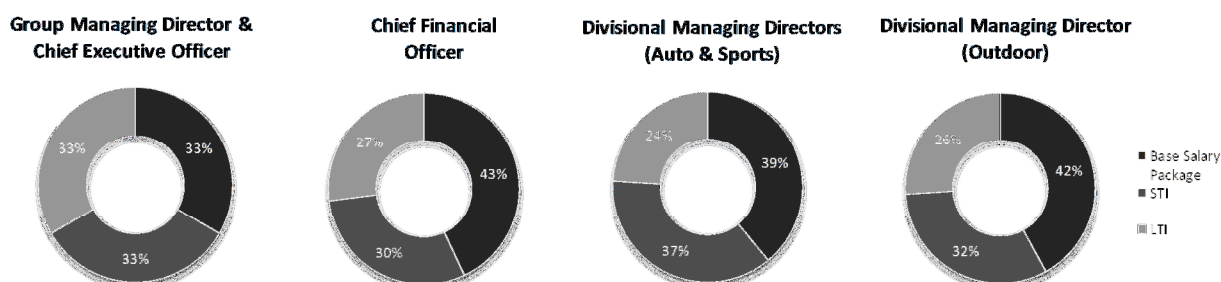
The diagrams below (Figure 1) show the remuneration based on the base salary package (as at July 2017), and the incentives payable assuming maximum STI is received and full vesting of the LTI plan. It shows the mix of fixed and at-risk components of remuneration, as a percentage of total annual remuneration, for the Group Managing Director and Chief Executive Officer and other executive KMPs disclosed in the Remuneration Report.



# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

Figure 1:



The LTI component is based on the notional monetary value at the time of grant. This notional valuation may differ from the accounting valuation which considers probability of vesting and other factors.

### (a) Base Salary Package

The Remuneration Policy provides executive KMP a base salary package that targets the median market base salary package for a comparable role in a similarly sized S&P/ASX 200 company. The executive KMP's performance, skills and experience are also considered in determining the base salary package.

The base salary package comprises base pay and superannuation, and may include prescribed non-financial benefits at the executives' discretion on a salary sacrifice basis. The Group provides superannuation contributions in line with statutory obligations.

No guaranteed base salary increases are included in any executive KMP's service contract. Approved amendments to base salary packages are effective from the commencement of the new financial year.

### (b) Short Term Incentive (STI)

Consistent with the prior year, the 2018 STI scheme (the Scheme) for all executive KMP is based on a balanced scorecard. The Committee governs the design of the STI scheme, KPI and target setting, and holds discretion over the outcomes.

The Scheme is designed to ensure executive KMP performance is directed towards Board approved targets, in support of the execution of the Group's strategy. Taking a balanced scorecard approach allows executive KMP performance to be assessed in a holistic way for four key drivers of performance, namely:

- Financial (50%)
- Strategy / Business Improvement (20% - 30%)
- Customer (10% - 15%)
- People (10% - 15%)

The significant weighting of financial outcomes with a minimum of 50% maintains a strong link between actual financial performance and incentive paid. A minimum Group Profit Before Tax (PBT) of at least 90% of target must be met before any short term incentives are payable. If this level is not reached, the Scheme is deemed to be discretionary and any payment made to executives will be at the Board's discretion.

Setting performance levels at target and stretch is a critical element of the STI scheme. They support continuous improvement and are correlated with the overall Group target and the contribution of each executive. Accordingly, the performance required at each "target" (100%) level, is equivalent to the budget for each available measure. The performance required at the "Stretch" level (150%) is equivalent to the strategic plan levels for each available measure.

#### (i) Performance-based 'At Risk' Remuneration and Evaluating the Performance of executive KMPs in 2018

Variable or 'at-risk' remuneration forms a significant portion of the executive KMP remuneration opportunity. The purpose of variable remuneration is to focus executives on the execution of the Group's strategy. The key aspects are summarised in the scheme construct shown in Table 2 below:

Table 2:

<b>Plan</b>	STI awards are made under the Super Retail Group Short Term Incentive Scheme.
<b>Participation</b>	The Group Managing Director and Chief Executive Officer and other executive KMP are invited to participate in the Scheme.
<b>Purpose</b>	The Scheme rewards a combination of Board approved financial and non-financial performance measures that articulate performance expectations at both target and over-achievement that are aligned to the creation of shareholder value. The primary financial measure is Group PBT combined with Divisional EBIT (where appropriate). In addition, a balance of non-financial measures are included on executing key objectives such as business improvement, customer and people, which are aligned to the Group's business plan.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

<b>Performance Period</b>	The performance period is for 12 months ending 30 June 2018.																		
<b>Financial Gateway</b>	A minimum Group PBT of at least 90% of target must be met before any short term incentives are payable. If this level is not reached, the Scheme is deemed to be discretionary and any payment made to executives will be at the Board's discretion.																		
<b>Performance Targets</b>	The achievement of individual KPI targets (independent of profit performance) shall determine the proportion of the potential bonus entitlement that will be granted. For 2018 financial year, the following performance goals and weightings were selected. These goals are specific to the individual and aligned to the Group's strategic plan.																		
	<table border="1"> <thead> <tr> <th>Measures</th> <th>Category</th> <th>Weighting (% of STI)</th> <th>Performance Goals</th> </tr> </thead> <tbody> <tr> <td rowspan="2"><b>Financial</b></td> <td>Financial</td> <td>50%</td> <td> <ul style="list-style-type: none"> <li>Net Profit Before Tax (PBT)</li> <li>Working Capital Efficiency</li> </ul> </td> </tr> <tr> <td>Business Improvement</td> <td>20-30%</td> <td> <ul style="list-style-type: none"> <li>Implement new operating model</li> <li>Sports transformation</li> <li>Leisure transformation, including Macpac acquisition</li> </ul> </td> </tr> <tr> <td rowspan="2"><b>Non-Financial</b></td> <td>Customer</td> <td>10-15%</td> <td> <ul style="list-style-type: none"> <li>Net Promotor Score (NPS)</li> </ul> </td> </tr> <tr> <td>People</td> <td>10-15%</td> <td> <ul style="list-style-type: none"> <li>Total Recordable Injury Frequency Rate (TRIFR)</li> <li>Employee Engagement</li> </ul> </td> </tr> </tbody> </table>	Measures	Category	Weighting (% of STI)	Performance Goals	<b>Financial</b>	Financial	50%	<ul style="list-style-type: none"> <li>Net Profit Before Tax (PBT)</li> <li>Working Capital Efficiency</li> </ul>	Business Improvement	20-30%	<ul style="list-style-type: none"> <li>Implement new operating model</li> <li>Sports transformation</li> <li>Leisure transformation, including Macpac acquisition</li> </ul>	<b>Non-Financial</b>	Customer	10-15%	<ul style="list-style-type: none"> <li>Net Promotor Score (NPS)</li> </ul>	People	10-15%	<ul style="list-style-type: none"> <li>Total Recordable Injury Frequency Rate (TRIFR)</li> <li>Employee Engagement</li> </ul>
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	People	10-15%	<ul style="list-style-type: none"> <li>Total Recordable Injury Frequency Rate (TRIFR)</li> <li>Employee Engagement</li> </ul>																
<b>2018 Target &amp; Maximum Stretch Opportunity</b>	For the Group Managing Director and Chief Executive Officer and other executive KMP, the target STI opportunity is 100% of target, and the maximum stretch STI opportunity is 150% of target. For each measure, a threshold level of performance is set. This level must be met to achieve a score. Importantly, the threshold is set higher than the prior year performance thereby maintaining a key principle of year on year improvement.																		
<b>Use of Discretion</b>	The Committee, in its advisory role, reviews proposed adjustments to STI outcomes where there are exceptional, unforeseen and uncontrollable impacts on the agreed performance measures and makes recommendations for any changes to performance measures, which may only be approved by the Board.																		
<b>Governance and Approval Process</b>	The Group Managing Director and Chief Executive Officer's STI is recommended by the Committee based on his balanced scorecard performance and is approved by the Board. The amount of STI paid to other executive KMP is recommended by the Group Managing Director and Chief Executive Officer to the Committee based on each executive's balanced scorecard performance and is recommended by the Committee for approval by the Board. The Board may apply discretion in determining the STI outcomes to ensure they are appropriate. By way of illustration, the Board may take into consideration the executive KMP's alignment to Company values, prudent risk taking and the Company's long term financial soundness.																		
<b>Payment Vehicle</b>	STI awards are delivered in cash with no deferral.																		
<b>Payment Frequency</b>	STI awards are paid annually. Payments are made in September following the end of the performance period.																		

### (ii) Company and Divisional Performance Measures

In designing the measures relating to the financial performance of the Group, three core drivers are considered – sustainable growth, profitability and operating efficiency. Net profit, earnings growth and working capital efficiency are determined to be the most appropriate and therefore all or a combination of them, are detailed in each scorecard.

Insofar as profit is concerned, all executives hold PBT as the primary performance measure, noting that NPAT is a key driver of LTI outcomes and is used judiciously in that instrument as it provides a purer alignment to the returns to shareholders.

All scorecards carry a weighting of 50% for financial metrics and contain an objective on Group financial performance. Divisional EBIT is also included in the financial measures of scorecards for the Managing Directors of each Division.

An important consideration in the Business Improvement category is for the measures to be appropriately balanced between immediate business priorities and longer term strategic initiatives. Each executive KMP has measures accordingly.

For the year to 30 June 2018, the normalised profit before tax target was set at \$206.6 million, 8.4% higher than the normalised profit before tax achieved in the period to 1 July 2017 of \$190.5 million. The financial gateway for STI awards of \$185.9 million was exceeded and, as per scheme rules, executive KMP scorecards were activated. The profit before tax contribution of Macpac to the 30 June 2018 result has been excluded from the assessment of the achievement of this target. The Divisional profit is measured by segment EBIT performance against budget. In the year to 30 June 2018, the Auto Division achieved its EBIT budget, while the Outdoor and Sports Divisions did not achieve budgeted EBIT.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

(iii) Executive Performance Objectives and Outcomes for 2018 including Board Discretionary Override

Set out below are the individual KPIs and 2018 achievement for each of the executive KMP. **These outcomes will be moderated because of the mistake the Company has made in its approach to store set-up projects. Accountability for this significant mistake should be reflected in remuneration outcomes for the 2018 financial year. The Group Managing Director and Chief Executive Officer has recommended, and the Board has accepted the recommendation, that the Group Managing Director and Chief Executive Officer receive no STI payment for the 2018 financial year, and the other executive KMP have their STI payments reduced by 25%.**

The Board has reviewed the impact of the mistake on STI and LTI arrangements over the prior seven years and has determined that the mistake will not have altered STI payments or LTI vesting made to KMP over those years.

The individual KPIs and 2018 achievement as determined by the Board for the Group Managing Director and Chief Executive Officer were as per Table 3 below:

Table 3:

Measure	Description of Measure	Weighting	Actual Performance Range					Commentary on Performance
			Below Threshold	Threshold to Target	Target	Target to Stretch	Stretch	
<b>1. Financial Measures:</b>								
Financial	Net Profit Before Tax (PBT)	35%	✓					In 2018, the Group's normalised profit before tax outcome, excluding the impact of Macpac, was \$194.1m. Although this represented a 1.9% year-on-year performance improvement, the result was below target.
	Working Capital Efficiency	15%		✓				This is a good result for the Group representing a 12.5% improvement in average net inventory (excluding Macpac) due to strong inventory management execution in Auto and Outdoor offset by a softer performance from the Sports division.
Business Improvement	Implement new operating model	20%				✓		Board endorsed operating model, implementation captured in budgets for 2019.
	AMART re-branding					✓		Rebranding of all Amart stores within the agreed timeframe (before 1st November) and within the approved capex budget.
	Leisure transformation						✓	Board endorsed value creation strategy for Rays transformation, Macpac acquisition delivered.
<b>2. Non-Financial Measures:</b>								
Customer	Customer Centricity - Net Promoter Score (NPS)	15%				✓		NPS result represents a significant improvement of 8.2% year-on-year.
	Omni Retail Customer Offer				✓			Board endorsed business case for omni-retail customer experience, deliver project and commercial milestones per plan.
People	Total Recordable Injury Frequency Rate (TRIFR)	15%					✓	TRIFR result represents a significant improvement of 21.2% year-on-year.
	Level of Employee Engagement		✓					Engagement levels marginally declined year-on-year, but maintains top quartile engagement performance for Australian / New Zealand companies.

The overall outcome for the Group Managing Director and Chief Executive Officer was assessed by the Board to be a performance level of 62%, driven by outperformance in the Business Improvement, Customer, and Safety measures and impacted by underperformance in PBT and the stable result in the Employee Engagement score. As a point of calibration, in the 2018 financial year, the Group's normalised profit before tax outcome, excluding the impact of Macpac, was \$194.1 million. Although this result represented a 1.9% year-on-year performance improvement, it was below the target by 6.1%.

A scorecard outcome of 62% is a below target (\$1,000,000) outcome which would have resulted in a payment of \$620,000. **As explained above no STI payment will be made to the Group Managing Director and Chief Executive Officer for the 2018 financial year.**



# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

The individual KPIs and 2018 achievement as determined by the Board for the other executive KMP were as per Table 4 below:

Table 4:

Name	Company Measures				
	Financial (50%)	Business Improvement (20%)	Customer (15%)	People (15%)	STI Total %
D J Burns	Threshold to Target	Target to Stretch	Target to Stretch	Target to Stretch	75%
E A Berchtold	Below Threshold	Target to Stretch	Target to Stretch	Threshold to Target	58%
A M Heraghty	Threshold to target	Target to Stretch	Target to Stretch	Target to Stretch	88%
C D Wilesmith	Threshold to Target	Threshold to Target	Target to Stretch	Target to Stretch	66%

As explained above the other executive KMP have had their STI reduced by 25%. These outcomes are reflected in Table 9 and Figure 4.

In considering the 2018 achievements for the other executive KMP and STI outcomes, the following is noted:

- **Position to Market** – As a result of the 25% reduction, the collective outcomes will position the executive KMP (excluding the Group Managing Director and Chief Executive Officer) at between the first quartile and the median for awarded STI (market capitalization comparator group).

In the 2018 financial year no portion of the STI award was deferred into equity, because of the Board's assessment that:

- The nature of the business is one where revenue is not dependent on long term contracts;
- The Group has a strong risk management framework; and
- STI payment arrangements are reasonable and the Group can demonstrate a clear link between STI payments and the Group performance over a number of years.

However, the Committee is reviewing whether a deferral of a portion of STI into equity may be appropriate in the future.

### (c) Long Term Incentive (LTI)

The Group's remuneration structure aims to align long term incentives for executive KMPs and other executives with the delivery of sustainable value to shareholders. The alignment of interests is important in ensuring that executive KMPs and other executives are focused on delivering sustainable returns to shareholders, whilst allowing the Group to attract and retain executives of a high calibre.

In October 2009, the Group's shareholders approved the establishment of the Super Retail Group Limited Performance Rights Plan (Plan). The Plan is an at-risk component of executive remuneration under which an equity award may be provided to executives based on the achievement of specific performance measures, linking the long-term remuneration of executive KMP and other executives with the economic benefit derived by shareholders over a three to five year performance period. Participation in the Plan is by invitation only as determined by the Board. The key attributes of the Group's LTI Plan are provided in Table 5 below:

Table 5:

<b>Plan</b>	LTI awards are granted under the Super Retail Group Employee Performance Rights Plan.
<b>Participation</b>	The Plan allows for the annual grant of Performance Rights to executive KMP and other executives.
<b>Purpose</b>	The Plan aligns executive remuneration with the creation of shareholder value. This is achieved through the use of both normalised Earnings Per Share (EPS) Compound Annual Growth and Return on Capital (ROC). The Plan has also been designed to act as a retention mechanism, and to encourage executive KMP and other executives to build and retain the Group's shares over the long term. The Super Retail Employee Performance Rights Plan Rules are available on the Group's website.
<b>LTI Instrument</b>	Performance Rights are granted by the Group for nil consideration. Each performance right is a right to receive a fully-paid ordinary share at no cost if service-based and performance-based vesting conditions are met.
<b>Allocation Methodology</b>	The number of Performance Rights granted to each executive KMP is determined in accordance with the Executive Remuneration Structure outlined above, and have a value of between 50% and 100% of their base salary package. The notional value of Performance Rights granted to executive KMP and other executives is determined on a face value basis using the volume weighted average price (VWAP) for Super Retail Group shares traded on the ASX on the five trading days from, and including the release of the Group's results for the preceding reporting period. The value of Performance Rights for grant purposes may differ from the accounting valuation which considers probability of vesting and other factors.
<b>Performance Period</b>	The performance period is three years commencing on 1 July in the year the award is made. For the 2018 awards, this is the three year period from 1 July 2018 to 30 June 2021.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

<b>Performance Hurdles and Vesting Schedules</b>	Equity grants to executive KMP and other executives are in two equal tranches of 50% to growth in EPS and 50% to averaged ROC. The performance conditions are:		
	<b>Measure</b>	<b>Normalised EPS CAGR</b>	
	Weight	50%	
	Nature	Growth of Group	
	Performance Zone (Threshold to Maximum)	10% to 15% compound annual growth	
	Payout	12% to 15% annual average	
		<p><i>Below threshold (&lt;10%):</i> 0% of elements vested</p> <p><i>Threshold (10%):</i> 50% of elements vested</p> <p><i>Maximum of above (15%):</i> 100% of elements vested</p> <p><i>Straight-line vesting:</i> Between threshold (10%) and maximum (15%)</p>	
		<p><i>Below threshold (&lt;12%):</i> 0% of elements vested</p> <p><i>Threshold (12%):</i> 50% of elements vested</p> <p><i>Maximum of above (15%):</i> 100% of elements vested</p> <p><i>Straight-line vesting:</i> Between threshold (12%) and maximum (15%)</p>	
	Performance Period	If the performance conditions are satisfied within the Performance Period, the Performance Rights will vest over the subsequent years in accordance with the following schedule:	
		<i>Time after grant of Performance Rights:</i>	<i>Percentage of Performance Rights that vest:</i>
		3 years	50%
		4 years	25%
		5 years	25%
	Under these performance hurdles, for the plan to achieve 100% vesting, the cumulative EPS growth must be at least 15%, and ROC must average at least 15%.		
	For performance rights granted since 2016 the averaged ROC performance hurdle has changed as follows:		
	<ul style="list-style-type: none"> <li>• If the averaged ROC is 10%, then 30% of the Performance Rights will be available to vest;</li> <li>• If the averaged ROC is 12%, then 50% of the Performance Rights will be available to vest; or</li> <li>• If the averaged ROC is 15%, then 100% of the Performance Rights will be available to vest.</li> </ul>		
	Performance Rights will vest on a pro rata basis between these averaged ROC ranges.		
<b>Testing and Time Restrictions</b>	At the end of three financial years, equity grants are tested against the performance hurdles set. If the performance hurdles are not met at the vesting date, the Performance Rights will lapse. There is no retesting of performance hurdles under the Plan.		
<b>Dividends and Voting Rights</b>	Performance Rights do not carry voting or dividend rights.		
<b>Hedging Arrangements</b>	Participating executives are prohibited from entering into any hedging arrangements in relation to Performance Rights.		
<b>Clawback Policy</b>	The Group implemented a Clawback Policy within the Employee Performance Rights Plan to meet good governance practice. The plan document is available on the Group's website. There have been no circumstances to date where the policy was invoked.		
<b>Termination Provisions</b>	Executive KMP must be employed at the time of vesting to receive the allotment of shares. The Board has discretion to amend the employment requirement based on the circumstances associated with the executive KMP and other executives leaving. The Board plans to exercise its discretion where an employee leaves due to retirement, retrenchment or redundancy, or termination by mutual consent. The employee may retain entitlement to a portion of the Performance Rights pro-rated to reflect the period of service from the start of the Performance Period to the date of departure. After the employees' departure the Performance Rights would only be available to vest to the extent that the performance conditions are met. Where an employee leaves due to resignation or termination with cause, all unvested Performance Rights will lapse.		
<b>Change of Control Provisions</b>	Any unvested Performance Rights may vest at the Board's discretion, having regard to pro-rated performance.		

The Plan allows for the annual grant of Performance Rights to executive KMP and other executives. The grant of Performance Rights entitles the executive to be granted an equivalent number of shares upon vesting of those Performance Rights. The vesting of Performance Rights is subject to the satisfaction of performance conditions and service conditions as detailed in the Super Retail Employee Performance Rights Plan Rules and can be viewed in the Investor Centre, Corporate Governance section of the Group's website, [www.superretailgroup.com](http://www.superretailgroup.com).

### Section 5: Non-Executive Directors Remuneration Structure

The Group's remuneration strategy is designed to attract and retain experienced, qualified Non-Executive Directors and to remunerate appropriately to reflect the demands which are made on them and the responsibilities of the position. Non-Executive Directors receive fees to recognise their contribution to the work of the Board and the associated Committees that they serve.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

The Committee reviews the level of fees annually. Under the current fee framework, Non-Executive Directors are remunerated by way of a base fee, with additional fees paid to the Chairs and members of committees namely the Audit and Risk, and the Human Resources and Remuneration Committees. This reflects the additional time commitment required by the Chairs and members of these committees. Fees are inclusive of superannuation contributions required by the Superannuation Guarantee legislation. Non-Executive Directors do not receive any performance-related remuneration. Non-Executive Directors may opt each year to receive a proportion of their remuneration in Super Retail Group Limited shares, which would be acquired on market. Non-Executive Directors are not eligible for termination payments or to receive retirement benefits other than superannuation on resignation or retirement from the Board.

Non-Executive Directors' Fees are determined within an aggregate Directors' fee pool approved by shareholders. The fee pool of \$1,200,000 per annum was approved at the Annual General Meeting on 23 October 2013. This pool facilitates board succession and regeneration. No increase in the pool is proposed for the 2019 financial year.

### (a) Directors' Fees

The fees paid to Non-Executive Directors are set out in Table 6 below and are annual fees, inclusive of superannuation, unless otherwise stated.

Table 6:

Annual Fees	Board	Audit and Risk Committee <sup>(2)</sup>	Human Resources and Remuneration Committee <sup>(2)</sup>
Chair <sup>(1)</sup>	\$313,650	\$25,000	\$25,000
Members	\$141,143	\$10,000	\$10,000

<sup>(1)</sup> Committee fees are not paid to the Chair.

<sup>(2)</sup> Committee fees are not paid to members of the Nomination Committee.

### Section 6: Relationship of Remuneration to Group Performance

The STI scheme operates to create a clear link between executive remuneration and the Group's annual performance, motivating and rewarding the Managing Director and Chief Executive Officer and executive KMP for performance during the year.

The performance of the Group and remuneration paid to executive KMP over the last 6 years is summarised in Table 7 below:

Table 7:

Financial performance	2013	2014	2015 <sup>(1)</sup>	2016 <sup>(2)</sup>	2017	2018	CAGR <sup>(3)</sup>
Sales (\$m)	2,020.0	2,112.1	2,238.7	2,422.2	2,465.8	<b>2,570.4</b>	5%
Normalised Profit before tax (\$m)	163.0	158.6	148.6	155.9	190.5	<b>201.9</b>	4%
Normalised Post Tax ROC (%)	12.6	11.3	10.6	10.7	13.0	<b>13.1</b>	
<b>Shareholder value created</b>							
Normalised Earnings Per Share (¢)	58.1	55.1	54.0	55.1	68.9	<b>73.7</b>	5%
Dividends Per Share (¢)	38.0	40.0	40.0	41.5	46.5	<b>49.0</b>	5%
Closing June Share Price (\$)	11.97	8.46	9.40	8.77	8.20	<b>8.10</b>	(8%)

<sup>(1)</sup> Results from continuing operations.

<sup>(2)</sup> 2016 is a 53 week reporting period compared to 52 weeks for the other 5 years.

<sup>(3)</sup> Percentage movement shown is the Compound Annual Growth Rate over the last 5 years.

Table 8:

### Remuneration Expense of Directors and Executive Key Management Personnel

	2013 \$m	2014 \$m	2015 \$m	2016 <sup>(1)</sup> \$m	2017 <sup>(2)</sup> \$m	2018 \$m
Base Salary Package	3.9	4.8	4.9	5.4	5.1	5.2
Short Term Incentive	1.5	0.4	0.4	0.8	2.1	0.8
Long Term Incentive	1.5	0.4	0.1	0.5	1.1	0.5
Total	6.9	5.6	5.4	6.7	8.3	6.5

<sup>(1)</sup> 2016 is a 53 week reporting period compared to 52 weeks for the other 5 years and excludes "Other" remuneration.

<sup>(2)</sup> During 2017 the number of executive KMP decreased from 6 to 5 which impacts year on year comparisons.

Since 2013 normalised earnings per share have increased by 26.9% and dividends per share have increased by 28.9%.

During the same period, total remuneration paid to executive KMP has decreased by 5.8%. The amount of total remuneration is significantly impacted by the value of incentive payments which have varied over the years in line with Group performance.

Total remuneration paid to executive KMP as a proportion of normalised profit before tax was 4.2% in 2013 and has decreased to 3.2% in 2018.

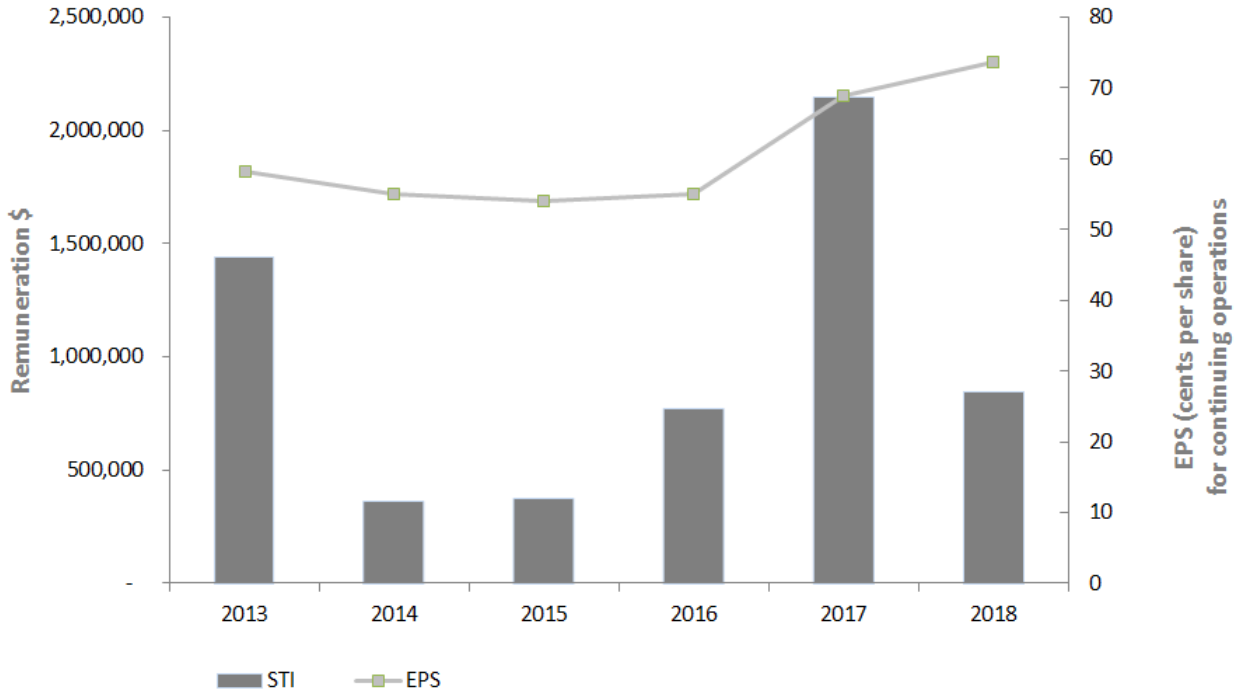


# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

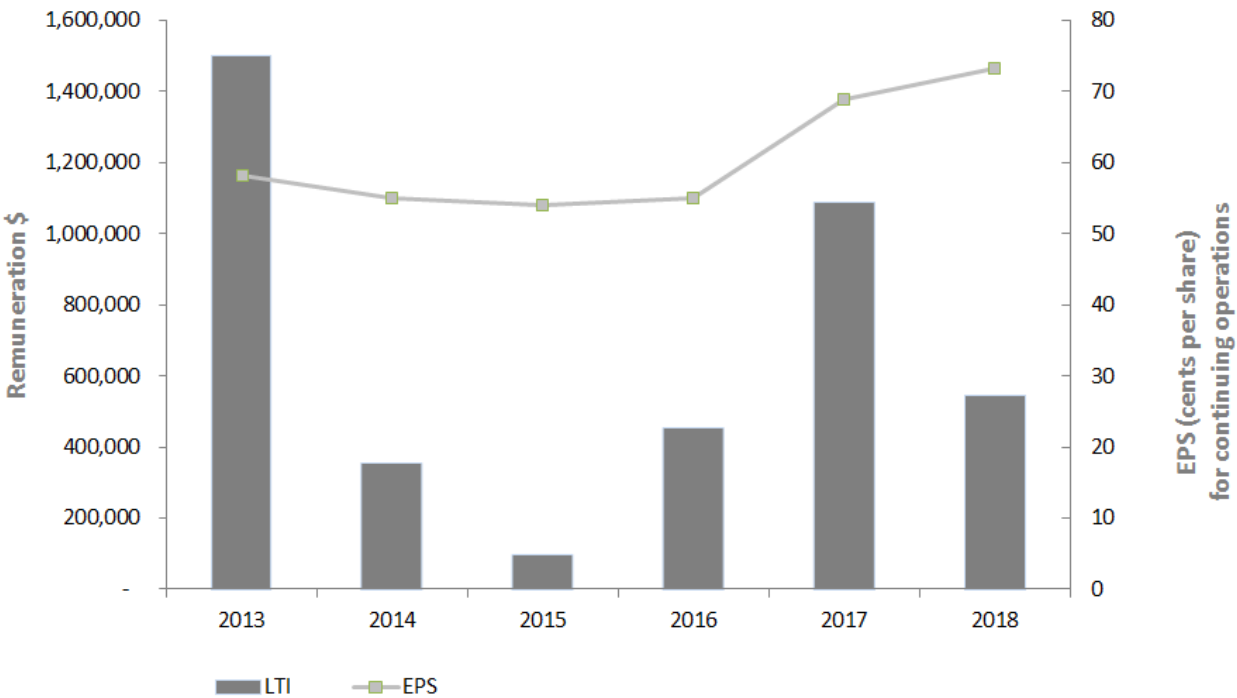
Executive KMP STI paid compared to EPS over the last 6 financial years:

Figure 2:



Executive KMP LTI expense compared to EPS over the last 6 financial years:

Figure 3:



# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

### Section 7: Remuneration Outcomes for 2018

Details of the remuneration of the Directors and executive KMP of the Group are set out in Table 9 below:

Name	Short-term Benefits			Post-employment	Share-based		Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Performance Rights \$	Other <sup>(1)</sup> \$	
<i>Non-Executive</i>							
S A Pitkin <sup>(2)</sup>	252,928	-	-	18,857	-	-	271,785
R A Rowe	118,761	-	-	22,382	-	-	141,143
D J Eilert	147,162	-	-	13,980	-	-	161,142
L K Inman <sup>(3)</sup>	176,143	-	-	-	-	-	176,143
H L Mowlem <sup>(4)</sup>	156,944	-	-	14,910	-	-	171,854
P D Everingham <sup>(5)</sup>	68,911	-	-	6,547	-	-	75,458
R J Wright <sup>(6)</sup>	97,867	-	-	7,337	-	-	105,204
<b>Subtotal</b>	<b>1,018,716</b>	<b>-</b>	<b>-</b>	<b>84,013</b>	<b>-</b>	<b>-</b>	<b>1,102,729</b>
<i>Executive Director</i>							
P A Birtles	1,230,911	-	3,640	20,049	241,391	7,789	1,503,780
<i>Other executive KMP</i>							
D J Burns	637,851	168,750	-	20,049	65,598	4,077	896,325
E A Berchtold <sup>(7)</sup>	629,072	195,750	4,154	20,049	76,400	(21,740)	903,685
A M Heraghty	738,343	254,100	11,608	20,049	83,716	43,687	1,151,503
C D Wilesmith	631,951	222,750	48,000	20,049	76,044	(7,019)	991,775
<b>Subtotal</b>	<b>3,868,128</b>	<b>841,350</b>	<b>67,402</b>	<b>100,245</b>	<b>543,149</b>	<b>26,794</b>	<b>5,447,068</b>
<b>Total</b>	<b>4,886,844</b>	<b>841,350</b>	<b>67,402</b>	<b>184,258</b>	<b>543,149</b>	<b>26,794</b>	<b>6,549,797</b>

Name	Short-term Benefits			Post-employment	Share-based		Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Performance Rights \$	Other <sup>(1)</sup> \$	
<i>Non-Executive</i>							
S A Pitkin	158,333	-	-	15,042	-	-	173,375
R A Rowe	104,074	-	-	34,301	-	-	138,375
D J Eilert	144,635	-	-	13,740	-	-	158,375
L K Inman <sup>(3)</sup>	168,657	-	-	-	-	-	168,657
H L Mowlem <sup>(4)</sup>	7,296	-	-	693	-	-	7,989
R J Wright	287,884	-	-	19,616	-	-	307,500
R J Skippen <sup>(8)</sup>	52,778	-	-	5,014	-	-	57,792
<b>Subtotal</b>	<b>923,657</b>	<b>-</b>	<b>-</b>	<b>88,406</b>	<b>-</b>	<b>-</b>	<b>1,012,063</b>
<i>Executive Director</i>							
P A Birtles	1,206,744	844,600	3,640	19,616	418,069	(7,335)	2,485,334
<i>Other executive KMP</i>							
D J Burns	625,384	272,500	-	19,616	122,121	10,471	1,050,092
E A Berchtold	635,384	331,100	30,000	19,616	163,274	(7,049)	1,172,325
A M Heraghty	648,351	279,000	102,033	19,616	222,476	(12,566)	1,258,910
C D Wilesmith	612,384	428,000	48,000	19,616	159,488	50,022	1,317,510
G G Carroll <sup>(9)</sup>	28,886	-	-	3,989	-	-	32,875
<b>Subtotal</b>	<b>3,757,133</b>	<b>2,155,200</b>	<b>183,673</b>	<b>102,069</b>	<b>1,085,428</b>	<b>33,543</b>	<b>7,317,046</b>
<b>Total</b>	<b>4,680,790</b>	<b>2,155,200</b>	<b>183,673</b>	<b>190,475</b>	<b>1,085,428</b>	<b>33,543</b>	<b>8,329,109</b>

<sup>(1)</sup> Includes accruals for annual leave and long service leave entitlements.

<sup>(2)</sup> S A Pitkin commenced as Board Chair on 23 October 2017.

<sup>(3)</sup> L K Inman commenced as Chair of the Audit & Risk Committee from 24 October 2016, ceased as Chair on 23 October 2017, and subsequently commenced as Chair of the Human Resources & Remuneration Committee from 23 October 2017.

<sup>(4)</sup> H L Mowlem commenced as Director on 13 June 2017, and commenced as Chair of the Audit & Risk Committee from 23 October 2017.

<sup>(5)</sup> P D Everingham commenced as Director on 19 December 2017.

<sup>(6)</sup> R J Wright retired at the conclusion of the 2017 Annual General Meeting on 23 October 2017.

<sup>(7)</sup> E A Berchtold adjusted cash salary is reflective of a period of unpaid leave taken during the 2018 financial year.

<sup>(8)</sup> R J Skippen retired effective 24 October 2016.

<sup>(9)</sup> G G Carroll resigned effective 22 July 2016 and ceased as executive KMP on this date.

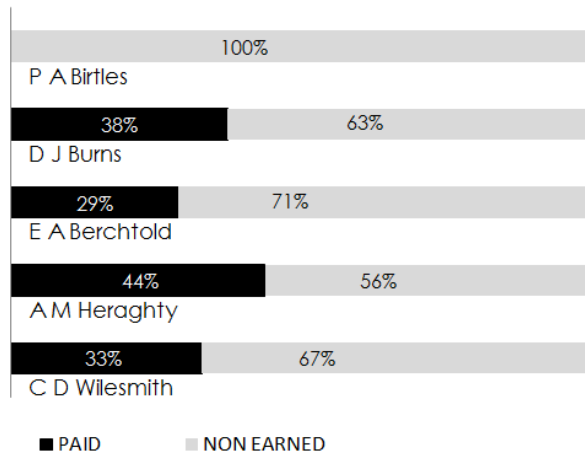
# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

Figure 4 reflects the final value of STI paid to KMP in the 2018 financial year.

Figure 4:

### STI Achievement 2018 (based on maximum earning potential)



### Remuneration related to performance

Both STI and LTI are awarded based on performance. The achievement rates of both STI and LTI are detailed below, indicating the relative proportions paid and forfeited.

#### (i) Short Term Incentives

STI is dependent on the satisfaction of performance conditions as set out in Section 4(b). The 2018 STI payment was awarded on 13 August 2018. No part of the STI payments are payable in future years.

The Committee reviewed the performance objectives and weightings for 2018 to ensure continued alignment with the Group's strategy.

#### (ii) Long Term Incentives

LTI is dependent on the satisfaction of performance conditions and service conditions as set out in Section 4(c).

### Vesting Outcomes for LTI Performance Rights Granted for the 2014 to 2016 financial periods

Table 10:

Grant Date	Financial Results determining vesting	EPS 3 Year CAGR	Vested	Forfeited	ROC Averaged	Vested	Forfeited
September 2013	June 2016	1.7%	nil	100%	10.9%	nil	100%
September 2014	June 2017	7.7%	nil	100%	11.4%	nil	100%
September 2015	June 2018	10.9%	29.5%	20.5%	12.2%	26.7%	23.3%



# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

### Performance Rights over equity instruments of Super Retail Group Limited

The movement during the reporting period in the number of performance rights over ordinary shares in the Company held directly or indirectly or beneficially, by each executive KMP, including their related parties is as per Table 11 below:

Table 11:

	Held at 1 July 2017	Granted <sup>(1)</sup>	Vested	Other Changes <sup>(2)</sup>	Held at 30 June 2018 <sup>(3)</sup>	Value of Performance Rights granted in year	Financial year in which grant vests
2018	Number	Number	Number	Number	Number	\$	Year
P A Birtles							
2015	100,000	-	-	(100,000)	-	n/a	2018, 2019, 2020
2016 <sup>(4)</sup>	104,516	-	-	-	104,516	n/a	2019, 2020, 2021
2017	117,031	-	-	-	117,031	n/a	2020, 2021, 2022
2018	-	156,433	-	-	156,433	997,925	2021, 2022, 2023
D J Burns							
2015	32,017	-	-	(32,017)	-	n/a	2018, 2019, 2020
2016 <sup>(4)</sup>	34,994	-	-	-	34,994	n/a	2019, 2020, 2021
2017	30,685	-	-	-	30,685	n/a	2020, 2021, 2022
2018	-	50,860	-	-	50,860	324,449	2021, 2022, 2023
E A Berchtold							
2015	37,519	-	-	(37,519)	-	n/a	2018, 2019, 2020
2016 <sup>(4)</sup>	45,291	-	-	-	45,291	n/a	2019, 2020, 2021
2017	40,554	-	-	-	40,554	n/a	2020, 2021, 2022
2018	-	54,114	-	-	54,114	345,207	2021, 2022, 2023
A M Heraghty							
2016 <sup>(4)</sup>	52,258	-	-	-	52,258	n/a	2019, 2020, 2021
2017	45,586	-	-	-	45,586	n/a	2020, 2021, 2022
2018	-	59,526	-	-	59,526	379,731	2021, 2022, 2023
C D Wilesmith							
2015	35,859	-	-	(35,859)	-	n/a	2018, 2019, 2020
2016 <sup>(4)</sup>	43,897	-	-	-	43,897	n/a	2019, 2020, 2021
2017	39,666	-	-	-	39,666	n/a	2020, 2021, 2022
2018	-	54,114	-	-	54,114	345,207	2021, 2022, 2023

<sup>(1)</sup> Performance Rights provided as remuneration to each of the executive KMP of the Group during the financial year.

<sup>(2)</sup> Other changes represent Performance Rights that lapsed or were forfeited during the financial year.

<sup>(3)</sup> The maximum possible total financial value in future years is dependent on the Group share price at exercise date, the minimum possible total value is nil.

<sup>(4)</sup> These performance rights will partially vest with the announcement of the June 2018 financial results.

The Performance Rights granted in the current reporting period were valued for the purpose of the financial statements using a fair value of \$6.38. The Performance Rights are expensed over a five year period in line with the vesting conditions of the Performance Rights; refer to Section 4(c), for details of these vesting conditions. Performance Rights are granted using a face value methodology. Plan participants may not enter into any transaction designed to remove the at risk aspect of the Performance Rights before they vest. The value at exercise date for Performance Rights is the Group share price. There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2018 financial year.

### Option over equity instruments of Super Retail Group Limited

No Options were granted or vested during the financial year.

### Section 8: Remuneration Changes for 2019

#### (a) Approach for 2019

In the 2019 year, the Committee will continue to assess all elements of executive KMP total reward to achieve continuing alignment to the Group's remuneration objectives (refer to Table 1).

#### (b) Total Reward Structure – Group Managing Director and Chief Executive Officer

The Board has reviewed the total reward structure for Group Managing Director and Chief Executive Officer and determined there will be no changes for the 2019 financial year.

#### (c) Total Reward Structure - executive KMP

This year, the comparator benchmarks show that overall executive KMP base salary package and short term incentive packages for the 2019 year will be at market median with individual executive KMP base salary and short term incentive packages varying from 96% to 110% of the respective market median. Overall executive KMP base salary packages will increase by 1.3% in the 2019 year.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

### (d) Long Term Incentive (LTI) – Performance Hurdle Review

During 2018 financial year, the Board reviewed the LTI performance conditions (refer to section 4(c)) to ensure alignment with our performance expectations. To ensure alignment with the growth assumptions for the next three years as outlined in our May 2018 market presentation, the Board has determined that for future grants of performance rights, the EPS hurdle will be as follows:

- If the EPS compound annual growth is 8%, then 30% of the Performance Rights will be available to vest;
- If the EPS compound annual growth is 10%, then 50% of the Performance Rights will be available to vest; or
- If the EPS compound annual growth is 13%, then 100% of the Performance Rights will be available to vest.

Performance Rights will vest on a pro rata basis between these EPS compound annual growth ranges.

The Board considers the revised EPS CAGR measures are appropriately challenging in the context of the Company's strategic objectives, targets and the changing retail environment.

For those performance rights with the vesting percentage determined on the June 2018 financial performance, an EPS compound annual growth of 10.9% was achieved resulting in a vesting percentage of 29.5 (refer table 10). Under the revised performance conditions, the vesting percentage would have been 32.5. Based on the number of rights for this plan unvested as at 30 June 2018, an additional 15,333 performance rights would have vested.

No other changes are proposed to the LTI plan, and there is no change proposed to the maximum opportunity that executive KMP can earn. The revised LTI Plan EPS CAGR performance hurdle will apply for grants to be made in September 2018.

### (e) Long Term Incentive (LTI) - Scheme Review

In 2019, the Board will continue its review of the LTI scheme.

### (f) Non-Executive Directors' Fees

There will be no change to Non-Executive Directors' board fees (including committee fees) during the 2019 financial year. No increase in the fee pool for Non-Executive Directors is proposed for the 2019 financial year.

## Section 9: Service Agreements

Remuneration and other terms of employment for executive KMP are formalised in service agreements. Each of these agreements provide for the provision of performance related cash bonuses, other benefits and when eligible, participation in the Performance Rights Plans and Option Plans. Restraint provisions are detailed in Section 10.

All contracts with executive KMP may be terminated early by either party as detailed in Table 12 below:

Table 12:

Name	Term of Agreement	Agreement Commencement Date <sup>(1)</sup>	Review Term <sup>(2)</sup>	Termination payment	Commencement date with Super Retail Group
P A Birtles	Ongoing	1 December 2016	Annual	12 months <sup>(3)</sup>	30 April 2001
D J Burns	5 years, 10 months	3 December 2012	Annual	6 months <sup>(4)</sup>	3 December 2012
E A Berchtold	Ongoing	15 May 2017	Annual	6 months <sup>(3)</sup>	5 November 2011
A M Heraghty	4 years, 8 months	27 April 2015	Annual	6 months <sup>(4)</sup>	27 April 2015
C D Wilesmith	5 years, 3 months	1 July 2013	Annual	6 months <sup>(4)</sup>	18 September 2007

<sup>(1)</sup> Commencement date of service agreement.

<sup>(2)</sup> Reviewed annually by the Human Resource and Remuneration Committee.

<sup>(3)</sup> Payment of a termination benefit on early termination by the Company, other than for cause, equal to the base salary for the period detailed.

<sup>(4)</sup> Payment of a termination benefit on early termination by the Company, other than for cause, equal to the base salary for period detailed if the termination is effective more than 12 months before the expiry date, or three months base salary if the termination is effective within 12 months before the expiry date.

There are three KMP currently on fixed term agreements. As these fixed terms expire, the intent is to transition the executive to an ongoing employment contract with appropriately updated terms and a 6 month notice period. All contracts are recommended by the Committee for approval by the Board.

## Section 10: Period of Restraint

Executive KMP have post-employment restraints within their service contracts.

After cessation of employment for any reason, for the period set out in Table 13 below, the employee must not compete with the Company's relevant speciality retailing businesses (including direct or indirect involvement as a principal, agent, partner, employee, shareholder, unit holder, director, trustee, beneficiary, manager, contractor, adviser or financier), without first obtaining the consent of the Company in writing.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

Table 13:

Ref:	Post-employment Restraints	Period
A	Solicit or compete for the custom of or engage or be involved in any business with any person, firm or corporation who or which was a customer, supplier, or client of the Company at any time during the 12 months preceding the cessation of the employment with the Company and with whom the employee had contact with, or gained knowledge of, in the course of carrying out the employee's duties for the Company;	12 months
B	Engage or be involved in any capacity in any entity, firm or corporation which competes with the Company in connection with the said business;	9 months
C	Interfere with, disrupt, attempt to disrupt the relationship, contractual or otherwise, between any member of the Group and any of the Group's customers, suppliers, or potential customers or potential suppliers, with whom the employee had contact with, or gained knowledge of, at any time during the 12 month preceding the cessation of employment in the course of carrying out duties for the Company; or	6 months
D	Induce, encourage or solicit any person who is an employee, contractor or agent of any member of the Group, with whom the employee had contact with during the 12 months preceding the cessation of the employment in the course of carrying out duties for the Company, to terminate their employment or engagement with any member of the Group.	3 months

### Section 11: Additional Information

#### (a) Minimum Securities Holding Policy

Commencing from the 2015 financial year, the Board introduced a minimum shareholding requirement for Non-Executive Directors valued at a minimum of 100% of one year's pre-tax base fees, the Group Managing Director and Chief Executive Officer to be 150% of one year's pre-tax base salary, and for other executive KMP 100% of one year's pre-tax base salary. This is to be achieved by the later of October 2020 or within five years from the commencement of employment. This is to further align the interest of Non-Executive Directors and executive KMP with those of shareholders.

The minimum number of securities to be held shall be reduced relative to the Performance Rights tested under the LTI Plan, over the five year period. The adjusted minimum security holding requirement shall be three-quarters of the quantum of the Performance Rights attributable to the executive KMP. The reduction in the minimum number of securities to be held under the minimum securities holding policy shall have the effect of extending the timeframe for acquisition. The adjusted minimum security holding requirement shall be increased each year by three-quarters of the required quantum until the minimum holding is achieved.

#### (b) Equity instruments held by executive KMP

##### (i) Shares provided on exercise of Performance Rights and Options

Table 14 below lists the ordinary shares in the Company issued during the year as a result of the exercise of Performance Rights. There were no shares issued during the year ended 30 June 2018 on the exercise of Options.

Table 14:

Name <sup>(1)</sup>	Incentive Scheme <sup>(2)</sup>	Number of Ordinary Shares Issued on Exercise of Share Plans During the Year <sup>(3)</sup>	Market Value at Exercise Date <sup>(4)</sup>
P A Birtles	Performance Rights	-	-
D J Burns	Performance Rights	-	-
E A Berchtold	Performance Rights	-	-
A M Heraghty	n/a	n/a	n/a
C D Wilesmith	Performance Rights	-	-
<b>Total</b>		-	-

<sup>(1)</sup> A M Heraghty was not an employee of the Company at the time of the grant of performance rights detailed above and was therefore not eligible to participate in these incentive schemes.

<sup>(2)</sup> Refer to Section 4(c) - Long Term Incentives.

<sup>(3)</sup> The 2013, 2014 and 2015 grants lapsing due to hurdles not being met.

<sup>(4)</sup> The value at exercise date for Performance Rights is determined using the Group share price.



# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

### (ii) Movement in shares

The movement during the year in the number of ordinary shares in the Company held directly or indirectly or beneficially, by each executive KMP, including their related parties is as per Table 15 below:

Table 15:

2018	Held at 1 July 2017	Purchases	In lieu of dividends <sup>(1)</sup>	Sales	Held at 30 June 2018
Non-Executive Directors:					
S A Pitkin	26,453	12,700	-	-	39,153
R A Rowe	59,912,667	-	16,176	(3,842)	59,925,001
D J Eilert	4,500	4,000	-	-	8,500
L K Inman	5,241	16,934	-	-	22,175
H L Mowlem	-	10,000	-	-	10,000
P D Everingham	-	10,000	-	-	10,000
Executive Director:					
P A Birtles	1,408,421	-	-	(15,825)	1,392,596
Other executive KMP:					
D J Burns	1,000	10,000	-	-	11,000
E A Berchtold	-	-	-	-	-
A M Heraghty	-	-	-	-	-
C D Wilesmith	3,550	-	226	-	3,776

<sup>(1)</sup> Shareholders are eligible to receive dividends in cash or choose to participate in the dividend reinvestment plan.

### (iii) Unissued shares under Performance Rights and Options plans

Unissued ordinary shares of Super Retail Group Limited under the Performance Rights Plan at the date of this report are set out in Table 16 below:

Table 16:

Grant date	Vesting Date	Value per Performance Right at Grant Date	Number of Performance Rights
1 September 2012	(1)	\$7.95	-
1 September 2013	(1)	\$10.83	-
1 September 2014	(1)	\$6.03	-
1 September 2015	(1)	\$8.17	511,500
1 September 2016	(1)	\$7.99	536,775
1 September 2017	(1)	\$6.38	724,862
<b>Total</b>			<b>1,773,137</b>

<sup>(1)</sup> Performance Rights vest progressively three to five years after grant date and have no expiry date. Refer to Section 4(c), for details of these vesting conditions.

Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of Performance Rights. As at the date of this report there are no remaining unissued ordinary shares of Super Retail Group Limited under Option.

### (c) Loans to executive KMP and their Related Parties

There are no loans to executive KMP and their related parties as at 30 June 2018 and no loans were made during the financial year.

### (d) Other Transactions with executive KMP

Executive KMP may hold positions in other companies that transacted with the Group in the reporting period. Refer to note 22 to the consolidated financial statements, Related Party Transactions, for further details.

### (e) Insurance of Officers

During the financial year, the Group paid a premium of \$202,880 (2017: \$118,597) to insure the Officers of the Group including Directors and Secretaries of the Company and its controlled entities, and the General Managers of each of the divisions of the Group.

# DIRECTORS' REPORT (continued)

## 4. Remuneration Report – Audited (continued)

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as Officers of entities in the Group, and any other payments arising from liabilities incurred by the Officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## 5. Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the period the following fees were paid or payable for services provided by the auditor PricewaterhouseCoopers of the parent entity and its network firms for audit and non-audit services provided during the year is set out below:

	2018 \$	2017 \$
<b>Audit Services</b>		
PricewaterhouseCoopers Australian firm:		
Remuneration for audit and review services	585,570	492,100
Other assurance <sup>(1)</sup>	44,721	191,700
<b>Total remuneration for audit and review services</b>	<b>630,291</b>	<b>683,800</b>
<b>Taxation and Other Services</b>		
PricewaterhouseCoopers Australian firm:		
Taxation Services	394,329	113,368
Customs prudential review	18,500	-
Digital advertising advisory	49,572	-
Workshop facilitation	51,601	-
Business review of subsidiary	-	50,000
Network firms of PricewaterhouseCoopers Australia:		
Taxation Services	66,924	66,803
<b>Total remuneration for non-audit services</b>	<b>580,926</b>	<b>230,171</b>

<sup>(1)</sup> Cyber security audit in 2018 and Risk Appetite assurance services in 2017.

# DIRECTORS' REPORT (continued)

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## 6. Corporate Governance Statement

The Group's Corporate Governance Statement sets out the corporate governance framework adopted by the Board of Super Retail Group Limited. This statement is publicly available on the Super Retail Group external website:  
<http://www.superretailgroup.com>

## 7. Proceedings on behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## 8. Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 73.

## 9. Rounding of amounts

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

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



**S A Pitkin**  
Chair



**P A Birtles**  
Group Managing Director and  
Chief Executive Officer

Brisbane  
20 August 2018





## *Auditor's Independence Declaration*

As lead auditor for the audit of Super Retail Group Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink that reads 'K Challenor'.

Kim Challenor  
Partner  
PricewaterhouseCoopers

Brisbane  
20 August 2018

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2018

	Notes	2018 \$m	2017 \$m
<b>CONTINUING OPERATIONS</b>			
<b>Revenue from continuing operations</b>			
Other income from continuing operations		8.5	1.4
Total revenues and other income	5	2,578.9	2,467.2
<b>Expenses</b>			
Cost of sales of goods		(1,415.5)	(1,364.8)
Other expenses from ordinary activities			
- selling and distribution		(332.3)	(322.7)
- marketing		(83.9)	(83.8)
- occupancy		(213.0)	(194.8)
- administration		(339.4)	(343.5)
Net finance costs	6	(17.7)	(16.9)
Share of net loss of associates and joint ventures	6	(1.0)	-
Total expenses		(2,402.8)	(2,326.5)
<b>Profit before income tax</b>		176.1	140.7
Income tax expense	13	(48.8)	(40.2)
<b>Profit for the period</b>		127.3	100.5
<b>Profit for the period is attributable to:</b>			
Owners of Super Retail Group Limited		128.3	101.8
Non-controlling interests		(1.0)	(1.3)
		127.3	100.5
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified to profit or loss</b>			
Changes in the fair value of cash flow hedges	18	6.2	3.4
Exchange differences on translation of foreign operations	18	(0.9)	(0.5)
<b>Other comprehensive income for the period, net of tax</b>		5.3	2.9
<b>Total comprehensive income for the period</b>		132.6	103.4
<b>Total comprehensive income for the period is attributable to:</b>			
Owners of Super Retail Group Limited		133.6	104.7
Non-controlling interests		(1.0)	(1.3)
		132.6	103.4
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	16	65.0	51.6
Diluted earnings per share	16	64.5	51.3

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Notes	2018 \$m	2017 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		15.2	19.9
Trade and other receivables	7	23.8	42.6
Inventories	8	545.5	481.5
Derivative financial instruments	15	6.8	-
Total current assets		591.3	544.0
<b>Non-current assets</b>			
Property, plant and equipment	9	270.4	264.5
Intangible assets	10	891.6	750.1
Other financial assets	23(b)	9.3	-
Total non-current assets		1,171.3	1,014.6
<b>Total assets</b>		<b>1,762.6</b>	<b>1,558.6</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	342.3	253.7
Interest-bearing liabilities	12	3.0	2.6
Current tax liabilities	13	9.6	1.5
Provisions	14	71.0	62.3
Derivative financial instruments	15	1.5	3.1
Total current liabilities		427.4	323.2
<b>Non-current liabilities</b>			
Trade and other payables	11	49.1	44.2
Interest-bearing liabilities	12	435.1	398.0
Deferred tax liabilities	13	30.1	17.1
Provisions	14	21.7	21.5
Total non-current liabilities		536.0	480.8
<b>Total liabilities</b>		<b>963.4</b>	<b>804.0</b>
<b>NET ASSETS</b>		<b>799.2</b>	<b>754.6</b>
<b>EQUITY</b>			
Contributed equity	17	542.3	542.3
Reserves	18	10.3	3.5
Retained earnings	18	247.3	210.7
<b>Capital and reserves attributable to owners of Super Retail Group Limited</b>		<b>799.9</b>	<b>756.5</b>
Non-controlling interests		(0.7)	(1.9)
<b>TOTAL EQUITY</b>		<b>799.2</b>	<b>754.6</b>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2018

	Notes	Contributed Equity \$m	Reserves \$m	Retained Earnings \$m	Total \$m	Non-Controlling Interests \$m	Total Equity \$m
<b>Balance at 2 July 2016</b>		542.3	(0.9)	193.7	735.1	(1.1)	734.0
Profit for the period		-	-	101.8	101.8	(1.3)	100.5
Other comprehensive loss for the period		-	2.9	-	2.9	-	2.9
Total comprehensive income for the period		-	2.9	101.8	104.7	(1.3)	103.4
<b>Transactions with owners in their capacity as owners</b>							
Dividends provided for or paid	21	-	-	(84.8)	(84.8)	-	(84.8)
Employee performance rights	18	-	2.0	-	2.0	-	2.0
Change in ownership interest in controlled entities	23(a)	-	(0.5)	-	(0.5)	0.5	-
		-	1.5	(84.8)	(83.3)	0.5	(82.8)
<b>Balance at 1 July 2017</b>		<b>542.3</b>	<b>3.5</b>	<b>210.7</b>	<b>756.5</b>	<b>(1.9)</b>	<b>754.6</b>
Profit for the period		-	-	128.3	128.3	(1.0)	127.3
Other comprehensive loss for the period		-	5.3	-	5.3	-	5.3
Total comprehensive income for the period		-	5.3	128.3	133.6	(1.0)	132.6
<b>Transactions with owners in their capacity as owners</b>							
Dividends provided for or paid	21	-	-	(91.7)	(91.7)	-	(91.7)
Employee performance rights	18	-	1.1	-	1.1	-	1.1
Transactions with non-controlling interests	23(b)	-	0.6	-	0.6	2.0	2.6
Change in ownership interest in controlled entities	23(a)	-	(0.2)	-	(0.2)	0.2	-
		-	1.5	(91.7)	(90.2)	2.2	(88.0)
<b>Balance at 30 June 2018</b>		<b>542.3</b>	<b>10.3</b>	<b>247.3</b>	<b>799.9</b>	<b>(0.7)</b>	<b>799.2</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2018

	Notes	2018 \$m	2017 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		2,850.1	2,733.7
Payments to suppliers and employees (inclusive of goods and services tax)		(2,268.6)	(2,203.1)
Rental payments			
- external		(218.5)	(231.0)
- related parties		(10.8)	(11.4)
Income taxes paid		(43.8)	(53.7)
Net cash inflow from operating activities	19	308.4	234.5
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and computer software		(107.1)	(102.1)
Proceeds from sale of property, plant and equipment		-	0.9
Payments for acquisitions of investments in associates/joint ventures	23(b)	(0.3)	-
Acquisition of subsidiary, net of cash acquired	23(a)	(133.8)	-
Net cash (outflow) from investing activities		(241.2)	(101.2)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		994.5	930.0
Repayment of borrowings		(955.5)	(955.0)
Finance lease payments		(2.7)	(0.9)
Borrowing costs paid		(0.3)	(1.3)
Interest paid		(16.2)	(17.1)
Interest received		0.1	0.1
Dividends paid to Company's shareholders	21	(91.7)	(84.8)
Net cash (outflow) from financing activities		(71.8)	(129.0)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(4.6)</b>	4.3
Cash and cash equivalents at the beginning of the period		19.9	15.6
Effects of exchange rate changes on cash and cash equivalents		(0.1)	-
<b>Cash and cash equivalents at end of the period</b>		<b>15.2</b>	19.9

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 June 2018

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

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## 1. Reporting entity

Super Retail Group Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office and principal place of business is 751 Gympie Road, Lawnton, Queensland.

The consolidated annual financial report of the Company as at and for the period ended 30 June 2018 comprises: the Company and its subsidiaries (together referred to as the Group, and individually as Group entities).

The Group is a for-profit entity and is primarily involved in the retail industry. Principal activities of the Group consist of:

- retailing of auto parts and accessories, tools and equipment;
- retailing of boating, camping, outdoor equipment, fishing equipment and apparel; and
- retailing of sporting equipment and apparel.

## 2. Summary of significant accounting policies

This section sets out the principal accounting policies upon which the Group's consolidated financial statements are prepared as a whole. Specific accounting policies are described in their respective Notes to the consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

#### *Statement of compliance*

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The consolidated financial statements and accompanying notes of Super Retail Group Limited comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### *Basis of measurement*

These financial statements have been prepared under the historical cost convention, unless otherwise stated.

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Super Retail Group Limited (the Company or parent entity) as at 30 June 2018 and the results of its controlled entities for the period then ended. The effects of all transactions between entities in the consolidated entity are fully eliminated.

#### *(i) 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. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### *(ii) Subsidiaries*

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in equity respectively.

#### *(iii) Business combinations*

The acquisition method of accounting is used to account for all business combinations (refer note 23 - Business combinations), regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values as at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 2. Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

#### (iii) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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

#### (iv) Investments in associates and joint ventures

Associates and joint ventures are entities over which the Group has significant influence or joint control but not control. They are accounted for using the equity method (see (v) below), after initially being recognised at cost in the consolidated balance sheet.

#### (v) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of Super Retail Group Limited.

#### (vi) Comparatives

Where applicable, various comparative balances have been reclassified to align with current period presentation. These amendments have no material impact on the consolidated financial statements.

### (c) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

#### (iii) Group companies

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 2. Summary of significant accounting policies (continued)

### (c) Foreign currency translation (continued)

#### (iii) Group companies (continued)

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

### (d) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax, except where the amount of goods and services tax incurred is not recoverable. In these circumstances the goods and services tax is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of goods and services tax.

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

### (e) Rounding of amounts

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

### (f) Financial year

As allowed under Section 323D(2) of the *Corporations Act 2001*, the Directors have determined the financial year to be a fixed period of 52 calendar or 53 calendar weeks. For the period to 30 June 2018, the Group is reporting on the 52 week period that began 2 July 2017 and ended 30 June 2018. For the period to 1 July 2017, the Group is reporting on the 52 week period that began 3 July 2016 and ended 1 July 2017.

### (g) New and amended standards adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory to the current reporting period and have not been early adopted by the Group as follows:

#### *AASB 9 Financial Instruments – effective 1 July 2018*

This standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities and new rules for hedge accounting. There are no significant impacts on the Group's consolidated financial statements resulting from the application of AASB 9.

#### *IFRS 15 Revenue from Contracts with Customers – effective 1 July 2018*

This standard establishes the reporting principles relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. There are no significant impacts on the Group's consolidated financial statements resulting from the application of IFRS 15.

#### *IFRS 16 Leases – effective 1 July 2019*

IFRS 16 introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months where they are not considered of low value. A right-of-use asset will be recognised representing the right to use the underlying leased asset and a lease liability representing the obligations to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.

The classification of cash flows will also be affected as operating lease payments under AASB 117 (which will be superseded by IFRS 16) are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

This standard will materially impact the Group's consolidated financial statements at transition and in future years, as the Group's operating leases (primarily in relation to store, distribution centre, office leases and motor vehicles) are recognised on balance sheet.

During the financial year, the implementation plan for the new leases standard has commenced in a number of areas including:

- Identification of leases and contracts that could be determined to include a lease;
- Collation of lease data required for the calculation of the impact assessment;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

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## 2. Summary of significant accounting policies (continued)

### (g) New and amended standards adopted by the Group (continued)

- Identification of areas of complexity or judgement relevant to the Group; and
- Identification of necessary changes to systems and processes required to enable reporting and accounting in accordance with the new standard.

Note 31 reflects that as at 30 June 2018, the Group had lease commitments for property and motor vehicles before the straight lining adjustment of \$1,009.1 million (2017: \$993.1 million). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16.

A reliable estimate of the financial impact on the Group is dependent the finalisation of a number of areas, including:

- Choice of transition method;
- Selection of discount rates;
- Estimates of lease-term for leases with options; and
- Assessment of completeness of data.

The financial impact is dependent on the composition of the lease portfolio at the time of transition. Therefore it is not yet practicable to determine a reliable estimate of the financial impact on the Group.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following Notes to the consolidated financial statements:

- Note 8 – Inventories;
- Note 9 – Property, plant and equipment;
- Note 10 – Intangible assets;
- Note 14 – Provisions;
- Note 23 – Business combinations.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 4. Segment information

### (a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Group Managing Director and Chief Executive Officer that are used to make strategic decisions. No operating segments have been aggregated to form the below reportable operating segments. This results in the following business segments:

Auto: retailing of auto parts and accessories, tools and equipment;

Outdoor: retailing of boating, camping, outdoor equipment, fishing equipment and apparel; and

Sports: retailing of sporting equipment and apparel.

With the addition of the Macpac business, the previous segment of Leisure has been renamed during the year as Outdoor.

### (b) Segment information provided to the Group Managing Director and Chief Executive Officer

Detailed below is the information provided to the Group Managing Director and Chief Executive Officer for reportable segments. Items not included in Normalised Net Profit After Tax (Normalised NPAT) are one-off charges relating to business restructuring, acquisitions, divestments and prior year store set-up costs.

For the period ended 30 June 2018	Auto \$m	Outdoor \$m	Sports \$m	Total continuing operations \$m	Inter-segment eliminations/ unallocated \$m	Consolidated \$m
<b>Segment Revenue and Other Income</b>						
External segment revenue <sup>(1)</sup>	1,006.4	579.8	979.2	2,565.4	5.7	2,571.1
Inter segment sales	-	-	-	-	(0.7)	(0.7)
Other income <sup>(2)</sup>	0.6	0.2	0.7	1.5	0.1	1.6
<b>Total segment revenue and other income</b>	<b>1,007.0</b>	<b>580.0</b>	<b>979.9</b>	<b>2,566.9</b>	<b>5.1</b>	<b>2,572.0</b>
<b>Segment EBITDA<sup>(3)</sup></b>	<b>148.2</b>	<b>47.9</b>	<b>115.7</b>	<b>311.8</b>	<b>(17.7)</b>	<b>294.1</b>
Segment depreciation and amortisation <sup>(4)</sup>	(31.8)	(18.3)	(24.2)	(74.3)	(0.2)	(74.5)
<b>Segment EBIT result</b>	<b>116.4</b>	<b>29.6</b>	<b>91.5</b>	<b>237.5</b>	<b>(17.9)</b>	<b>219.6</b>
Net finance costs						(17.7)
<b>Total segment NPBT</b>						<b>201.9</b>
Segment income tax expense <sup>(5)</sup>						(56.6)
<b>Normalised NPAT</b>						<b>145.3</b>
Other items not included in the total segment NPAT <sup>(6)</sup>						(17.0)
<b>Profit for the period attributable to:</b>						
Owners of Super Retail Group Limited						128.3
Non-controlling interests						(1.0)
<b>Profit for the period</b>						<b>127.3</b>

<sup>(1)</sup> Includes non-controlling interest (NCI) revenue of \$1.6 million.

<sup>(2)</sup> Excludes gain on divestment of controlled entities \$6.9 million.

<sup>(3)</sup> Adjusted for NCI operating result of \$1.0 million, \$16.9 million of business restructuring costs, \$4.0 million of acquisition costs, \$8.6 million of prior year store set-up costs and net gain on divestment of \$4.7 million.

<sup>(4)</sup> Adjusted for \$5.2 million provision for asset depreciation and impairment relating to business restructuring costs.

<sup>(5)</sup> Segment income tax expense of \$56.6 million excludes \$7.8 million relating to the tax effect of prior year store set-up costs and business restructuring costs.

<sup>(6)</sup> Includes \$24.8 million of costs consisting of business restructuring costs \$16.9 million, acquisition costs \$4.0 million, prior year store set-up costs \$8.6 million and net gain on divestment of \$4.7 million and the related income tax effect of \$7.8 million.

### Other items not included in total segment NPAT - 2018

#### Sports

During the reporting period the Group completed the program of converting all Amart Sports stores to Rebel in line with the strategy to sustain the Group's position as the market leader in sports retailing. In June 2017 the Group recognised \$34.0 million of after tax restructuring costs associated with the rebranding. A further \$2.7 million of after tax costs have been incurred during the current reporting period consistent with the announcement made to the market on 25 July 2017.

#### Outdoor

During the reporting period the Group acquired the Macpac group of companies as announced to the market on 20 February 2018. Following the acquisition of Macpac, the Group has completed the trial of the Rays business and will integrate its profitable stores into the Macpac business in the fourth quarter of the coming financial year. Costs associated with the business restructuring and integration incurred during the current reporting period total \$13.0 million before tax (\$9.1 million after tax), consistent with that announced to the market. Transaction costs to complete the acquisition of Macpac total \$4.0 million before tax (\$3.9 million after tax).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 4. Segment information (continued)

### (b) Segment information provided to the Group Managing Director and Chief Executive Officer (continued)

#### Gain on divestment – Autoguru

During the period the Group's investment in Autoguru decreased to 49.5% - refer note 23 (b). The net gain on divestment partially offset by associated trading losses was \$4.7 million before tax (nil tax) and has been excluded from normalised NPAT.

#### Prior year store set-up costs

The Group has identified that team members involved in store set-up activities should have received additional amounts to the amounts paid. A remediation program is underway and will be completed in the next financial period. The amount relating to prior periods of \$8.6 million, (\$6.0 million after tax) is not included in normalised NPAT.

For the period ended 1 July 2017	Auto \$m	Outdoor \$m	Sports \$m	Total continuing operations \$m	Inter-segment eliminations/ unallocated \$m	Consolidated \$m
<b>Segment Revenue and Other Income</b>						
External segment revenue <sup>(1)</sup>	955.9	553.5	949.2	2,458.6	7.9	2,466.5
Inter segment sales	-	-	-	-	(0.7)	(0.7)
Other income	0.2	0.3	0.5	1.0	0.4	1.4
<b>Total segment revenue and other income</b>	<b>956.1</b>	<b>553.8</b>	<b>949.7</b>	<b>2,459.6</b>	<b>7.6</b>	<b>2,467.2</b>
<b>Segment EBITDA<sup>(2)</sup></b>	<b>139.4</b>	<b>43.1</b>	<b>115.1</b>	<b>297.6</b>	<b>(19.6)</b>	<b>278.0</b>
Segment depreciation and amortisation <sup>(3)</sup>	(28.4)	(17.7)	(23.8)	(69.9)	(0.8)	(70.7)
<b>Segment EBIT result</b>	<b>111.0</b>	<b>25.4</b>	<b>91.3</b>	<b>227.7</b>	<b>(20.4)</b>	<b>207.3</b>
Net finance costs <sup>(4)</sup>						(16.8)
<b>Total segment NPBT</b>						<b>190.5</b>
Segment income tax expense <sup>(5)</sup>						(54.7)
<b>Normalised NPAT</b>						<b>135.8</b>
Other items not included in the total segment NPAT <sup>(6)</sup>						(34.0)
<b>Profit for the period attributable to:</b>						
Owners of Super Retail Group Limited						101.8
Non-controlling interests						(1.3)
<b>Profit for the period</b>						<b>100.5</b>

<sup>(1)</sup> Includes non-controlling interest (NCI) revenue of \$1.5 million.

<sup>(2)</sup> Adjusted for NCI operating result of \$1.8 million, business restructuring costs of \$3.5 million and \$37.3 million impairment charge for the Amart Sports and Goldcross Cycles brand names, refer note 10 – Intangible assets.

<sup>(3)</sup> Adjusted for NCI depreciation of \$0.1 million, \$7.7 million provision for asset impairment relating to business restructuring and \$37.3 million of brand name impairment.

<sup>(4)</sup> Adjusted for NCI interest of \$0.1 million.

<sup>(5)</sup> Segment income tax expense of \$54.7 million excludes \$14.5 million relating to the tax effect of business restructuring costs with a value of \$48.5 million.

<sup>(6)</sup> Includes \$48.5 million of business restructuring costs and the related income tax effect of \$14.5 million.

#### Other items not included in total segment NPAT - 2017

##### Sports

During the 2017 year, the Group undertook a review of the strategy for its Sports Division recognising that the dynamics of the sports retail market are set to evolve in the next few years. As a result, the Group concluded that the optimal strategy to sustain its position as the market leader in sports retailing would be to focus on building one retail brand. Therefore the Group commenced a program to convert all Amart Sports stores to Rebel by November 2017. As a result there were \$48.5 million of before tax business restructuring costs associated with the rebranding during 2017, comprising \$37.3 million of brand name impairment, \$7.7 million of Property, plant and equipment impairment and \$3.5 million of other restructuring costs.

### (c) Other information

Revenue is attributable to the country where the sale of goods has transacted. The consolidated entity's divisions are operated in two main geographical areas with the following areas of operation:

#### Australia (the home country of the parent entity)

Auto: retailing of auto parts and accessories, tools and equipment;

Outdoor: retailing of boating, camping, outdoor equipment, fishing equipment and apparel; and

Sports: retailing of sporting equipment and apparel.

#### New Zealand

Auto: retailing of auto parts and accessories, tools and equipment; and

Outdoor: retailing of outdoor equipment and apparel.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 4. Segment information (continued)

### (c) Other information (continued)

	2018 \$m	2017 \$m
(i) Total revenue and other income from continuing operations		
Australia	2,442.7	2,354.8
New Zealand	136.2	112.4
	<b>2,578.9</b>	<b>2,467.2</b>
(ii) Total non-current assets		
Australia	1,093.1	1,002.3
New Zealand	78.2	12.3
	<b>1,171.3</b>	<b>1,014.6</b>

### Significant Accounting Policies

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group Managing Director and Chief Executive Officer, who is responsible for allocating resources and assessing performance of the operating segments. Unallocated items comprise mainly of corporate assets (primarily the Support Office, Support Office expenses, and income tax assets and liabilities).

## 5. Revenue and other income from continuing operations

	2018 \$m	2017 \$m
Revenue from the sale of goods	2,570.4	2,465.8
Other income		
Insurance claims	0.5	0.6
Commission	-	0.1
Gain on divestment	6.9	-
Sundry	1.1	0.7
Total revenues and other income	<b>2,578.9</b>	<b>2,467.2</b>

### Significant Accounting Policies

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

#### Sale of goods – retail

Revenue from the sale of goods is recognised when a Group entity sells a product to the customer pursuant to sales orders and when the associated risk and rewards have passed to the customer. Retail sales are usually by credit card or in cash.

#### Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. Interest income on impaired loans is recognised using the original effective interest rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 6. Expenses from continuing operations

	2018 \$m	2017 \$m
<b>Profit before income tax includes the following specific gains and expenses:</b>		
<i>Expenses</i>		
Net (gain) on disposal of property, plant and equipment	-	(0.6)
Share of net loss from associates and joint ventures accounted for using the equity method	1.0	-
<i>Depreciation</i>		
Plant and equipment	40.9	39.7
Motor vehicles	0.1	0.1
Computer equipment	14.1	12.4
Total depreciation	<u>55.1</u>	<u>52.2</u>
<i>Amortisation and impairment</i>		
Computer software amortisation	22.2	18.4
Brand name amortisation	-	0.2
Brand name impairment	-	37.3
Plant and equipment impairment	2.4	7.7
Total amortisation and impairment	<u>24.6</u>	<u>63.6</u>
<i>Net finance costs</i>		
Interest and finance charges	17.8	17.0
Interest revenue	(0.1)	(0.1)
Net finance costs	<u>17.7</u>	<u>16.9</u>
<i>Employee benefits expense</i>		
Superannuation	36.1	35.0
Salaries and wages	474.7	449.2
Total employee benefits expense	<u>510.8</u>	<u>484.2</u>
<i>Rental expense relating to operating leases</i>		
Lease expenses	229.2	211.8
Equipment hire	3.4	5.1
Total rental expense relating to operating leases	<u>232.6</u>	<u>216.9</u>
<i>Foreign exchange gains and losses</i>		
Net foreign exchange loss / (gain)	<u>2.4</u>	<u>(1.2)</u>

### Significant Accounting Policies

#### Depreciation, amortisation and impairment

Refer to notes 9 and 10 for details on depreciation, amortisation and impairment.

#### Finance costs

Finance costs are recognised in the period in which these are incurred and are expensed in the period to which the costs relate. Generally costs such as discounts and premiums incurred in raising borrowings are amortised on an effective yield basis over the period of the borrowing. Finance costs include:

- interest on bank overdrafts and short-term and long-term borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- finance lease charges; and
- interest revenue.

#### Employee benefits

Refer to note 14 for details on employee provisions and superannuation.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 6. Expenses from continuing operations (continued)

### Significant Accounting Policies (continued)

#### Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease term.

#### Foreign exchange gains and losses

Refer to note 2 (c) for details on foreign exchange gains and losses.

## 7. Trade and other receivables

	2018	2017
Current	\$m	\$m
Trade receivables	10.0	14.2
Provision for impairment of receivables	(0.6)	(0.8)
Net trade receivables	9.4	13.4
Other receivables	7.7	5.9
Prepayments	6.7	23.3
Net current trade and other receivables	23.8	42.6

### (a) Impaired trade receivables

As at 30 June 2018 current trade receivables of the Group with a nominal value of \$0.6 million (2017: \$0.8 million) were impaired and provided for. The individually impaired receivables mainly relate to wholesalers with whom the Group no longer trade.

### (b) Past due but not impaired

As at 30 June 2018, trade receivables of \$2.4 million (2017: \$3.8 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018	2017
	\$m	\$m
30 to 60 days	0.2	1.1
60 to 90 days	0.7	1.0
90 days and over	1.5	1.7
	2.4	3.8

### Significant Accounting Policies

#### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement 30 days from the end of the month after sale. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any impairment loss is included within Administration in the income statement.

#### Impairment of trade receivables

Refer to note 15 for details of impairment of financial assets including trade receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 8. Inventories

	2018 \$m	2017 \$m
Finished goods, at lower of cost or net realisable value	<u>545.5</u>	<u>481.5</u>

### (a) Inventory expense

Inventories recognised as expense during the period ended 30 June 2018 amounted to \$1,338.7 million (2017: \$1,291.2 million).

Write-downs of inventories to net realisable value recognised as an expense during the period ended 30 June 2018 amounted to \$9.4 million (2017: \$2.7 million). This expense has been included in cost of sales of goods within the consolidated statement of comprehensive income.

### Significant Accounting Policies

#### Inventories

Inventories are measured at the lower of cost and net realisable value. Costs comprise direct purchase costs and an appropriate proportion of supply chain variable and fixed overhead expenditure in bringing them to their existing location and condition. Costs are assigned to individual items of stock on the basis of weighted average costs.

#### Critical accounting estimates and assumptions

##### Net realisable value

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

## 9. Property, plant and equipment

	2018 \$m	2017 \$m
Plant and equipment, at cost	407.3	373.1
Less accumulated depreciation	(180.4)	(155.9)
Net plant and equipment	<u>226.9</u>	<u>217.2</u>
Motor vehicles, at cost	0.6	0.7
Less accumulated depreciation	(0.4)	(0.5)
Net motor vehicles	<u>0.2</u>	<u>0.2</u>
Computer equipment, at cost	104.7	97.9
Less accumulated depreciation	(61.4)	(50.8)
Net computer equipment	<u>43.3</u>	<u>47.1</u>
Total net property, plant and equipment	<u>270.4</u>	<u>264.5</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 9. Property, plant and equipment (continued)

### (a) Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Plant and equipment	Motor vehicles	Computer equipment	Total
	\$m	\$m	\$m	\$m
<b>2018</b>				
Carrying amounts at 1 July 2017	217.2	0.2	47.1	264.5
Additions	47.9	-	10.2	58.1
Acquisition of subsidiary (note 23(a))	5.6	0.1	0.2	5.9
Depreciation	(40.9)	(0.1)	(14.1)	(55.1)
Impairment <sup>(1)</sup>	(2.4)	-	-	(2.4)
Divestment of subsidiary (note 23(b))	(0.1)	-	-	(0.1)
Foreign currency exchange differences	(0.4)	-	(0.1)	(0.5)
Carrying amounts at 30 June 2018	<b>226.9</b>	<b>0.2</b>	<b>43.3</b>	<b>270.4</b>
<b>2017</b>				
Carrying amounts at 2 July 2016	203.3	0.3	33.3	236.9
Additions	60.9	-	26.2	87.1
Disposals	(0.3)	-	-	(0.3)
Depreciation	(39.7)	(0.1)	(12.4)	(52.2)
Impairment <sup>(1)</sup>	(7.7)	-	-	(7.7)
Foreign currency exchange differences	0.7	-	-	0.7
Carrying amounts at 1 July 2017	217.2	0.2	47.1	264.5

<sup>(1)</sup> During 2018 certain items of Plant and equipment relating to assets in leased locations associated with the Outdoor business transformation activities were considered to be impaired (2017: Sports business transformation activities) – refer note 4 – Segment information.

### Finance Leases

The carrying value of computer equipment held under finance leases as at 30 June 2018 was \$9.9 million (2017: \$11.2 million). Additions during the year were \$1.0 million (2017: \$11.2 million). Leased assets are pledged as security for the related finance lease liability.

### Significant Accounting Policies

#### Carrying value

Property, plant and equipment are stated at historical cost, less any accumulated depreciation or amortisation. Historical costs include expenditure that is directly attributable to the acquisition of the items.

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 the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### Depreciation and amortisation of property, plant and equipment

Depreciation and amortisation are calculated on a straight line basis for accounting and on a diminishing value basis for tax. Depreciation and amortisation allocates the cost of an item of property, plant and equipment net of residual values over the expected useful life of each asset to the consolidated entity. Estimates of remaining useful lives and residual values are reviewed and adjusted, if appropriate, at each statement of financial position date.

The depreciation rates used for each class of assets are:

Plant and equipment	7.5% – 37.5%
Capitalised leased plant and equipment	10% – 37.5%
Motor vehicles	25%
Computer equipment	20% – 37.5%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 9. Property, plant and equipment (continued)

### Significant Accounting Policies (continued)

#### Gains and losses

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

#### Make good requirements in relation to leased premises

Make good costs arising from contractual obligations in lease agreements are recognised as provisions at the inception of the agreement. A corresponding asset is taken up in property, plant and equipment at that time. Expected future payments are discounted using appropriate market yields at reporting date.

#### Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

### Critical accounting estimates and assumptions

#### Impairment

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## 10. Intangible assets

	2018 \$m	2017 \$m
Goodwill, at cost	528.0	449.7
Less accumulated impairment charge	(2.1)	(2.1)
Net goodwill	<u>525.9</u>	<u>447.6</u>
Computer software, at cost	213.9	174.3
Less accumulated amortisation	(101.5)	(80.8)
Net computer software	<u>112.4</u>	<u>93.5</u>
Brand names, at cost	311.8	267.5
Less accumulated amortisation and impairment charge	(58.5)	(58.5)
Net brand names	<u>253.3</u>	<u>209.0</u>
Total net intangible assets	<u>891.6</u>	<u>750.1</u>

### (a) Reconciliations

Reconciliations of the carrying amounts for each class of intangible asset are set out below:

	Goodwill \$m	Computer Software \$m	Brand Name \$m	Totals \$m
<b>2018</b>				
Carrying amounts at 1 July 2017	447.6	93.5	209.0	750.1
Additions	-	41.1	-	41.1
Acquisition of subsidiary (note 23(a))	79.0	0.2	44.3	123.5
Divestment of subsidiary (note 23(b))	(0.7)	(0.2)	-	(0.9)
Amortisation charge	-	(22.2)	-	(22.2)
Carrying amounts at 30 June 2018	<u>525.9</u>	<u>112.4</u>	<u>253.3</u>	<u>891.6</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 10. Intangible assets (continued)

### (a) Reconciliations (continued)

	Goodwill \$m	Computer Software \$m	Brand Name \$m	Totals \$m
<b>2017</b>				
Carrying amounts at 2 July 2016	447.6	78.3	246.5	772.4
Additions	-	33.6	-	33.6
Impairment	-	-	(37.3)	(37.3)
Amortisation charge	-	(18.4)	(0.2)	(18.6)
Carrying amounts at 1 July 2017	447.6	93.5	209.0	750.1

### (b) Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the group of assets based on acquisition. A CGU level summary of the goodwill allocation is presented below:

CGU	2018 \$m	2017 \$m
Auto	45.3	45.3
Outdoor	104.1	25.1
Sports	376.5	376.5
Group	-	0.7
<b>Total</b>	<b>525.9</b>	447.6

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

#### Key assumptions used for value-in-use calculations

Management have consistently applied two key assumptions in the value-in-use analysis across each business segment CGU, a pre-tax discount rate of 14.0% (2017: 14.0%) and terminal growth rate of 3.0% (2017: 3.0%). Budgeted gross margin is determined based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports.

The recoverable amount of the Group's goodwill currently exceeds its carrying value. Management does not consider that a reasonably possible change in any of the key assumptions would cause the carrying value of any of the CGU's to exceed their recoverable amounts.

### (c) Impairment tests for the useful life for brands

No amortisation is provided against the carrying value of the purchased brand names on the basis that they are considered to have indefinite useful lives.

Key factors taken into account in assessing the useful life of brands were:

- the strong recognition of brands; and
- there are currently no legal, technical or commercial factors indicating that the life should be considered limited.

The carrying values of the purchased brand names are:

Brand	2018 \$m	2017 \$m
Rebel Sport	209.0	209.0
Macpac	44.3	-
<b>Total</b>	<b>253.3</b>	209.0

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 10. Intangible assets (continued)

### (c) Impairment tests for the useful life for brands (continued)

#### Key assumptions used for value-in-use calculations

Management have consistently applied two key assumptions in the value-in-use analysis across each brand, a pre-tax discount rate of 14.0% (2017: 14.0%) and terminal growth rate of 3.0% (2017: 3.0%). Budgeted gross margin is determined based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports.

The recoverable amount of the brand names currently exceeds their carrying values. Management does not consider that a reasonably possible change in any of the key assumptions would cause the carrying value of any of the brand names to exceed their recoverable amounts.

#### 2017 impairment

The Group recognised an impairment charge of \$37.3 million against the Amart Sports and Goldcross Cycles brand names following the decision to commence a program of converting all Amart Sports stores to Rebel with a target of presenting one brand to market by November 2017. Based on this decision, the recoverable amount was determined to be nil based on a fair value less costs to sell calculation for the remaining four months that the brands will be operating. This impairment charge was included in administration expenses in the consolidated income statement.

### Significant Accounting Policies

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or business at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, it is tested for impairment annually, or more frequently if events or changes in circumstances indicated that it might be impaired, and is carried at cost less accumulated impairment losses. Any impairment is recognised as an expense and is not subsequently reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

#### Intangible assets with indefinite useful lives

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks are amortised over their useful lives.

#### Other intangible assets

Amortisation is calculated on a straight line basis. The amortisation rates used for each class of intangible assets are as follows:

Computer software	10% – 33.3%
Brand names	Nil

#### Computer software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, employee costs and an appropriate portion of relevant overheads. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

#### Brand names

Brand names that are acquired as part of a business combination are recognised separately from goodwill. These assets are carried at their fair value at the date of acquisition less impairment losses. Brand names are valued using the relief from royalty method. Brand names are determined to have indefinite useful lives and therefore do not attract amortisation.

#### Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 10. Intangible assets (continued)

### Significant Accounting Policies (continued)

#### Other items of expenditure

Significant items of expenditure, such as costs incurred in store set-ups, are expensed in the financial period in which these costs are incurred.

#### Critical accounting estimates and assumptions

##### Capitalised software costs and useful lives

The Group has undertaken significant development of software in relation to the multi-channel customer programme and multi-channel supply chain and inventory programme. The useful lives have been determined based on the intended period of use of this software.

##### Estimated impairment of indefinite useful life non-financial assets

The Group tests annually whether indefinite useful life non-financial assets have suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer above for details of these assumptions.

## 11. Trade and other payables

	2018	2017
	\$m	\$m
<b>Current</b>		
Trade payables	255.6	179.5
Other payables	81.2	70.1
Straight line lease adjustment	5.5	4.1
Total current trade and other payables	342.3	253.7
<b>Non-current</b>		
Straight line lease adjustment	49.1	44.2
Total non-current trade and other payables	49.1	44.2

### Significant Accounting Policies

#### Trade and other payables

Trade and other payables are payables for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid at that date. The amounts are unsecured and are normally paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

#### Leases

Refer to note 6 for details on the straight lining of lease expenses.

## 12. Interest-bearing liabilities

	2018	2017
	\$m	\$m
<b>Current</b>		
Finance leases - secured by leased asset	3.0	2.6
Total current interest-bearing liabilities	3.0	2.6
<b>Non-current</b>		
Finance leases - secured by leased asset	6.5	8.6
Bank debt funding facility - secured	-	0.1
Bank debt funding facility - unsecured <sup>(1)</sup>	428.6	389.3
Total non-current interest-bearing liabilities	435.1	398.0

<sup>(1)</sup>Net of borrowing costs capitalised of \$1.4 million (2017: \$1.7 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 12. Interest-bearing liabilities (continued)

### (a) Reconciliation of liabilities arising from financing activities

	1 July 2017 \$m	Cash flows \$m	Non-cash – Amortisation and additions \$m	30 June 2018 \$m
Finance leases	11.2	(2.7)	1.0	9.5
Bank debt funding facility <sup>(1)</sup>	389.4	38.7	0.5	428.6
Total	400.6	36.0	1.5	438.1

	2 July 2016 \$m	Cash flows \$m	Non-cash – Amortisation and additions \$m	1 July 2017 \$m
Finance leases	0.8	(0.8)	11.2	11.2
Bank debt funding facility <sup>(1)</sup>	415.0	(26.3)	0.7	389.4
Total	415.8	(27.1)	11.9	400.6

<sup>(1)</sup>Net of borrowing costs paid

### Significant Accounting Policies

#### Borrowings

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

## 13. Income taxes

	2018 \$m	2017 \$m
<b>(a) Income tax expense</b>		
Current tax expense	51.9	49.5
Deferred tax (benefit)	(2.4)	(9.0)
Adjustments to tax expense of prior periods	(0.7)	(0.3)
	48.8	40.2
Deferred income tax (revenue) / expense included in income tax expense comprises:		
(Increase) / decrease in deferred tax assets (note 13(e))	(3.6)	3.3
Increase / (Decrease) in deferred tax liabilities (note 13(e))	1.2	(12.3)
	(2.4)	(9.0)
<b>(b) Numerical reconciliation between tax expense and pre-tax profit</b>		
Profit before income tax from continuing operations	176.1	140.7
Tax at the Australian tax rate of 30% (2017: 30%)	52.8	42.2
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Tax consolidation adjustments regarding NZ branches	(3.2)	(2.3)
Gain on divestment of subsidiary	(2.0)	-
Non-deductible acquisition costs	1.1	-
Research and development credits and sundry items	0.4	(0.1)
	49.1	39.8
Difference in overseas tax rates	(0.3)	(0.1)
Derecognition of tax losses and deferred tax assets	0.7	0.8
Adjustments to tax expense of prior periods	(0.7)	(0.3)
Income tax expense	48.8	40.2
Effective tax rate:		
Australia	29.1%	28.2%
Consolidated group	27.7%	28.6%



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 13. Income taxes (continued)

	2018 \$m	2017 \$m
<b>(c) Numerical reconciliation of income tax expense to income tax payable</b>		
Income tax (expense)	(48.8)	(40.2)
Tax effect of timing differences:		
Depreciation	(1.6)	(8.7)
Provisions	(4.4)	1.4
Accruals and prepayments	2.6	(0.6)
Sundry temporary differences	(1.1)	(0.2)
Current tax payable	(53.3)	(48.3)
Income tax instalments paid during the year	43.7	46.8
Income tax (payable)	(9.6)	(1.5)
<b>(d) Amounts recognised directly in equity</b>		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity:		
Net deferred tax debited directly to equity (note 13(e))	2.6	1.4
Tax expense relating to items of other comprehensive income	2.6	1.4
Cash flow hedges	2.6	1.4
<b>(e) Deferred tax assets and liabilities</b>		
<b>Assets</b>		
<i>Amounts recognised in profit or loss</i>		
Provisions	41.3	35.8
Accruals and prepayments	4.3	7.0
Depreciation	13.7	12.7
Sundry temporary differences	2.6	1.3
<i>Amounts recognised directly in equity</i>		
Cash flow hedges	-	1.0
Set off with deferred tax liabilities	(61.9)	(57.8)
Net deferred tax assets	-	-
<b>Liabilities</b>		
<i>Amounts recognised in profit or loss</i>		
Brand values	76.0	62.9
Depreciation	14.4	12.0
<i>Amounts recognised directly in equity</i>		
Cash flow hedges	1.6	-
Set-off of deferred tax assets	(61.9)	(57.8)
Net deferred tax liabilities	30.1	17.1
Net deferred tax assets / (liabilities)	(30.1)	(17.1)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 13. Income taxes (continued)

### (e) Deferred tax assets and liabilities (continued)

	2018 \$m	2017 \$m
<b>Movements in deferred tax assets:</b>		
Opening balance	57.8	62.5
Acquisition of subsidiary (note 23(a))	0.5	-
Credited / (charged) to the income statement	3.6	(3.3)
(Charged) / credited to equity	-	(1.4)
Closing balance	61.9	57.8
Deferred tax assets to be recovered after more than 12 months	35.0	31.7
Deferred tax assets to be recovered within 12 months	26.9	26.1
	61.9	57.8
<b>Movements in deferred tax liabilities:</b>		
Opening balance	74.9	87.2
Acquisition of subsidiary (note 23(a))	13.3	-
Charged / (credited) to the income statement	1.2	(12.3)
Charged / (credited) to equity	2.6	-
Closing balance	92.0	74.9
Deferred tax liabilities to be settled after more than 12 months	92.0	74.9
Deferred tax liabilities to be settled within 12 months	-	-
	92.0	74.9

### (f) Unrecognised deferred tax assets

Tax losses	13.6	13.9
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Deferred tax assets have not been recognised in respect of these tax losses because it is not considered probable that future taxable profit will be available against which they can be realised.

### (g) Tax transparency report

In May 2016, the government announced the release of the Board of Taxation's final report on the voluntary Tax Transparency Code. The aim of the Code is to provide a mechanism by which medium and large companies can be held accountable for their Australian tax affairs, and to give stakeholders confidence that companies are compliant with their statutory obligations.

Currently the Code is voluntary. Super Retail Group supports the concept of voluntary tax transparency as an important measure for all large companies to provide assurance to the Australian community that their tax obligations are being appropriately met. We know that Super Retail Group's success is dependent on the wellbeing of the economies and communities where our businesses operate and our conservative approach to tax strategy is one of the many ways we act to ensure sustainability of our operations. We are pleased to disclose our taxes paid in Australia and to detail our approach to tax planning for the first time.

The requirements of the Code are broken into Part A which forms part of the tax note as referenced below and Part B as disclosed below. The make-up of the respective parts is as follows:

- (i) Part A:
- Effective company tax rates for our Australian and global operations (Note 13 (b))
  - A reconciliation of accounting profit to tax expense and to income tax payable (Note 13 (c))
  - Identification of material temporary (Note 13 (b)) and non-temporary differences (Note 13 (c))
- (ii) Part B:
- Tax policy, tax strategy and governance
  - Information about international related party dealings
  - A tax contribution summary of Income tax paid

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 13. Income taxes (continued)

### (g) Tax transparency report (continued)

Part B discloses the Australian income tax paid by the Group in the 2018 and 2017 financial years and provides qualitative information about our approach to tax risk and international related party dealings.

#### Tax policy, tax strategy and governance

Super Retail Group is committed to full compliance with its statutory obligations and takes a conservative approach to tax risk. Super Retail Group's Tax Policy includes an internal escalation process for referring tax matters to the corporate Group Tax function. The CFO must report any material tax issues to the Board. Tax strategy is implemented through Super Retail Group's Tax Governance Policy. Super Retail Group's approach to tax planning is to operate and pay tax in accordance with the tax law in each relevant jurisdiction. The Group aims for certainty on all tax positions it adopts. Where the tax law is unclear or subject to interpretation, advice is obtained, and when necessary the Australian Taxation Office (ATO) (or other relevant tax authority) is consulted for clarity.

#### International related party dealings

Super Retail Group is an Australian based group, with some trading operations in other countries, including New Zealand (Super Cheap Auto (SCA) and Macpac) and China (Sourcing assistance). Given its current profile, the Group has very limited international related party dealings. Super Retail Group always seeks to price international related party dealings on an arm's length basis to meet the regulatory requirements of the relevant jurisdictions.

Super Retail Group's international related party dealings are summarised below:

- Super Retail Group's Australian retail businesses source material amounts of trading stock from overseas, particularly through Asian based third-party suppliers. To facilitate this the Group has a Chinese based subsidiary that co-ordinates these supplies. Super Retail Group's Australian businesses pay the overseas subsidiaries for these services.
- Super Retail Group SCA and Macpac retail businesses operate across Australia and New Zealand. To meet customer demand and manage stock levels, trading stock is occasionally transferred between jurisdictions, for which arm's length consideration is paid by the recipient of the trading stock.
- Certain Super Retail Group businesses operating outside of Australia are utilising intellectual property developed by Super Retail Group businesses in Australia. Where appropriate, and as required by international cross border tax rules, a royalty payment is made by the off-shore subsidiary to the relevant Super Retail Group business in Australia.
- Various administrative and support services are provided by Super Retail Group head office and divisional parent entities to offshore subsidiary businesses. As required by international cross border tax rules, arm's length consideration is paid for these services.

#### Other jurisdictions

The Super Retail Group includes a few subsidiary companies that are incorporated in jurisdictions outside of Australia as summarised in the table below:

Country	Nature of activities
China <sup>(1)</sup>	Co-ordinating the sourcing of trading stock for BCF, Rays, Rebel, SCA
New Zealand	Active trading operations (SCA and Macpac) and dormant entities

<sup>(1)</sup> These companies are subject to the Australian Controlled Foreign Company rules. Under these rules profits generated by these subsidiaries from trading with Super Retail Group are taxable in Australia at the 30 per cent Australian corporate tax rate. For the 2018 year, the gross value of international related party transactions in and out of Australia represented less than 0.5 per cent of revenue.

#### Australian income taxes paid

Super Retail Group is a large taxpayer and paid Corporate Income Tax of \$43.7 million in 2018 and \$44.4 million in 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 13. Income taxes (continued)

### Significant Accounting Policies

#### Current and deferred tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

#### Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arise in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

A deferred tax liability is recognised in relation to some of the Group's indefinite life intangibles. The tax base assumed in determining the amount of the deferred tax liability is the capital cost base of the assets.

#### Tax consolidation

Super Retail Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003 and account for current and deferred tax amounts under the Separate taxpayer within Group approach in accordance with *AASB Interpretation 1052, Tax Consolidation Accounting*.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Super Retail Group Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Super Retail Group Limited for any current tax payable assumed and are compensated by Super Retail Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Super Retail Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 14. Provisions

	2018	2017
	\$m	\$m
<b>Current</b>		
Employee benefits <sup>(a)</sup>	60.6	54.1
Onerous contracts <sup>(b)</sup>	4.3	4.9
Make good provision <sup>(c)</sup>	5.0	2.3
Other provisions <sup>(d)</sup>	1.1	1.0
Total current provisions	71.0	62.3
<b>Non-current</b>		
Employee benefits <sup>(a)</sup>	8.7	8.2
Onerous contracts <sup>(b)</sup>	4.5	5.5
Make good provision <sup>(c)</sup>	8.5	7.8
Total non-current provisions	21.7	21.5

### (a) Employee benefits

Provisions for employee benefits includes accrued annual leave, long service leave and accrued bonuses. In addition the Group has identified that team members involved in store set-up activities should have received additional amounts to the amounts paid. A remediation program is underway and will be completed in the next financial period. At 30 June 2018 there is a provision to recognise payments for additional overtime and allowances to current and former team members of an estimated \$7.9 million (2017: nil). In addition there is a provision of \$2.7 million (2017: nil) for interest and on-costs.

### (b) Onerous contracts

Onerous contracts include the provision for surplus lease space which represents the present value of the future lease payments that the Group is obligated to make in respect of surplus lease space under non-cancellable operating lease agreements, less estimated future sub-lease revenue. During the 2016 year, the Group committed to a plan to restructure the Ray's Outdoors business by converting various stores into either the new concept Rays stores or to other Group brands and close other stores. As at 30 June 2018 \$6.8 million associated with the transformation relates to surplus lease space (2017: \$8.3 million). During the reporting period the Group completed the program of converting all Amart Sports stores to Rebel in line with the strategy to sustain the Group's position as the market leader in sports retailing. As at 30 June 2018 \$1.2 million associated with this conversion relates to surplus lease space (2017: nil).

Onerous contracts also includes the provision for loss making contracts which represents the present value of the forecasted loss. During the 2016 year the Group performed a review of key contracts relating to Infinite Retail that were loss making. As at 30 June 2018 \$0.7 million is provided for loss making contracts related to Infinite Retail (2017: \$1.7 million).

### (c) Make good provision

Provision is made for costs arising from contractual obligations in lease agreements at the inception of the agreement. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of the leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

### (d) Other provisions

The current provision for other items includes the provision for store refunds.

### (e) Movement in provisions

Movements in each class of provision during the period, except for other, are set out below:

	Employee benefits	Onerous contracts	Make good	Total
	\$m	\$m	\$m	\$m
<b>2018</b>				
Opening balance as at 1 July 2017	62.3	10.4	10.1	82.8
Increase through acquisition	0.8	-	1.1	1.9
Provisions made	57.9	4.4	2.1	64.4
Indexing of provisions	-	-	1.8	1.8
Provisions used	(51.7)	(6.0)	(1.6)	(59.3)
Closing balance as at 30 June 2018	69.3	8.8	13.5	91.6

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 14. Provisions (continued)

### Significant Accounting Policies

#### Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### Employee benefits - short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All other short-term employee benefit obligations are presented as payables.

#### Employee benefits – long term obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

#### Retirement benefit obligations

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred.

#### Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### Make good requirements in relation to leased premises

Make good costs arising from contractual obligations in lease agreements are recognised as provisions at the inception of the agreement. A corresponding asset is taken up in property, plant and equipment at that time. Expected future payments are discounted using appropriate market yields at reporting date.

### Critical accounting estimates and assumptions

#### Estimated value of make good provision

The Group has estimated the present value of the estimated expenditure required to remove any leasehold improvements and return leasehold premises to their original state, in addition to the likelihood of this occurring. These costs have been capitalised as part of the cost of the leasehold improvements.

#### Long service leave

Judgement is required in determining the following key assumptions used in the calculation of long service leave at balance date.

- Future increase in salaries and wages;
- Future on-cost rates; and
- Experience of employee departures and period of service.

#### Onerous contracts

For surplus leases, the Group estimates the period it will take to exit surplus lease space. It then records a liability for the present value of the future lease payments for the estimated exit period less estimated future sub-lease revenue. For loss making revenue contracts, the Group estimates a range of potential financial outcomes for each contract based on forecasted scenarios. It then records a liability for the present value of the resulting forecasted loss of each contract.

#### Employee benefits – set-up activities

Judgements have been made in the calculations as to the number of overtime hours, allowance payments and the valuation based on assumed work patterns.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 15. Financial assets and financial liabilities

### (a) Financial instruments

The Group holds the following financial instruments:

		Derivatives used for hedging \$m	Financial assets and liabilities at amortised cost \$m	Total \$m
<b>2018</b>	<b>Notes</b>			
<b>Financial assets</b>				
Cash and cash equivalents		-	15.2	15.2
Trade and other receivables	7	-	23.8	23.8
Derivative financial instruments	20	6.8	-	6.8
Total		6.8	39.0	45.8
<b>Financial liabilities</b>				
Trade and other payables	11	-	391.4	391.4
Interest-bearing liabilities	12	-	438.1	438.1
Derivative financial instruments	20	1.5	-	1.5
Total		1.5	829.5	831.0
		Derivatives used for hedging \$m	Financial assets and liabilities at amortised cost \$m	Total \$m
<b>2017</b>	<b>Notes</b>			
<b>Financial assets</b>				
Cash and cash equivalents		-	19.9	19.9
Trade and other receivables	7	-	42.6	42.6
Derivative financial instruments	20	-	-	-
Total		-	62.5	62.5
<b>Financial liabilities</b>				
Trade and other payables	11	-	297.9	297.9
Interest-bearing liabilities	12	-	400.6	400.6
Derivative financial instruments	20	3.1	-	3.1
Total		3.1	698.5	701.6

The Group's exposure to various risks associated with the financial instruments is discussed in note 20 – Financial risk management. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

### (b) Recognised fair value measurements

#### (i) Fair value hierarchy

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

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 15. Financial assets and financial liabilities (continued)

### (b) Recognised fair value measurements (continued)

#### (i) Fair value hierarchy (continued)

The following tables present the Group's entity's assets and liabilities measured and recognised at fair value.

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
<b>2018</b>				
<b>Financial assets</b>				
Derivatives used for hedging	-	6.8	-	6.8
Total	-	6.8	-	6.8
<b>Financial liabilities</b>				
Derivatives used for hedging	-	1.5	-	1.5
Total	-	1.5	-	1.5
	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
<b>2017</b>				
<b>Financial assets</b>				
Derivatives used for hedging	-	-	-	-
Total	-	-	-	-
<b>Financial liabilities</b>				
Derivatives used for hedging	-	3.1	-	3.1
Total	-	3.1	-	3.1

There were no transfers between any levels for recurring fair value measurements during the year. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

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

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

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

#### (ii) Valuation techniques used to determine fair value

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date;
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 15. Financial assets and financial liabilities (continued)

### Significant Accounting Policies

#### Financial assets classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

#### Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

#### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the receivable or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

#### Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 15. Financial assets and financial liabilities (continued)

### Significant Accounting Policies (continued)

#### Derivative financial instruments and hedging activities (continued)

##### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the income periods when the hedged item will affect profit or loss (for instance when the forecast payment that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

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

##### Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

##### Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

#### Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the statement of financial position date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 16. Earnings per share

	2018	2017
(a) Basic earnings per share	Cents	Cents
Total basic earnings per share attributable to the ordinary equity holders of the company	<u>65.0</u>	51.6
(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the company	<u>64.5</u>	51.3
(c) Normalised earnings per share <sup>(1)</sup>		
From continuing operations attributable to the ordinary equity holders of the company	<u>73.7</u>	68.9

<sup>(1)</sup> Normalised profit attributable to ordinary equity holders is \$145.3 million (2017: \$135.8 million) – note 4(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 16. Earnings per share (continued)

	2018	2017
	Number	Number
<b>(d) Weighted average number of shares used as the denominator</b>		
Weighted average number of shares used as the denominator in calculating basic EPS	197,240,020	197,229,369
Adjustments for calculation of diluted earnings per share – performance rights	1,773,137	1,078,275
Weighted average potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>199,013,157</b>	198,307,644

	2018	2017
	\$m	\$m
<b>(e) Reconciliations of earnings used in calculating earnings per share</b>		
<i>Basic earnings and diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in EPS	<b>128.3</b>	101.8

### (f) Information concerning the classification of securities

*Options and Performance Rights*

Options and performance rights granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

### Significant Accounting Policies

#### Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### Diluted earnings per share

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

## 17. Contributed equity

### (a) Share capital

	2018	2017
	\$m	\$m
Ordinary shares fully paid (197,240,020 ordinary shares as at 30 June 2018)	<b>542.3</b>	542.3

	Number of Shares	Issue Price	\$m
<i>(i) Movement in ordinary share capital</i>			
Opening Balance 2 July 2016	197,177,318		542.3
Shares issued under performance rights	62,702	-	-
Balance 1 July 2017	197,240,020		542.3
Shares issued under performance rights	-	-	-
Closing balance 30 June 2018	<b>197,240,020</b>		<b>542.3</b>

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

The ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present, in person or by proxy, at a meeting of shareholders of the parent entity is entitled to one vote and, upon a poll, each share is entitled to one vote.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 17. Contributed equity (continued)

### (a) Share capital (continued)

Performance rights over 734,862 (2017: 571,775) ordinary shares were issued during the period with no (2017: 62,702) performance rights vesting during the period. Under the share option plan, nil (2017: nil) ordinary shares were issued during the period. Information relating to performance rights and options outstanding at the end of the financial period are set out in note 28 – Share-based payments.

### Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by shares purchased on market rather than by being paid in cash.

### Significant Accounting Policies

#### Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

## 18. Reserves and retained earnings

	2018 \$m	2017 \$m
<b>(a) Reserves</b>		
Foreign currency translation reserve	2.5	3.4
Share based payments reserve	11.6	10.5
Hedging reserve	4.0	(2.2)
NCI equity reserve	(7.8)	(8.2)
Total	<u>10.3</u>	<u>3.5</u>
<i>(i) Movements</i>		
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the financial period	3.4	3.9
Net exchange difference on translation of foreign controlled entities	(0.9)	(0.5)
Balance at the end of the financial period	<u>2.5</u>	<u>3.4</u>
<b>Share-based payments reserve</b>		
Balance at the beginning of the financial period	10.5	8.5
Options and performance rights expense	1.1	2.0
Balance at the end of the financial period	<u>11.6</u>	<u>10.5</u>
<b>Hedging reserve</b>		
Balance at the beginning of the financial period	(2.2)	(5.6)
Revaluation – gross	8.8	4.8
Deferred tax	(2.6)	(1.4)
Balance at the end of the financial period	<u>4.0</u>	<u>(2.2)</u>
<b>NCI equity reserve</b>		
Balance at the beginning of the financial period	(8.2)	(7.7)
Change in ownership interest in controlled entities	0.4	(0.5)
Balance at the end of the financial period	<u>(7.8)</u>	<u>(8.2)</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 18. Reserves and retained earnings (continued)

### (a) Reserves (continued)

(ii) Nature and purpose of reserves

#### Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 15 – Financial assets and financial liabilities. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

#### Share-based payments reserve

The share-based payments reserve is used to recognise the grant date fair value of options and performance rights issued.

#### Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 2(c). The reserve is recognised in profit and loss when the net investment is disposed of.

#### NCI equity reserve

The NCI equity reserve is used to recognise the change in ownership interest in controlled entities.

### (b) Retained earnings

	2018 \$m	2017 \$m
Balance at the beginning of the financial period	210.7	193.7
Net profit for the period attributable to owners of Super Retail Group Limited	128.3	101.8
Dividends paid	(91.7)	(84.8)
Retained profits at the end of the financial period	247.3	210.7

## 19. Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities

	2018 \$m	2017 \$m
Profit from ordinary activities after related income tax	128.3	101.8
Depreciation and amortisation	77.3	70.8
Impairment charge	2.4	45.0
Net gain on sale of non-current assets	-	(0.6)
Non-cash employee benefits expense/share based payments	1.1	2.0
Gain on divestment	(6.9)	-
Equity accounting loss	1.0	-
Profit for the period attributable to non-controlling interests	(1.0)	(1.3)
Net finance costs	17.7	16.9
Change in operating assets and liabilities, net of effects from the purchase of controlled entities		
- decrease in receivables	19.6	0.1
- decrease / (increase) in net current tax liability	7.3	(4.7)
- (increase) / decrease in inventories	(37.0)	20.4
- increase / (decrease) in payables	94.0	(2.7)
- increase / (decrease) in provisions	7.0	(4.1)
- increase / (decrease) in deferred tax liability	(2.4)	(9.1)
Net cash inflow from operating activities	308.4	234.5

### Significant Accounting Policies

#### Cash and cash equivalents

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 20. Financial risk management

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

	Market risk		Credit risk	Liquidity risk
	Foreign exchange	Interest rate		
<b>Exposure arising from</b>	Future commercial transactions Recognised financial assets and liabilities not denominated in AUD	Long-term borrowings at variable rates	Cash and cash equivalents, trade and other receivables and derivative financial instruments	Borrowings and other liabilities
<b>Measurement</b>	Cash flow forecasting Sensitivity analysis	Sensitivity analysis	Aging analysis Credit ratings	Credit limits and retention of title over goods sold
<b>Management</b>	Forward foreign exchange contracts and options	Interest rate swaps	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's risk management is carried out by the finance department under policies approved by the Board of Directors. The finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### (a) Derivative Financial Instruments

Derivative Financial Instruments are only used for economic hedging purposes and not as trading or speculative instruments. The Group has the following derivative financial instruments:

	2018 \$m	2017 \$m
<b>Current assets</b>		
Forward foreign exchange contracts – cash flow hedges	6.8	-
Total current derivative financial instrument assets	<u>6.8</u>	<u>-</u>
<b>Current liabilities</b>		
Forward foreign exchange contracts – cash flow hedges	-	1.4
Interest rate swap contracts – cash flow hedges	1.5	1.7
Total current derivative financial instrument liabilities	<u>1.5</u>	<u>3.1</u>

#### (i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

The Group's accounting policy for its cash flow hedges is set out in note 15 – Financial assets and financial liabilities. For hedged forecast transactions that result in the recognition of a non-financial asset, the Group has elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

#### (ii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives please refer to note 15 – Financial assets and financial liabilities.

### (b) Market risk

#### (i) Foreign exchange risk

Group companies are required to hedge their foreign exchange risk exposure using forward contracts transacted with the finance department.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 20. Financial risk management (continued)

### (b) Market risk (continued)

#### (i) Foreign exchange risk (continued)

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the United States dollar (USD) and Chinese Yuan (CNY).

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's risk management policy is to hedge between 50% and 75% of anticipated foreign currency purchases for the subsequent 4 months and up to 50% of anticipated foreign currency purchases for the following 5 to 12 month period.

#### Instruments used by the Group

The economic entity retails products including some that have been imported from Asia, with contract pricing denominated in USD. In order to protect against exchange rate movements, the economic entity has entered into forward exchange rate contracts to purchase USD. The contracts are timed to mature in line with forecasted payments for imports and cover forecast purchases for the subsequent twelve months, on a rolling basis. The Group does not currently enter into forward exchange rate contracts to purchase CNY.

#### Exposure

The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

	2018	2017
	USD	USD
	\$m	\$m
Trade receivables	1.9	1.1
Trade payables	28.7	12.0
Forward exchange contract - foreign currency (cash flow hedges)		
Buy United States dollars and sell Australian/New Zealand dollars with maturity		
- 0 to 4 months	41.8	56.0
- 5 to 12 months	46.5	56.0
	88.3	112.0
	2018	2017
	CNY	CNY
	\$m	\$m
Trade receivables	0.2	0.1
Trade payables	7.9	5.4

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the consolidated balance sheet by the related amount deferred in equity. In the year ended 30 June 2018, no hedges were designated as ineffective (2017: nil).

Gains and losses arising from hedging contracts terminated prior to maturity are also carried forward until the designated hedged transaction occurs.

The following gains, losses and costs have been deferred as at the balance date:

	2018	2017
	\$m	\$m
- unrealised gains / (losses) on USD foreign exchange contracts	6.8	(1.4)
- unrealised (losses) on interest rate swaps	(1.5)	(1.7)
Total unrealised gains / (losses)	5.3	(3.1)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 20. Financial risk management (continued)

### (b) Market risk (continued)

(i) Foreign exchange risk (continued)

#### Group sensitivity

Based on the financial instruments held at 30 June 2018, had the Australian dollar weakened/strengthened by 10% against other currencies with all other variables held constant, the impact on the Group's post-tax profit would have been nil, on the basis that the financial instruments would have been designated as cash flow hedges and the impact upon the foreign exchange movements of other financial assets and liabilities is negligible.

Equity would have been \$7.2 million lower/\$8.8 million higher (2017: \$9.4 million lower/\$11.5 million higher) had the Australian dollar weakened/strengthened by 10% against other currencies, arising mainly from forward foreign exchange contracts designated as cash flow hedges. The impact on other Group assets and liabilities as a result of movements in exchange rates are not material.

A sensitivity of 10% was selected following review of historic trends.

(ii) Cashflow and fair value interest rate risk

#### Instruments used by the Group - interest rate swap contracts

Bank loans of the economic entity currently bear an average variable interest rate of 3.36% (2017: 3.08%). It is policy to protect part of the forecasted debt from exposure to increasing interest rates. Accordingly, the economic entity has entered into interest rate swap contracts, under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in other receivables or other payables.

At period end, the Group was a party to multiple interest rate swaps for a total nominal value of \$240.0 million (2017: \$125.0 million). The Group also has \$260.0 million (2017: \$245.0 million) interest rate swaps in place for future periods up until May 2021 at an average rate of 2.42%.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. Swaps on the current debt balance cover approximately 56.0% (2017: 32.0%) of the loan principal outstanding. The average fixed interest rate is 2.43% (2017: 2.75%).

#### Interest rate risk exposures

The economic entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table:

Notes	Floating interest rate \$m	Fixed interest maturing in			Non-interest bearing \$m	Total \$m
		1 year or less \$m	Over 1 to 5 years \$m	More than 5 years \$m		
<b>2018</b>						
<b>Financial assets</b>						
Cash and cash equivalents	13.4	-	-	-	1.8	15.2
Trade and other receivables	7	-	-	-	23.8	23.8
Total financial assets	13.4	-	-	-	25.6	39.0
Weighted average rate of interest	1.50%					
<b>Financial liabilities</b>						
Trade and other payables	11	-	-	-	391.4	391.4
Interest-bearing liabilities	12	428.6	3.0	6.5	-	438.1
Provisions (employee benefits)	14	-	-	-	69.3	69.3
Total financial liabilities	428.6	3.0	6.5	-	460.7	898.8
Weighted average rate of interest	3.36%					
Net financial (liabilities) / assets	(415.2)	(3.0)	(6.5)	-	(435.1)	(859.8)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 20. Financial risk management (continued)

### (b) Market risk (continued)

(ii) Cashflow and fair value interest rate risk (continued)

	Notes	Fixed interest maturing in				Non-interest bearing \$m	Total \$m
		Floating interest rate \$m	1 year or less \$m	Over 1 to 5 years \$m	More than 5 years \$m		
<b>2017</b>							
<b>Financial assets</b>							
Cash and cash equivalents		18.1	-	-	-	1.8	19.9
Trade and other receivables	7	-	-	-	-	42.6	42.6
Total financial assets		18.1	-	-	-	44.4	62.5
Weighted average rate of interest		1.50%					
<b>Financial liabilities</b>							
Trade and other payables	11	-	-	-	-	297.9	297.9
Interest-bearing liabilities	12	389.4	2.6	8.6	-	-	400.6
Provisions (employee benefits)	14	-	-	-	-	62.3	62.3
Total financial liabilities		389.4	2.6	8.6	-	360.2	760.8
Weighted average rate of interest		3.08%					
Net financial (liabilities) / assets		(371.3)	(2.6)	(8.6)	-	(315.8)	(698.3)

### Group sensitivity

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the 2018 and 2017 financial years, the Group's borrowings were at variable rates and were denominated in Australian dollars.

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

	2018 \$m	2017 \$m
Bank overdrafts and bank loans	430.0	391.0
Interest rate swaps	240.0	125.0

An analysis by maturities is provided in (d) below.

The Group risk management policy is to maintain fixed interest rate hedges of approximately 40% of anticipated debt levels over a 3 year period. The Group utilises interest rate swaps to hedge its interest rate exposure on borrowings.

As at 30 June 2018, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax profit and equity for the year would have been \$1.3 million lower/higher (2017: \$1.9 million lower/higher), mainly as a result of higher/lower interest expense on bank loans.

### (c) Credit risk

Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

(i) Risk management

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 20. Financial risk management (continued)

### (c) Credit risk (continued)

#### (i) Risk management (continued)

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

#### (ii) Security

For wholesale customers without credit rating, the Group generally retains title over the goods sold until full payment is received, thus limiting the loss from a possible default to the profit margin made on the sale. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. Due to the dynamic nature of the underlying businesses, finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents on the basis of expected cash flows. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

#### (i) Financing arrangements

	2018	2017
	\$m	\$m
Unrestricted access was available at balance date to the following lines of credit:		
<b>Total facilities</b>		
- bank debt funding facility	640.0	540.0
- multi-option facility (including indemnity/guarantee)	20.0	20.0
Total	<b>660.0</b>	560.0
<b>Facilities used at balance date</b>		
- bank debt funding facility <sup>(1)</sup>	430.0	391.0
- multi-option facility (including indemnity/guarantee)	3.3	3.4
Total	<b>433.3</b>	394.4
<b>Unused balance of facilities at balance date</b>		
- bank debt funding facility	210.0	149.0
- multi-option facility (including indemnity/guarantee)	16.7	16.6
Total	<b>226.7</b>	165.6

<sup>(1)</sup> As at 30 June 2018, \$20.7 million (2017: \$20.2 million) of the overdraft facility has been drawn and in accordance with financing arrangements this is offset by cash funds in transit.

Current interest rates on bank loans of the economic entity are 3.25% - 3.51% (2017: 2.97% - 3.19%).

#### (ii) Maturities of financial liabilities

The following tables analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities; and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 20. Financial risk management (continued)

### (d) Liquidity risk (continued)

(ii) Maturities of financial liabilities (continued)

	Less than 6 months \$m	6-12 months \$m	Between 1 and 2 years \$m	Between 2 and 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m	Carrying amount (assets) / liabilities \$m
<b>2018</b>							
<b>Non-derivatives</b>							
Trade and other payables	336.8	-	-	-	-	336.8	336.8
Interest-bearing liabilities <sup>(1)</sup>	7.2	7.2	259.7	183.4	-	457.5	430.0
Finance lease liabilities	1.6	1.6	3.3	3.5	-	10.0	9.5
Total non-derivatives	345.6	8.8	263.0	186.9	-	804.3	776.3
<b>Derivatives</b>							
Net settled (Interest Rate Swaps)	0.4	0.3	0.2	0.2	-	1.1	1.5
Forward exchange contracts used for hedging:							
Gross settled							
- (inflow)	(82.0)	(38.1)	-	-	-	(120.1)	(6.8)
- outflow	77.1	35.5	-	-	-	112.6	-
Total derivatives	(4.5)	(2.3)	0.2	0.2	-	(6.4)	(5.3)

<sup>(1)</sup>Excludes finance leases.

	Less than 6 months \$m	6-12 months \$m	Between 1 and 2 years \$m	Between 2 and 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m	Carrying amount (assets) / liabilities \$m
<b>2017</b>							
<b>Non-derivatives</b>							
Trade and other payables	249.6	-	-	-	-	249.6	249.6
Interest-bearing liabilities <sup>(1)</sup>	6.0	6.0	12.0	403.6	-	427.6	391.0
Finance lease liabilities	1.5	1.5	2.9	6.0	-	11.9	11.2
Total non-derivatives	257.1	7.5	14.9	409.6	-	689.1	651.8
<b>Derivatives</b>							
Net settled (Interest Rate Swaps)	1.0	1.0	1.0	-	-	3.0	1.7
Forward exchange contracts used for hedging:							
Gross settled							
- (inflow)	(98.8)	(46.8)	-	-	-	(145.6)	-
- outflow	100.0	47.4	-	-	-	147.4	1.4
Total derivatives	2.2	1.6	1.0	-	-	4.8	3.1

<sup>(1)</sup>Excludes finance leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 21. Capital management

### (a) Risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors overall capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet (including non-controlling interests) plus net debt.

During 2018 the Group's strategy, which was unchanged from 2017, was to ensure that the gearing ratio remained below 50%. This target ratio range excludes the short-term impact of acquisitions. The gearing ratios at 30 June 2018 and 1 July 2017 were as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$m</b>	<b>\$m</b>
Total borrowings	<b>438.1</b>	400.6
Less: Cash & cash equivalents	<b>(15.2)</b>	(19.9)
Net Debt	<b>422.9</b>	380.7
Total Equity	<b>799.2</b>	754.6
Total Capital	<b>1,222.1</b>	1,135.3
Gearing Ratio	<b>34.6%</b>	33.5%

The Group monitors ongoing capital on the basis of the fixed charge cover ratio. The ratio is calculated as earnings before net finance costs, income tax, depreciation, amortisation and store and rental expense divided by fixed charge obligations (being finance costs and store and distribution centre rental expenses). Rental expenses are calculated net of straight line lease adjustments, while finance costs exclude non-cash mark-to-market losses or gains on interest rate swaps.

During 2018 the Group's strategy, which was unchanged from 2017, was to maintain a fixed charge cover ratio of around 2.0 times and a net debt to EBITDA of below 2.5 times. The fixed charge cover and net debt to EBITDA ratios at 30 June 2018 and 1 July 2017 were as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$m</b>	<b>\$m</b>
Profit attributable to Owners of Super Retail Group Limited	<b>128.3</b>	101.8
Add: Taxation expense	<b>48.8</b>	40.2
Net finance costs	<b>17.7</b>	16.9
Depreciation and amortisation (excludes impairment)	<b>77.3</b>	70.8
EBITDA	<b>272.1</b>	229.7
Rental expense	<b>232.6</b>	216.9
EBITDAR	<b>504.7</b>	446.6
Net finance costs	<b>17.7</b>	16.9
Rental expense	<b>232.6</b>	216.9
Fixed charges	<b>250.3</b>	233.8
Fixed charge cover ratio	<b>2.02</b>	1.91
Net debt to EBITDA ratio	<b>1.55</b>	1.66
Fixed charge cover ratio from normalised net profit after tax <sup>(1)</sup>	<b>2.13</b>	2.12
Net debt to EBITDA ratio from normalised net profit after tax <sup>(1)</sup>	<b>1.44</b>	1.37

<sup>(1)</sup> Normalised EBITDAR is \$521.2m (2017: \$495.1m) and normalised EBITDA is \$294.2m (2017: \$278.2m)

### (i) Loan Covenants

Financial covenants are provided by Super Retail Group Limited with respect to leverage, gearing, fixed charges coverage and shareholder funds. The Group has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 financial years. There are no assets pledged as security in relation to the unsecured debt in the 2018 financial year (2017: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 21. Capital management (continued)

(b) Dividends	2018 \$m	2017 \$m
<b>Ordinary shares</b>		
Dividends paid by Super Retail Group Limited during the financial year were as follows:		
Final dividend for the period ended 1 July 2017 of 25.0 cents per share (2016: 21.5 cents per share) paid on 6 October 2017. Fully franked based on tax paid @ 30%	49.3	42.4
Interim dividend for the period ended 31 December 2017 of 21.5 cents (2017: 21.5 cents per share) paid on 3 April 2018. Fully franked based on tax paid @ 30%	42.4	42.4
Total dividends provided and paid	91.7	84.8
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan were as follows:		
- paid in cash	87.0	76.0
- satisfied by issue of shares purchased on market	4.7	8.8
	91.7	84.8
<b>Dividends not recognised at year end</b>		
Subsequent to year end, the Directors have declared the payment of a final dividend of 27.5 cents per ordinary share (2017: 25.0 cents per ordinary share), fully franked based on tax paid at 30%.		
The aggregate amount of the dividend expected to be paid on 2 October 2018, out of retained profits as at 30 June 2018, but not recognised as a liability at year end, is	54.2	49.3
<b>Franking credits</b>		
The franked portions of dividends paid after 30 June 2018 will be franked out of existing franking credits and out of franking credits arising from the payments of income tax in the years ending after 30 June 2018.		
Franking credits remaining at balance date available for dividends declared after the current balance date based on a tax rate of 30%	142.7	132.3

The above amounts represent the balance of the franking account as at the end of the financial period, adjusted for:

- franking credits that will arise from the payment of the current tax liability; and
- franking debits that will arise from the payment of the dividend as a liability at the reporting date.

The amount recorded above as the franking credit amount is based on the amount of Australian income tax paid or to be paid in respect of the liability for income tax at the balance date.

The impact on the franking account of the dividend recommended by the directors since year end will be a reduction in the franking account of \$23,246,145 (2017: \$21,132,859). The recommended dividend has not been recognised as a liability at year end.

### Significant Accounting Policies

#### Dividend distribution

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

## 22. Related party transactions

Transactions with related parties are at arm's length unless otherwise stated.

### (a) Parent entities

The parent entity within the Group is Super Retail Group Limited, which is the ultimate Australian parent.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 26 – Investments in controlled entities.

### (c) Key Management Personnel

Disclosures relating to key management personnel are set out in note 27 – Key management personnel disclosures.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 22. Related party transactions (continued)

### (d) Directors

The names of the persons who were Directors of Super Retail Group Limited during the financial period are S A Pitkin, R J Wright, R A Rowe, D J Eilert, L K Inman, H L Mowlem, P D Everingham and P A Birtles.

### (e) Amounts due from related parties

Amounts due from Directors of the consolidated entity and their director-related entities are shown below in note 22(f).

### (f) Loans to / (from) Related Parties

	2018 \$	2017 \$
<i>Loans to / (from) Related Parties</i>		
Loan to related parties <sup>(1)</sup>	282,523	321,094

<sup>(1)</sup> Loans to Australian Creatives Online Pty Ltd, an entity with a non-controlling interest in Autoguru Australia Pty Ltd, an associate of the Group. These loans were extended as part of the Group's acquisition arrangements with Autoguru Australia Pty Ltd. These loans are deemed to be on an arms-length basis, attracting interest at a rate of 7.0% (2017: 7.0%).

### (g) Transactions with other related parties

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with related parties:

	2018 \$	2017 \$
<i>Purchase of goods and services</i>		
Store lease payment <sup>(1)</sup>	10,789,552	11,372,354

<sup>(1)</sup> Rent on properties, with rates which are deemed to be on an arms-length basis. Rent payable at year-end was nil (2017: nil).

## 23. Business combinations

### (a) Subsidiaries

#### 2018

The Group's subsidiaries at 30 June 2018 are as detailed in note 26 - Investments in controlled entities. With the exception of the acquisition of the Macpac group of entities and changes to the Group's ownership interest in Youcamp Pty Ltd and Autoguru Australia Pty Ltd as detailed below, there were no other changes to the Group's ownership interest in these entities.

#### Macpac Holding Pty Ltd – March 2018

On 20 February 2018, the Group entered into an agreement to acquire 100% of the Macpac group of companies. Settlement was completed on 5 April 2018 with an effective date of 31 March 2018. The Macpac group of companies is consolidated as part of the Group from this date.

Macpac is a vertically integrated outdoor apparel and equipment retailer with 54 stores throughout New Zealand and Australia. In addition to its retail stores, Macpac sells to commercial customers and export distributors in Europe, Japan and the USA.

The acquired business contributed revenue and net profit after tax (NPAT) to the Group for the year ended 30 June 2018 of \$31,391,000 and \$5,718,000 respectively. If the acquisition had occurred on 2 July 2017 the Group's revenue and NPAT for the year would have been \$2,633,701,000 and \$132,477,000 respectively.

<b>Purchase consideration:</b>	<b>2018 \$m</b>
Cash	138.3
Total	138.3

<b>Assets acquired and liabilities assumed at the date of acquisition:</b>	<b>2018 \$m</b>
Cash and cash equivalents	4.5
Trade and other receivables	1.0
Inventories	27.0
Property, plant and equipment	5.9
Intangible assets	44.5
Payables and provisions	(10.5)
Deferred taxes	(12.8)
Derivative financial instruments	(0.3)
Total	59.3

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 23. Business combinations (continued)

### (a) Subsidiaries (continued)

The fair value of receivables acquired includes trade receivables with a fair value of \$461,000. The gross amount due is \$473,000 of which \$12,000 is considered doubtful.

At 30 June 2018, in accordance with accounting standards, the accounting for the Macpac acquisition has been completed on a provisional basis.

	2018
	\$m
<b>Goodwill arising on acquisition:</b>	
Consideration transferred	138.3
Less: fair value of net identifiable assets acquired	(59.3)
Goodwill arising on acquisition	<u>79.0</u>

The goodwill recognised in relation to the acquisition of Macpac is attributable to the skills and technical talent of the employees of the acquisition and the synergies expected to be achieved from integrating the business into the Group's existing operations. Goodwill is not expected to be deductible for tax.

	2018
	\$m
<b>Net cash outflow on acquisition of subsidiaries:</b>	
Transaction costs (included in operating cash flows)	4.0
Cash consideration paid	138.3
Cash balance acquired	(4.5)
Outflow of cash	<u>137.8</u>

### Youcamp Pty Ltd – October 2017

On 13 October 2017, the shareholders of Youcamp Pty Ltd, entered into an agreement to issue shares resulting in an increase in the Group's ownership interest from 51.0% to 58.68%. In recognising the change in ownership, the Group reassessed the value of the Group's non-controlling interest (NCI) held in Equity Reserves at the grant date, 13 October 2017, to reflect the change in NCI from 49.0% to 41.32%. The differential was transferred to a separate NCI Equity Reserve.

### 2017

During the 2017 financial year the Group changed its ownership interest in Autoguru Australia Pty Ltd as detailed below.

### Autoguru Australia Pty Ltd – August 2016

On 5 August 2016, the shareholders of Autoguru Australia Pty Ltd, entered into an agreement to issue shares resulting in an increase in the Group's ownership interest from 61.85% to 63.1%. In recognising the change in ownership, the Group reassessed the value of the Group's non-controlling interest (NCI) held in Equity Reserves at the grant date, 5 August 2016, to reflect the change in NCI from 38.15% to 36.9%. The differential was transferred to a separate NCI Equity Reserve.

Ownership interest in Autoguru changed in 2018, refer to note 23(b) below.

### (b) Associates and joint ventures

#### Autoguru Australia Pty Ltd – February 2018

On 19 February 2018, the shareholders of Autoguru Australia Pty Ltd, entered into an agreement with OUTsurance Holdings Limited to subscribe for and acquire shares in Autoguru Australia Pty Ltd. The transaction has resulted in a decrease in the Group's ownership interest from 63.1% to 49.5% and loss of control.

As a result of the loss of control of Autoguru the entity has been deconsolidated from March 2018 and equity accounted as an associate. On loss of control the Group has deconsolidated Autoguru by derecognising the assets and liabilities and revaluing its investment in Autoguru to fair value resulting in a gain of \$6.9 million which has been recognised in other income in the Group's consolidated statement of comprehensive income. Trading and equity accounted losses of \$2.2 million are also included in the Group's consolidated statement of comprehensive income.

#### Autocrew Australia Pty Ltd – August 2017

During the period the Group acquired a 50% ownership interest in Autocrew Australia Pty Ltd in joint venture with Robert Bosch (Australia) Pty Ltd for \$325,000. The joint venture has been established to open full service auto workshops initially in the Greater Sydney area. The first 'AutoCrew – Powered by Supercheap Auto' pilot workshop opened in June 2018 and offers drivers a full automotive service powered by Bosch's superior diagnostic and workshops technology.

There were no investments in associates or joint ventures held by the Group as at 1 July 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 24. Deed of cross guarantee

Super Retail Group Limited, A-Mart All Sports Pty Ltd, Auto Trade Direct Pty Ltd, Workout World Pty Ltd, Coyote Retail Pty Limited, Foghorn Holdings Pty Ltd, Goldcross Cycles Pty Ltd, Ray's Outdoors Pty Ltd, Rebel Pty Ltd, Rebel Group Limited, Rebel Management Services Pty Limited, Rebel Sport Limited, Rebel Wholesale Pty Limited, Rebelsport.com Pty Limited, SCA Equity Plan Pty Ltd, SRG Leisure Retail Pty Ltd, SRGS Pty Ltd, Super Cheap Auto Pty Ltd, Super Retail Commercial Pty Ltd and Super Retail Group Services 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, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission.

### (a) Consolidated Comprehensive Income Statement and Summary of Movements in Consolidated Retained Earnings

The above companies 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 Super Retail Group Limited, they also represent the Extended Closed Group.

Set out below is a consolidated comprehensive income statement and a summary of movements in consolidated retained earnings for the period ended 30 June 2018 of the Closed Group.

	2018	2017
	\$m	\$m
<b>Consolidated Comprehensive Income Statement</b>		
<b>Revenue from continuing operations</b>	<b>2,395.4</b>	2,323.9
Other income from continuing operations	5.8	1.3
Total revenues and other income	<b>2,401.2</b>	2,325.2
Cost of sales of goods	<b>(1,323.8)</b>	(1,281.5)
Other expenses from ordinary activities		
- selling and distribution	<b>(312.6)</b>	(306.6)
- marketing	<b>(78.4)</b>	(79.0)
- occupancy	<b>(202.5)</b>	(186.4)
- administration	<b>(304.3)</b>	(317.2)
Net finance costs	<b>(16.9)</b>	(16.3)
Share of net loss of associates and joint ventures	<b>(1.0)</b>	-
Total expenses	<b>(2,239.5)</b>	(2,187.0)
<b>Profit before income tax</b>	<b>161.7</b>	138.2
Income tax expense	<b>(45.1)</b>	(39.0)
<b>Profit for the period</b>	<b>116.6</b>	99.2
<b>Statement of comprehensive income</b>		
Profit for the period	<b>116.6</b>	99.2
<b>Other comprehensive income</b>		
<b>Items that may be reclassified to profit or loss</b>		
Changes in the fair value of cash flow hedges	<b>4.8</b>	3.4
<b>Other comprehensive income for the period, net of tax</b>	<b>4.8</b>	3.4
<b>Total comprehensive income for the period</b>	<b>121.4</b>	102.6
<b>Summary of movements in consolidated retained earnings</b>		
Retained profits at the beginning of the financial period	<b>208.6</b>	194.2
Profit for the period	<b>116.6</b>	99.2
Dividends paid	<b>(91.7)</b>	(84.8)
<b>Retained profits at the end of the financial period</b>	<b>233.5</b>	208.6

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 24. Deed of cross guarantee (continued)

### (b) Consolidated Balance Sheet

Set out below is a consolidated balance sheet as at 30 June 2018 of the Closed Group.

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
	<b>\$m</b>	<b>\$m</b>
<b>Current assets</b>		
Cash and cash equivalents	-	13.9
Trade and other receivables	17.9	44.3
Inventories	491.5	454.1
Derivative financial instruments	5.2	-
Total current assets	514.6	512.3
<b>Non-current assets</b>		
Other financial assets	182.9	37.7
Property, plant and equipment	250.3	250.9
Intangible assets	761.1	742.1
Total non-current assets	1,194.3	1,030.7
<b>Total assets</b>	<b>1,708.9</b>	<b>1,543.0</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	316.3	237.6
Interest-bearing liabilities	5.7	2.6
Current tax liabilities	6.8	2.2
Derivative financial instruments	1.5	3.1
Provisions	66.1	58.8
Total current liabilities	396.4	304.3
<b>Non-current liabilities</b>		
Trade and other payables	48.3	43.3
Interest-bearing liabilities	435.1	397.9
Deferred tax liabilities	17.9	18.2
Provisions	21.2	20.1
Total non-current liabilities	522.5	479.5
<b>Total liabilities</b>	<b>918.9</b>	<b>783.8</b>
<b>NET ASSETS</b>	<b>790.0</b>	<b>759.2</b>
<b>EQUITY</b>		
Contributed equity	542.3	542.3
Reserves	14.2	8.3
Retained profits	233.5	208.6
<b>TOTAL EQUITY</b>	<b>790.0</b>	<b>759.2</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 25. Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 \$m	2017 \$m
<b>Balance Sheet</b>		
Current assets	274.2	201.0
Total assets	<u>1,078.9</u>	<u>1,005.7</u>
Current liabilities	14.7	27.0
Total liabilities	<u>443.4</u>	<u>416.4</u>
NET ASSETS	<u>635.5</u>	589.3
Contributed equity	542.3	542.3
Reserves		
- share-based payments	11.6	10.5
- cash flow hedges	(1.0)	(1.2)
Retained earnings	82.6	37.7
Total Equity	<u>635.5</u>	<u>589.3</u>
<b>Profit after tax for the period</b>	<u>136.6</u>	96.5
<b>Total comprehensive income</b>	<u>136.8</u>	98.0

### Significant Accounting Policies

#### Parent entity financial information

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

#### Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Super Retail Group Limited.

#### Tax consolidation legislation

Super Retail Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Super Retail Group Limited, and the controlled entities in the tax consolidated group account for current and deferred tax amounts under the Separate taxpayer within Group approach in accordance with *AASB Interpretation 1052, Tax Consolidation Accounting*.

In addition to its own current and deferred tax amounts, Super Retail Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Super Retail Group Limited for any current tax payable assumed and are compensated by Super Retail Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Super Retail Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

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

#### Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 26. Investments in controlled entities

The Group's subsidiaries at 30 June 2018 are set out below. Unless otherwise stated, they have share capital consisting of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation is also their principal place of business.

Name of Entity	Country of Incorporation	Principal Activities	Equity Holding	
			2018 %	2017 %
A-Mart All Sports Pty Ltd <sup>(1)</sup>	Australia	Sports retail	100	100
Autoguru Australia Pty Ltd <sup>(6)</sup>	Australia	Auto services	48.5	63.1
Auto Trade Direct (NZ) Limited	New Zealand	Auto retail	100	100
Auto Trade Direct Pty Ltd <sup>(1)</sup>	Australia	Auto retail	100	100
BCF New Zealand Limited	New Zealand	Outdoor retail	100	100
Workout World Pty Limited <sup>(1)(2)</sup>	Australia	Sports retail	100	100
Coyote Retail Pty Limited <sup>(1)</sup>	Australia	Sports retail	100	100
Macpac New Zealand Limited <sup>(5)</sup>	New Zealand	Outdoor retail	100	100
Foghorn Holdings Pty Ltd <sup>(1)</sup>	Australia	Sports retail	100	100
Goldcross Cycles Pty Ltd <sup>(1)</sup>	Australia	Sports retail	100	100
Infinite Retail Pty Ltd	Australia	Sports retail	95	95
VBM Retail (HK) Limited <sup>(3)</sup>	Hong Kong	Sports retail	95	95
Infinite Retail UK Limited <sup>(3)</sup>	United Kingdom	Sports retail	95	95
VBM Retail NZ Limited <sup>(3)</sup>	New Zealand	Sports retail	95	95
Macpac Holdings Pty Ltd	Australia	Outdoor retail	100	-
Macpac Group Holdings Limited	New Zealand	Outdoor retail	100	-
Macpac Retail Pty Ltd	Australia	Outdoor retail	100	-
Macpac Limited	New Zealand	Outdoor retail	100	-
Macpac Enterprise	New Zealand	Outdoor retail	100	-
MP Finco Limited	New Zealand	Outdoor retail	100	-
Mouton Noir Management Pty Ltd	Australia	Outdoor retail	100	-
Mouton NOIR IP Limited	New Zealand	Outdoor retail	100	-
Oceania Bicycles Pty Ltd	Australia	Sports retail	100	100
Oceania Bicycles Limited <sup>(4)</sup>	New Zealand	Sports retail	100	100
Ray's Outdoors New Zealand Limited	New Zealand	Outdoor retail	100	100
Ray's Outdoors Pty Ltd <sup>(1)</sup>	Australia	Outdoor retail	100	100
Rebel Pty Ltd <sup>(1)</sup>	Australia	Sports retail	100	100
Rebel Group Limited <sup>(1)</sup>	Australia	Sports retail	100	100
Rebel Management Services Pty Limited <sup>(1)</sup>	Australia	Sports retail	100	100
Rebel Sport Limited <sup>(1)</sup>	Australia	Sports retail	100	100
Rebel Wholesale Pty Limited <sup>(1)</sup>	Australia	Sports retail	100	100
Rebelsport.com Pty Limited <sup>(1)</sup>	Australia	Sports retail	100	100
SCA Equity Plan Pty Ltd	Australia	Investments	100	100
SRG Leisure Retail Pty Ltd <sup>(1)</sup>	Australia	Outdoor retail	100	100
SRGS (New Zealand) Limited	New Zealand	Product acquisition and distribution	100	100
SRGS Pty Ltd <sup>(1)</sup>	Australia	Product acquisition and distribution	100	100
Super Cheap Auto (New Zealand) Pty Ltd	New Zealand	Auto retail	100	100
Super Cheap Auto Pty Ltd <sup>(1)</sup>	Australia	Auto retail	100	100
Super Retail Commercial Pty Ltd <sup>(1)</sup>	Australia	Auto retail	100	100
Super Retail Group Services (New Zealand) Limited	New Zealand	Support services	100	100
Super Retail Group Services Pty Ltd <sup>(1)</sup>	Australia	Support services	100	100
Super Retail Group Trading (Shanghai) Ltd	China	Product sourcing	100	100
Youcamp Pty Ltd	Australia	Leisure services	58.68	51

<sup>(1)</sup> These controlled entities have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission.

<sup>(2)</sup> Previously known as Coyote Retail Investments Pty Limited.

<sup>(3)</sup> Investment is held directly by Infinite Retail Pty Ltd.

<sup>(4)</sup> Investment is held directly by Oceania Bicycles Pty Ltd.

<sup>(5)</sup> Previously known as FCO New Zealand Limited.

<sup>(6)</sup> Ceased to be a subsidiary in March 2018 – refer note 23(b) - Business combinations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 27. Key management personnel disclosures

(a) Key management personnel compensation	2018	2017
	\$	\$
Short-term employee benefits	5,768,055	7,003,923
Long-term employee benefits	54,336	49,283
Post-employment benefits	184,258	190,475
Share-based payments	543,148	1,085,428
	<b>6,549,797</b>	<b>8,329,109</b>

The key management personnel remuneration in some instances has been paid by a subsidiary.

### Loans to key management personnel

There were no loans to individuals at any time.

### Other transactions with key management personnel

Aggregate amounts of each of the above types of other transactions with key management personnel of Super Retail Group Limited:

	2018	2017
	\$	\$
<b>Amounts paid to key management personnel as shareholders</b>		
Dividends	<b>28,538,241</b>	26,392,262

## 28. Share-based payments

### (a) Executive Performance Rights

The Company has established the Super Retail Group Executive Performance Rights Plan (Performance Rights) to assist in the retention and motivation of executives of Super Retail Group (Participants). It is intended that the Performance Rights will enable the Company to retain and attract skilled and experienced executives and provide them with the motivation to enhance the success of the Company.

Under the Performance Rights, rights may be offered to Participants selected by the Board. Unless otherwise determined by the Board, no payment is required for the grant of rights under the Rights Plan.

Subject to any adjustment in the event of a bonus issue, each right is an option to subscribe for one Share. Upon the exercise of a right by a Participant, each Share issued will rank equally with other Shares of the Company.

Performance Rights issued under the plan may not be transferred unless approved by the Board. The table below summarises rights granted under the plan.

<i>Number of Rights Issued</i>	<b>Balance at start of the year</b>	<b>Granted during the year</b>	<b>Exercised during the year</b>	<b>Forfeited during the year</b>	<b>Balance at the end of the year</b>	<b>Unvested at the end of the year</b>
<b>Grant Date</b>	<b>(Number)</b>	<b>(Number)</b>	<b>(Number)</b>	<b>(Number)</b>	<b>(Number)</b>	<b>(Number)</b>
<b>2018</b>						
1 September 2014	479,724	-	-	(479,724)	-	-
1 September 2015	546,500	-	-	(35,000)	511,500	511,500
1 September 2016	571,775	-	-	(35,000)	536,775	536,775
1 September 2017	-	734,862	-	(10,000)	724,862	724,862
	<b>1,597,999</b>	<b>734,862</b>	<b>-</b>	<b>(559,724)</b>	<b>1,773,137</b>	<b>1,773,137</b>
<b>2017</b>						
1 September 2011	62,702	-	(62,702)	-	-	-
1 September 2012	-	-	-	-	-	-
1 September 2013	368,508	-	-	(368,508)	-	-
1 September 2014	506,405	-	-	(26,681)	479,724	479,724
1 September 2015	575,615	-	-	(29,115)	546,500	546,500
1 September 2016	-	571,775	-	-	571,775	571,775
	1,513,230	571,775	(62,702)	(424,304)	1,597,999	1,597,999

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 28. Share-based payments (continued)

### (b) Executive Option Plan

The Company has established the Super Retail Group Executive Share Option Plan (Option Plan). The Company had established the Option Plan to assist in the retention and motivation of executives of Super Retail Group (Participants). It is intended that the Option Plan will enable the Company to retain and attract skilled and experienced executives and provide them with the motivation to enhance the success of the Company.

Under the Option Plan, options may be offered to Participants selected by the Board. Unless otherwise determined by the Board, no payment is required for the grant of options under the Option Plan.

Subject to any adjustment in the event of a bonus issue, each option is an option to subscribe for one Share. Upon the exercise of an option by a Participant, each Share issued will rank equally with other Shares of the Company.

Options issued under the Option Plan may not be transferred unless the Board determines otherwise. The Company has no obligation to apply for quotation of the options on ASX. However, the Company must apply to the ASX for official quotation of Shares issued on the exercise of the options.

There were no options granted under the Option Plan during the 2018 financial year (2017: nil).

#### *Fair value of options granted*

The fair value at grant date is independently determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

At any one time, the total number of options on issue under the Performance Rights or Option Plan that have neither been exercised nor lapsed will not exceed 5.0% of the total number of shares in the capital of the Company on issue.

#### Expenses arising from share based payments transactions:

	2018 \$m	2017 \$m
Executive Performance Rights	1.1	2.0

### Significant Accounting Policies

#### Share-based payments

Share-based compensation benefits are provided to certain employees via the Super Retail Group Executive Option Plan and Super Retail Group Performance Rights Plan.

The fair value of options and performance rights granted under these plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

For share options and performance rights, the fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimate of the number of options and performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon exercise of the options and performance rights, the balance of the share-based payments reserve relating to those options remains in the share based reserve.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 29. Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

	2018 \$	2017 \$
<b>(a) PricewaterhouseCoopers Australia</b>		
<i>(i) Assurance services</i>		
Audit and review of financial statements	585,570	492,100
Other assurance <sup>(1)</sup>	44,721	191,700
Total remuneration for audit and other assurance services	<b>630,291</b>	683,800
<i>(ii) Taxation services</i>		
Tax compliance services, including review of Company income tax returns	394,329	113,368
Total remuneration for taxation services	<b>394,329</b>	113,368
<i>(iii) Other services</i>		
Customs prudential review	18,500	-
Digital advertising advisory	49,572	-
Workshop facilitation	51,601	-
Business review of subsidiary	-	50,000
Total remuneration for advisory services	<b>119,673</b>	50,000
Total remuneration of PricewaterhouseCoopers Australia	<b>1,144,293</b>	847,168
<b>(b) Network firms of PricewaterhouseCoopers Australia</b>		
<i>(i) Taxation services</i>		
Tax compliance services, including review of Company income tax returns	66,924	66,803
Total remuneration for taxation services	<b>66,924</b>	66,803
Total remuneration of network firms of PricewaterhouseCoopers Australia	<b>66,924</b>	66,803
Total auditors' remuneration	<b>1,211,217</b>	913,971

<sup>(1)</sup> Cyber security audit in 2018 and Risk Appetite assurance services in 2017.

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects. The Board has considered the non-audit services provided during the year by the auditor, and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001*.

## 30. Contingencies

	2018 \$m	2017 \$m
<b>Guarantees</b>		
Guarantees issued by the bankers of the Group in support of various rental arrangements.		
The maximum future rental payments guaranteed amount to:	<b>5.5</b>	3.4

From time to time the Group is subject to legal claims as a result of its operations. An immaterial contingent liability may exist for any exposure over and above current provisioning levels.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2018

## 31. Commitments

	2018 \$m	2017 \$m
<b>Capital commitments</b>		
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	2.9	3.5
Total capital commitments	<u>2.9</u>	<u>3.5</u>

### Lease commitments

Commitments in relation to operating lease payments for property and motor vehicles under non-cancellable operating leases are payable as follows:

Within one year	222.1	205.4
Later than one year but not later than five years	654.2	625.7
Later than five years	132.8	162.0
Less lease straight lining adjustment (note 11)	(54.6)	(48.3)
Total lease commitments	<u>954.5</u>	<u>944.8</u>
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	<u>3.1</u>	<u>3.9</u>

The Group leases various offices, warehouses and retail stores under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

### Finance leases

The Group leases various plant and equipment with a carrying amount of \$9.9 million (2017: \$11.2 million) under finance leases expiring within five years.

	2018 \$m	2017 \$m
Commitments in relation to finance leases are payable as follows:		
Within one year	3.2	2.9
Later than one year but not later than five years	6.8	9.0
Minimum lease payments	<u>10.0</u>	<u>11.9</u>
Future finance charges	(0.5)	(0.7)
Total lease liabilities	<u>9.5</u>	<u>11.2</u>
Representing lease liabilities:		
Current (note 12)	3.0	2.6
Non-current (note 12)	6.5	8.6
	<u>9.5</u>	<u>11.2</u>

## 32. Net tangible asset backing

	2018 Cents	2017 Cents
Net tangible asset per ordinary share	(\$0.08)	\$0.34

Net tangible asset per ordinary share is calculated based on Net Assets of \$799.2 million (2017: \$754.6 million) less intangible assets of \$891.6 million (2017: \$750.1 million) adjusted for the associated deferred tax liability of \$76.2 million (2017: \$62.9 million). The number of shares used in the calculation was 197,240,020 (2017: 197,240,020).

## 33. Events occurring after balance date

No matter or circumstance has arisen since 30 June 2018 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.



# DIRECTORS' DECLARATION

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In the Directors' opinion:

- (a) the financial statements and notes set out on pages 74 to 125 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 24 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 24.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Group Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



**S A Pitkin**  
Director



**P A Birtles**  
Director

Brisbane  
20 August 2018



## *Independent auditor's report*

To the members of Super Retail Group Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

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

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

#### ***Independence***

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

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## Our audit approach

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

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



### Materiality

- For the purpose of our audit we used overall Group materiality of \$8.8 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax from continuing operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit-related thresholds.

### Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is segmented into three divisions - Auto, Outdoor and Sports, and operates in three countries - Australia, New Zealand and China. The financial report is a consolidation of wholly owned and controlled subsidiaries. The accounting processes happen at the Group finance function at its head office in Brisbane.
- Our audit procedures were mostly performed at this head office and also included site visits to stores and distribution centres in Australia and New Zealand to perform audit procedures over inventory. Our team included specialists in information technology and taxation and experts in actuarial and valuation.

## Key audit matters

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



## Key audit matter

### **Inventory valuation and provisions**

*Refer to Note 8 (Inventories), \$545.5 million*

The valuation of inventory and provisions for stock loss, stock valuation and attributable overheads was a key audit matter because of the judgements involved in the areas described below.

#### *Stock loss provision*

As inventory was counted by the Group on a cyclical basis during the year, rather than in full at the end of the year, the stock loss provision at 30 June 2018 contained a degree of estimation as to the quantity and value of projected stock items for items not counted at the year end date.

#### *Stock valuation provision*

Inventory was recognised at the lower of cost and net realisable value based on a rolling average selling price. The determination of the net realisable value of inventory of a seasonal and discontinued nature required a degree of estimation as to the clearance margin for these stock items at balance date.

#### *Attributable overheads*

There is judgement involved in how much of the directly attributable overheads associated with bringing inventory to its final destination for sale are recognised as part of the cost of inventory.

## How our audit addressed the key audit matter

### *Stock loss provision*

- We attended a sample of stock counts throughout the year at the Group's retail stores and considered the results of stock counts not observed.
- For a sample of retail stores where we attended cyclical counts, we obtained roll-forward schedules showing activity in the period between the stock count date and year end date. We used the results of our cyclical counts to reconcile opening balances, and year end closing balances were reconciled to the general ledger.
- We re-performed the calculation for the projected stock variance.

### *Stock valuation provision*

- For a sample of individual products, we compared the recognised costs to the relevant invoice and recalculated the allocation of directly attributable costs.
- We compared the carrying value at year end date to the most recent sales price for a sample of inventory items.
- For a sample of seasonal and discontinued inventory items, we compared the last stock movement date to the relevant invoice and assessed the mark down margin assigned to that stock item by checking the current retail prices of the items in stores.

### *Attributable overheads*

- On a sample basis, we considered the nature of overhead costs capitalised by reading their description on supporting documentation, having regards to the types of costs allowable by the accounting standards.
- We checked the mathematical accuracy of the calculation of the overhead costs attributed to inventory and compared the amount to the accounting records.



**Key audit matter**

**Macpac business combination**

*Note 23 (Business Combinations), \$79.0 million goodwill*

During the year, the Group completed the acquisition accounting in respect of the acquisition of Macpac Holdings Pty Ltd (“Macpac”). Macpac is a vertically integrated outdoor apparel and equipment retailer with 54 stores across Australia and New Zealand. The Group acquired 100% of Macpac’s net assets on 5 April 2018 (effective date 31 March 2018) for a purchase consideration of \$138.3 million. As part of this acquisition, tangible assets of \$27.8 million, the brand name of \$44.3 million and net deferred tax liabilities of \$12.8 million have been recognised in the financial report.

The accounting for the acquisition of Macpac was a key audit matter because it is a financially significant transaction for the Group, and the level of judgement in the value of the brand asset recognised at acquisition date.

**How our audit addressed the key audit matter**

To evaluate the accounting for Macpac we performed a number of procedures, including the following:

- Developed an understanding of the transaction through discussions with management, reading the acquisition accounting paper, share sale agreement and attending Macpac stores and distribution centres (as part of stock count procedures).
- Compared the consideration paid as per the share sale agreement to relevant bank statements.
- Assessed management’s expert valuation methodology for the recognition of the brand intangible asset valued using the relief from royalty method in light of the requirements of Australian Accounting Standards, and the key assumptions therein, including forecast future financial performance, discount rate and royalty rate.
- Evaluated the Group’s assumptions on the useful life of the brand asset, this included discussions with management on the history of the brand and the Group’s intentions for the future use of the brand.
- Assessed the competence and capability of management’s expert.
- Assessed the mathematical accuracy of the Group’s calculation of the resulting goodwill arising on the purchase price allocation (PPA) calculation.
- Evaluated the Group’s assumptions on the deferred tax liability recognised on the brand asset in light of the requirements of Australian Accounting Standards.
- Considered the completeness of the recognition of intangible assets by reference to the share sale agreement and the requirements of the Australian Accounting Standards
- Considered the related provisional business combination disclosures in the financial report in light of the requirements as set out in the Australian Accounting Standards.

**Valuation of tangible and intangible assets**

*Note 10 (Intangible assets), \$525.9 million goodwill, \$253.3 million brand names and \$112.4 million computer software*

*Note 9 (Property, plant and equipment), \$270.4 million*

**Goodwill and the Rebel Sport & Macpac brand name**

We assessed the valuation models by:

- Checking the mathematical accuracy of all calculations in the models.
- Assessing the discount rates used in the





## Key audit matter

### *Goodwill and the Rebel Sport brand name \$734.9 million*

When the annual review for impairment was conducted, the recoverable amount for each cash generating unit (CGU) was determined based on a discounted cash flow valuation model which relied on the directors' assumptions and estimates of future trading performance. The directors consider that each segment and brand name constitutes its own CGU.

The key assumptions applied by the directors in the valuation models were:

- CGU-specific discount rates
- future revenue growth
- gross margin

### *Macpac brand name \$44.3 million*

Upon acquisition, the directors determined that Macpac's goodwill should be allocated to the Outdoor CGU.

The methodology applied in the valuation model is consistent with the models described above for Rebel Sports.

The valuation of goodwill and brand names was a key audit matter because of the judgements involved in determining the discount rate, the estimated future revenue growth and the potential future return from use of the brand name.

### *Computer software \$112.4 million*

The Group has undertaken significant development of software in relation to the omni-channel customer programme and omni-channel supply chain and inventory programme. The valuation of computer software was a key audit matter because of the judgments involved in assessing whether the recognition criteria of Australian Accounting Standards had been met and in estimating the useful life of software.

### *Property Plant & Equipment \$270.4 million*

The directors determined that each retail store represented a separate CGU when undertaking the impairment tests. Corporate assets were included within the valuation assessment of the key segments (sports, leisure and auto).

The key assumptions and judgements applied by the directors in the impairment tests were:

- The individual retail store contribution margin
- The strategic initiatives in place for individual stores with negative Group contribution margins.

## How our audit addressed the key audit matter

valuation models, with support from PwC valuation experts, by comparing the rates to our internal benchmark data.

- Comparing the forecasted growth rates to relevant historical Group and industry data and industry forecasts.
- Comparing the gross margins to historical Group data.
- Evaluating the information included in the valuation models against our knowledge of the Group gained through reviewing the strategic initiatives and meeting with managing directors and commercial managers from each segment.
- Stress-testing the key assumptions in the models, including: future revenue growth, trading margins and discount rates; and noting that the valuation under these sensitivities was within an acceptable range, which was determined taking into account market data and historical data.
- Evaluated the Group's assessment that the useful lives of indefinite life brand name remained appropriate at year end. This included discussions with management to understand the Group's future strategy.

### *Computer software*

For a sample of software capitalised during the year, we performed the following procedures, amongst others:

- Assessed the nature of the costs capitalised in light of the requirements of Australian Accounting Standards.
- Evaluated the reasonableness of the estimated useful life estimated for software by comparing it to industry benchmark data.

### *Property Plant & Equipment*

We performed the following procedures, amongst others:

- Obtained management's assessment of the profitability of all individual stores and their contribution margin to the Group
- Considered and discussed the strategic initiatives for stores with negative contributions to the Group during meetings with commercial managers for each brand.



**Key audit matter**

**Outdoor restructuring**

*Directors' Report (Operating and Financial Review), \$13.0 million*

As part of the Macpac acquisition plan, the Group will integrate its profitable Ray's stores into the Macpac business in the fourth quarter of the coming financial year. Costs associated with the business restructuring and integration incurred during the reporting period total \$13.0 million before tax.

The outdoor restructuring provision was a key audit matter because of the judgements used in calculating the restructuring provision, specifically onerous leases and associated fixed asset impairment.

**Provision for store set-up activities**

*Note 14 (Provisions) \$7.9 million for estimated additional overtime and allowances and \$2.7 million for interest and on-costs.*

The Group has identified that team members involved in store set-up activities should have received additional amounts to the amounts paid. The Group expects that remediation of this issue will be completed in the next financial period.

The Group has determined an estimate of the impact for this payment of \$7.9 million for estimated additional overtime and allowances to current and former team members, and \$2.7 million for interest and on-costs.

The provision for store set-up activities was a key audit matter because of the estimation uncertainty and judgements used in determining the overtime and allowance payments to be considered and calculating the provision and the nature of the matter.

**How our audit addressed the key audit matter**

For the fixed assets and leasehold improvements we ensured completeness of the listing by ensuring only items from onerous stores had been written off.

For the Ray's onerous lease provision, we performed the following procedures over the Group's calculations and assumptions:

- We checked that the costs included within the provision were unavoidable future costs based on the nature/description and our knowledge of the contracts
- Agreed a sample of estimates of unavoidable costs to relevant invoices and lease agreements
- Checked the lease expiry period to the lease agreements for the remaining leases
- Compared the discount rate applied in the calculation to the government bond rate, which we consider was an appropriate benchmark rate.

In assessing the provision for additional overtime and allowance payments, our procedures included the following:

- Developed an understanding of the basis for management's best estimate of the provision and the nature of the estimation uncertainty at balance date
- Tested the accuracy and completeness of management's model by agreeing the model inputs to the supporting documentation and checking inclusion in the model of data from relevant source.
- Stress-tested the key assumptions in the models, being overtime hours and work patterns, noting that the valuation under these sensitivities was within an acceptable range, which was determined by us, taking into account historical data and professional judgement.
- Tested the mathematical accuracy of the provision and its appropriateness in light of the requirements of Australian Accounting Standards.

We also considered the adequacy of the disclosures made in the financial statements, including their appropriateness under Australian Accounting Standards.



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### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's report. We expect the remaining other information to be made available to us after the date of this auditor's report, including Our business, Chairman's and CEO's messages, Group strategy, Board of Directors and Group Leadership Team, Our people, Sustainability, Directors' report and Shareholder information.

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

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

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

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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### *Responsibilities of the directors for the financial report*

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

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

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### *Auditor's responsibilities for the audit of the financial report*

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

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



## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 54 to 71 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Super Retail Group Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

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### *Responsibilities*

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

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'K Challenor'.

Kim Challenor  
Partner

Brisbane  
20 August 2018

# SHAREHOLDER INFORMATION

For the period ended 30 June 2018

The shareholder information set out below was applicable as at 16 August 2018.

## Number of Shareholders

There were 10,077 shareholders, holding 197,240,020 fully paid ordinary shares.

### A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Range	Ordinary Shareholders	Performance Rights & Option holders
1-1000	4,950	-
1,001-5,000	4,152	11
5,001-10,000	620	10
10,001-100,000	311	36
100,001 and over	44	5
Total	10,077	62

There were 543 holders of less than a marketable parcel of ordinary shares.

### B. Equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
SCA FT PTY LTD	56,575,423	28.68%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	41,813,461	21.20%
J P MORGAN NOMINEES AUSTRALIA LIMITED	24,815,937	12.58%
CITICORP NOMINEES PTY LIMITED	14,857,978	7.53%
NATIONAL NOMINEES LIMITED	9,069,817	4.60%
BNP PARIBAS NOMS PTY LTD	7,104,950	3.60%
BNP PARIBAS NOMINEES PTY LTD	5,184,015	2.64%
CITICORP NOMINEES PTY LIMITED	1,257,455	0.64%
SCCASP HOLDINGS PTY LTD	1,078,703	0.55%
BNP PARIBAS NOMINEES PTY LTD	789,500	0.40%
BNP PARIBAS NOMS (NZ) LTD	722,258	0.37%
MR PETER ALAN BIRTLES	675,000	0.34%
MR PETER ALAN BIRTLES	665,000	0.34%
EQUITAS NOMINEES PTY LIMITED	602,372	0.31%
AMP LIFE LIMITED	579,907	0.29%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	575,364	0.29%
EQUITAS NOMINEES PTY LIMITED	567,302	0.29%
EQUITAS NOMINEES PTY LIMITED	547,135	0.28%
EQUITAS NOMINEES PTY LIMITED	535,391	0.27%
NATIONAL NOMINEES LIMITED	535,086	0.27%
	<b>168,552,054</b>	<b>85.46%</b>



## SHAREHOLDER INFORMATION (continued)

For the period ended 30 June 2018

### C. Substantial shareholdings

As at 16 August 2018, there are four substantial shareholders that the Company is aware of:

Name	Ordinary shares Number held	Percentage of issued shares	Date of most Recent notice
SCA FT PTY LTD	56,954,670	28.99%	02/08/2013
MACQUARIE GROUP LIMITED	10,720,317	5.43%	30/11/2017
YARRA FUNDS MANAGEMENT	12,841,080	6.51%	29/06/2018
VINVA INVESTMENT MANAGEMENT	12,007,196	6.09%	02/08/2018

### D. Unquoted equity securities

As at 16 August 2018, there were 1,773,137 unlisted performance rights, granted to 62 holders, over unissued ordinary shares in the Company.

### E. Voting rights

The voting rights relating to each class of equity securities is as follows:

a) Ordinary Shares

On a show of hands at a General Meeting of the Company, every member present in person or by proxy shall have one vote and upon poll each person present in person or by proxy shall have one vote for each ordinary share held.

b) Options and Performance Rights

Performance Rights and Options do not have any voting rights.

### F. Market buy-back

There is currently no on market buy-back.

# CORPORATE DIRECTORY

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## Name of Entity

SUPER RETAIL GROUP LIMITED

## ABN

81 108 676 204

## Company Secretary

Mr Robert Dawkins

## Principal Registered Office

751 Gympie Road  
LAWNTON QLD 4501 Australia  
Telephone: +61 7 3482 7900  
Facsimile: +61 7 3205 8522

## Website Address

[www.superretailgroup.com](http://www.superretailgroup.com)

## Securities Exchange

Super Retail Group Limited (SUL) shares are quoted on the Australian Securities Exchange

## Share Registry

Link Market Services  
Level 12, 680 George Street  
SYDNEY NSW 2000 Australia  
Telephone: 1300 554 474  
+61 2 8280 7100  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## Solicitors

King & Wood Mallesons

## Auditors

PricewaterhouseCoopers

## KEY DATES FOR SHAREHOLDERS

Event	Date <sup>(1)</sup>
Annual General Meeting <sup>(2)</sup>	24 October 2018
Final Dividend Ex-Date	29 August 2018
Final Dividend Record Date	30 August 2018
DRP Election Date	31 August 2018
Final Dividend Payment Date	2 October 2018
Interim Results Announcement	13 February 2019
Interim Dividend Ex-Date	21 February 2019
Interim Dividend Record Date	22 February 2019
DRP Election Date	25 February 2019
Interim Dividend Payment Date	27 March 2019

(1) If there are any changes to these dates, the Australian Securities Exchange will be notified accordingly.

(2) The 2018 Annual General Meeting of the Shareholders of Super Retail Group Limited will be held at the PwC Offices, Apollo Room Level 23, 480 Queen Street, Brisbane Queensland.

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