

ASX Appendix 4D

Company details

Name of entity:	Pepper Group Limited
ACN:	094 317 665
ABN:	55 094 317 665
Reporting period for the half-year ended:	30 June 2017
Previous period for the half-year ended:	30 June 2016

Results for announcement to the market

Performance

	Half year ended 30 June 2017 \$'000	Half year ended 30 June 2016 \$'000	% change
Revenue from ordinary activity	369,563	326,006	13.4%
Net profit after tax attributable to equity holders	28,115	24,441	15.0%
Dividends (distributions)	10,227	5,427	88.4%

Dividends

The Directors approved an interim dividend in respect of the half year ended 30 June 2017 of 3 cents per share fully franked which will be paid in October 2017 to shareholders on the share register on 13 September 2017.

In April 2017, the Company paid a fully franked dividend of \$10.2m to shareholders (30 June 2016: \$5.4m).

Comments

The profit for the period attributable to equity holders of the Company (after providing for income tax) amounted to \$28.12m (30 June 2016: \$24.44m).

Further information on the review of operations in the Directors' report attached as part of the financial statements.

Net tangible asset per security

Net tangible assets per share are calculated using tangible assets and the number of shares in issue as at 30 June 2017.

	As at 30 June 2017	As at 31 December 2016
Total assets (\$'000)	9,023,185	8,312,434
Net asset per share (dollars)	2.70	2.62
Net tangible assets per share (dollars)	2.29	2.26

Control gained over entities

Not applicable.

Loss of control over entities

No applicable.

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Associate investments

Name	Reporting entity's % holding		Contribution to profit / (loss)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Prime Credit Holdings Ltd	12.0%	12.0%	5,381	5,225

Foreign entities

The financial information presented for foreign entities which are consolidated is presented in accordance with Australian Accounting Standards.

Financial statements and directors' report

The Directors' report and interim consolidated financial statements of Pepper Group Limited and its controlled entities for the period ended 30 June 2017 have been submitted.

For further information contact:

Name: Pepper Investor Relations
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This report should be read in conjunction with the 30 June 2017 interim consolidated financial statements of Pepper Group Limited (the Group) and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.



Pepper Group Limited

ABN 55 094 317 665

**Interim consolidated financial report
for the half-year ended 30 June 2017**

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Directors' report

The directors of Pepper Group Limited (the Company) submit the interim report on the Company together with its controlled entities (collectively referred to as the Group or Pepper) for the half-year ended 30 June 2017.

The Board presents this report in order to provide shareholders with an overview of the Group's operations, financial position, business strategies and prospects for future financial periods.

Board of directors

The names of the directors of the Company during and since the end of the half year were:

Seumas Dawes, Chairman and Non-Executive Director
Des O'Shea, Independent Non-Executive Director
Melanie Willis, Independent Non-Executive Director
Matthew Burlage, Independent Non-Executive Director
Michael Culhane, Chief Executive Officer and Director
Patrick Tuttle, Co-Group Chief Executive Officer and Director (resigned on 31 March 2017)

Principal activities and review of operations

Pepper is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments and asset classes in Australia and internationally, many of which are underserved by traditional banks and other lenders.

Pepper has developed a strong specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, Hong Kong and China.

Pepper offers a broad range of lending products across residential mortgages, commercial finance, auto and equipment finance, point of sale finance, personal loans and credit cards, underpinned by a comprehensive risk based pricing methodology. Pepper also provides loan servicing for its own originated loans as well as for third party originated loans, including residential mortgages, consumer loans, and commercial real estate loans.

Through Pepper Property Group, Pepper is also an independent real estate investment adviser that provides integrated property and capital solutions for corporations, investors and developers.

Pepper's business model provides a diversified base of revenue generated at multiple points across the customer relationship and includes loan origination fees, lending revenue, loan servicing and loan administration fees and advisory revenue.

Pepper's unique operating model combines credit risk based underwriting expertise with highly developed specialist loan servicing and collection management capabilities which together deliver enhanced performance in the Group's lending and servicing businesses.

Directors' report

Pepper's core capabilities

- **Product manufacturing:** Deep manufacturing expertise in residential mortgage loans gives Pepper flexibility in providing a range of products with attractive risk-return profiles in Australia. Internationally, Pepper's management team has experience in specialist lending in the United Kingdom and Ireland and consumer finance lending in Spain. The management teams in Asia are deeply experienced in consumer finance lending. Pepper is able to apply its detailed knowledge of borrowers to develop new products that address unmet demand;
- **Distribution:** Pepper distributes loans in Australia through its relationships with accredited brokers and white-label partners. Strong long-term relationships with global loan portfolio acquirers help Pepper win and maintain servicing contracts across multiple jurisdictions;
- **Treasury and funding expertise:** Pepper has strong long-term relationships with funding partners and is a trusted issuer in the term securitisation markets;
- **Risk management:** Pepper operates with a holistic risk management and governance framework; and
- **Collections management:** Pepper's specialised collections processes are based on deep experience, expertise, analytical capabilities and a solution based approach to customer management.

Funding

Across each of its lending markets, Pepper maintains access to a diversified funding platform supported by established funding relationships and a Board approved funding policy.

The following funding channels are used to support Pepper's lending activities:

- **Corporate debt facilities:** Utilised for working capital and business operations;
- **Warehouse facilities:** Third-party funders provide limited-recourse financing to special purpose vehicles established by Pepper to originate or acquire loans;
- **Term securitisations:** Loans that are initially funded via a warehouse facility can be pooled together and refinanced by being sold to a new funding vehicle that issues limited-recourse asset-backed securities to investors;
- **Whole loan sales:** Pepper is able to create additional liquidity by selling specific pools of loans to release and recycle capital; and
- **South Korea deposits:** Pepper's lending business in South Korea holds a banking licence and the lending book is primarily funded by customer deposits.

Principal risks

The Group's key risks include, but are not limited to:

- **Funding risk:** Pepper's funding platform currently comprises a mix of warehouse facilities, term securitisations, corporate debt facilities, whole loan sales and customer deposits. Pepper depends on these sources to fund mortgage and consumer loan originations and therefore faces funding risks which could lead to the inability to access funding or less favourable terms;
- **Capital and liquidity requirements:** there is a risk that Pepper could be required to contribute additional "first loss" equity capital to support the credit position of senior ranking noteholders in Pepper warehouse facilities and term securitisations and could be required to contribute additional capital to support the regulatory capital requirements or business needs of Pepper South Korea, which could impact Pepper's profitability, ability to grow and/or could force it to raise additional capital;
- **Regulatory and licence compliance:** Pepper is subject to extensive regulation in each of the jurisdictions in which it conducts its business. Changes in law or regulation in a market in which Pepper operates could materially impact the business. Pepper is licensed and/or registered to operate a number of its services across a range of jurisdictions. Changes to these licensing regimes, the revocation of existing licences, an inability to renew or receive necessary licences or the imposition of capital requirements could materially adversely affect Pepper's business, operating and financial performance; and
- **Downturn in the global economy:** Pepper is a global business operating in multiple jurisdictions. A material downturn in the economies in which Pepper operates, a sustained outbreak of higher inflation or shocks to the financial system could result in a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in a borrower's ability to service their debt (credit risk).

Directors' report

Business strategies

(a) Organic lending growth

Australia and New Zealand (ANZ) Division: Pepper is well positioned to continue to build upon strong volume experienced in Australia, driven by:

- expected underlying market growth in the non-conforming (including near-prime) and prime segments of the residential mortgages market;
- continuing development of all distribution channels and further investment in Pepper's brand positioning; and
- ongoing new product development initiatives.

Europe Division: Pepper expects lending growth in Europe, driven by prime and near prime mortgages in the United Kingdom and Ireland, together with growth in personal loans and point of sale finance in Spain.

Asia Division: Pepper expects lending growth to continue in South Korea, driven by mortgages, personal loans, and auto and equipment loans, together with growth in Hong Kong and China through the Group's investment in Prime Credit.

(b) Organic servicing growth

- Pepper continues to identify a pipeline of potential new third-party servicing opportunities. In the six months to 30 June 2017, third party servicing assets under management remained relatively constant as increases in the United Kingdom were offset by net decreases in Ireland. As at 30 June 2017, the Group had \$45.3bn of third party servicing assets under management (31 December 2016 \$45.4bn).

(c) Acquisitive growth

- Management has demonstrated a strong track-record in identifying and executing acquisitions in targeted markets that are consistent with Pepper's strategy to deliver value outcomes and create platforms that can be used for future growth;
- Pepper expects that it will be able to capitalise on certain opportunities globally stemming from regulatory change and capital markets volatility and is focused on executing these opportunities in a disciplined and structured manner through the use of a dedicated internal mergers and acquisitions team; and
- Pepper will continue to explore opportunities for further international transaction collaborations and market specific partnership/joint venture style arrangements (where appropriate).

Directors' report

Interim financial performance review

Income statement

	Half-year ended 30 June 2017 S'000	Half-year ended 30 June 2016 S'000
Statutory income statement (extract)		
Total revenue	369,563	326,006
Share of results from associates	5,381	5,225
Total expenses	(338,157)	(301,327)
Profit before tax	36,787	29,904
Profit after tax	28,115	24,420
Earnings per share - basic (cents per share)	16.2	14.1

The Group recorded a statutory profit after tax for the half year of \$28.1m, a 15% increase year on year (30 June 2016 \$24.4m) which was in line with forecast.

Total statutory revenue increased by \$44m (13%), driven by a \$47m increase in interest revenue in the ANZ Mortgage and Asset Finance businesses and internationally in Spain and South Korea reflecting the organic growth of these underlying businesses.

Total statutory expenses increased by \$37m (12%) driven by a \$18m increase in borrowing costs, reflecting global growth in the Group's lending businesses and a \$14m increase in net loan loss expenses, reflecting the growth of underlying portfolios in Australia, South Korea and Spain.

The Group's profit after tax was recorded in the following divisions: ANZ \$22.7m (2016: \$17.4m), Europe \$8.1m (2016: \$11.5m), Asia \$11.9m (2016: \$7.3m) and Corporate \$14.6m loss (2016: \$11.8m loss). The increases in the ANZ and Asia divisions reflected ongoing growth and continued investment into secured lending. The period on period decrease in the Europe division was primarily due to large onboarding and exit fees recorded in 2016 not being repeated to the same extent in 2017.

Directors' report

Interim financial performance review (continued)

Balance sheet

	As at 30 June 2017 S'000	As at 31 December 2016 S'000
Statutory balance sheet (extract)		
Loans and advances	8,035,753	7,072,765
Total assets	9,023,185	8,312,434
Deposits	1,451,433	1,383,101
Borrowings	6,931,016	6,252,843
Total liabilities	8,554,688	7,858,663

The Group's loans and advances grew by \$963m (14%) in the first half of the year, underpinning its core profitability. This increase was driven by prime and non-conforming mortgages and asset and equipment finance in the ANZ Division.

The Asia Division also demonstrated strong growth throughout the year driven by increases in personal loans, residential mortgages and commercial loans in South Korea.

The loan portfolio in the Europe Division continued to grow in line with forecast driven by increases in personal loans and point of sale finance in Spain and residential mortgages in the UK and Ireland.

The asset growth was largely supported by funding facilities in the respective businesses where the loan growth resided.

	As at 30 June 2017 S'000	As at 31 December 2016 S'000
Total equity attributable to the owners of the company (extract)		
Issued capital	299,860	298,080
Retained earnings	189,924	172,039
Foreign currency translation reserve	5,354	11,873
Total equity	468,933	454,207

The Group's total equity increased \$15m (3%) in the first half of the year, driven by an \$18m net increase in retained earnings from profits earned after a 5.4 cents per share dividend paid in April. The foreign currency translation reserve decreased \$6.5m, largely due to the effect of the strengthening Australian Dollar against the Hong Kong Dollar on the Group's investment in Prime Credit Holdings Limited.

Dividends - Pepper Group Limited

The Directors approved an interim dividend in respect of the half year ended 30 June 2017 of 3 cents per share which will be paid in October 2017 to shareholders on the share register on 13 September 2017.

In April 2017, the Company paid a fully franked dividend of \$10.2 m to shareholders (30 June 2016: \$5.4m).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the first half of the year.

Directors' report

Events since the end of the financial period

Banco Primus acquisition

On 20 July 2017 Pepper signed a share purchase agreement to acquire 100% of Portuguese consumer finance bank, Banco Primus S.A Lisbon ("Primus") from parent company Credit Foncier de France ("CFF").

The transaction remains subject to a standard change of control approval from Bank of Portugal and the European Central Bank and is expected to complete during Q1 2018. Upon completion, Pepper will pay €65m in cash for 100% of the Primus shares.

The transaction will be funded through a mix of senior debt and equity. Pepper has a number of alternatives by which it can fund the capital requirement of this transaction and has already secured the necessary senior debt funding commitments of ~€500m to fund Primus' loan portfolios at close.

KKR transaction

On 10 August 2017 the Board of Pepper announced it had entered into a scheme implementation deed (the "SID") with Red Hot Australia Bidco Pty Ltd ("Bidco"), an entity owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC or its affiliates ("KKR"), under which it is proposed that Bidco will acquire all of the Pepper shares¹, by way of a scheme of arrangement (the "Scheme").

If the Scheme is implemented, Pepper shareholders not electing one of the election options will receive a cash payment of \$3.60 per Pepper share ("cash consideration").

The Scheme includes an equity alternative to the cash consideration ("scrip option") allowing shareholders (other than certain foreign ineligible shareholders) to instead receive one share in Red Hot Australia Holdco Pty Ltd ("Holdco"), which is the owner of 100% of the shares in Bidco, for each Pepper share they hold.²

Under the SID, the Pepper Board is also entitled to determine and pay to all shareholders a fully franked interim dividend in respect of the half year ended 30 June 2017 of up to 3 cents per share on or before implementation of the Scheme. Such a dividend will not reduce the cash consideration of \$3.60 per share under the Scheme or the amount of the scrip consideration under the scrip option. The Pepper Board intends to determine and pay an interim dividend of 3 cents per share, subject to compliance with relevant laws and the operating performance and financial condition of the Company at the relevant time.

For Pepper shareholders, the cash consideration of \$3.60 per share values Pepper's fully diluted equity³ at approximately \$675.9 million and represents:

- a premium of 25.6% to the 1 month volume weighted average price ("VWAP")⁴ of Pepper shares up to and including 26 May 2017 of \$2.87 (26 May 2017 being the trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction);
- a premium of 29.1% to the 3 month VWAP up to and including 26 May 2017; and
- a premium of 44.7% to the 12 month VWAP up to and including 26 May 2017.

For more details please refer to the announcement on the ASX website.

Notes

1. Except those the subject of the retention option: any shareholders whose receipt of a Holdco share under the scrip option would otherwise result in a tax becoming payable without an equivalent of rollover relief under a foreign tax jurisdiction applicable to that shareholder or the relevant beneficial holder, will have the option of retaining their Pepper shares (the "retention option").
2. Or alternatively to retain their Pepper shares by electing the retention option.
3. Fully diluted equity includes the 184.06m Pepper shares on issue at Scheme implementation plus an additional 3.7m employee share rights.
4. Volume weighted average price based on cumulative trading volume.

Directors' report

Events since the end of the financial period (continued)

New APRA powers to address financial stability risks - non-ADI lender rules

The Australian Government announced in the 2017-18 budget it would act to ensure the Australian Prudential Regulation Authority (APRA) is able to respond flexibly to financial and housing market developments that pose a risk to financial stability, by providing APRA with new powers in respect of the provision of credit by entities that are not authorised deposit-taking institutions (non-ADI lenders), to complement APRA's existing powers in respect of ADIs.

An exposure draft of the proposed bill (Treasury Laws Amendment (Non-ADI Lender Rules) Bill 2017) was issued on the 7th of July 2017. The exposure draft was consistent with the budget announcement, outlining the following intentions:

- to amend the Banking Act 1959 to: provide APRA with power to make rules concerning the lending activities of non-ADI lenders for the purpose of addressing financial stability risks ('non-ADI lender rules'), provide APRA with a new power to issue a direction to a non-ADI lender should the entity fail to comply with a non-ADI lender rule, and introduce penalties for non-ADI lenders that fail to comply with a direction by APRA; and
- to amend the Financial Sector (Collection of Data) Act 2001 to allow APRA to collect data from non-ADI lenders for the purposes of monitoring their activities and determining when to use its new powers.

The consultation period on the draft Bill closed on Monday, 14 August 2017. As the ultimate content of the Bill is unknown, it is not yet practical to reliably conclude on the final impact on the Group or its financial statements.

Rounding

The amounts contained in this Financial Report and the Financial Statements are presented in Australian dollars and rounded to the nearest thousand dollars unless otherwise stated, under the option available under ASIC Corporations Instrument 2016/191.

Auditor's 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 23.

Directors' report

Indemnification of officers and auditors

During the period, the Group paid a premium in respect of a contract insuring the directors of the Group as named above, the company secretary, and all executive officers of the company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group against a liability incurred as such an officer or auditor.

This directors' report is signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Seumas Dawes
Chairman and Non-Executive Director
Sydney, 25 August 2017



Michael Culhane
Chief Executive Officer and Director
Sydney, 25 August 2017

Consolidated income statement

	Half-year ended	Half-year ended
	30 June	30 June
	2017	2016
	S'000	S'000
Interest revenue	271,401	224,550
Fee revenue	79,874	90,910
Other revenue	18,288	10,546
Total revenue	369,563	326,006
Employee benefits expenses	(99,303)	(98,687)
Depreciation and amortisation expenses	(7,074)	(4,367)
Borrowing costs	(138,536)	(120,240)
Loan loss expenses	(44,281)	(30,659)
Other expenses	(48,963)	(47,374)
Total expenses	(338,157)	(301,327)
Profit from share of results of associates	5,381	5,225
Profit before tax	36,787	29,904
Income tax expenses	(8,672)	(5,484)
Profit after tax	28,115	24,420
Profit is attributable to:		
Owners of Pepper Group Limited	28,115	24,441
Non-controlling interests	-	(21)
	28,115	24,420
	Cents	Cents
Earnings per share		
Basic earnings per share (cents)	3	16.2
Diluted earnings per share (cents)	3	15.7
		14.1
		13.9

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

Consolidated statement of comprehensive income

		Half-year ended 30 June 2017 S'000	Half-year ended 30 June 2016 S'000
Profit after tax		28,115	24,420
Other comprehensive income / (expense) that may be recycled to profit or loss:			
Currency translation reserve movements	7	(6,519)	(6,814)
Cashflow hedge reserve movements	7	256	809
Available for sale reserve movements	7	1,279	-
Total other comprehensive income that may be recycled to profit or loss		<u>(4,984)</u>	<u>(6,005)</u>
Other comprehensive income not recycled to profit or loss (net of tax):			
Retirement benefit remeasurements		-	20
Other comprehensive income for the period		<u>(4,984)</u>	<u>(5,985)</u>
Total comprehensive income for the period		23,131	18,435
Total comprehensive income for the period is attributable to:			
Owners of Pepper Group Limited		23,131	18,456
Non-controlling interests		-	(21)
		<u>23,131</u>	<u>18,435</u>

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

Consolidated balance sheet

	Notes	As at 30 June 2017 S'000	As at 31 December 2016 S'000
Assets			
Cash and cash equivalents		652,669	782,076
Investment securities	8	134	80,666
Derivative financial assets	8	771	35,512
Receivables		58,241	77,736
Other assets		37,163	28,063
Loans and advances	4	8,035,753	7,072,765
Deferred tax assets		12,748	15,374
Other investments		35,675	36,267
Investment in associates		96,060	99,279
Property, plant and equipment		24,177	21,961
Intangible assets		47,763	40,540
Goodwill		22,031	22,195
Total assets		9,023,185	8,312,434
Liabilities			
Deposits		1,451,433	1,383,101
Derivative liabilities	8	9,274	2,607
Trade and other payables		28,422	31,678
Current tax liabilities		6,765	5,468
Borrowings	5	6,931,016	6,252,843
Other liabilities		103,289	148,153
Provisions		24,489	34,813
Total liabilities		8,554,688	7,858,663
Total net assets		468,497	453,771
Equity			
Issued capital	6	299,860	298,080
Other equity	7	(24,299)	(24,344)
Other reserves	7	3,448	8,432
Retained earnings		189,924	172,039
Total equity attributable to owners of Pepper Group Limited		468,933	454,207
Non-controlling interests		(436)	(436)
Total equity		468,497	453,771

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

Consolidated statement of changes in equity

	Attributable to owners of Pepper Group Limited				Attributable to owners of the parent S'000	Non- controlling interests S'000	Total equity S'000
	Issued capital S'000	Other equity S'000	Other reserves S'000	Retained earnings S'000			
Balance at 1 January 2016	296,065	(22,332)	17,210	118,431	409,374	(759)	408,615
Profit for the period	-	-	-	24,441	24,441	(21)	24,420
Currency translation movements	-	-	(6,814)	-	(6,814)	-	(6,814)
Cash flow hedge movements	-	-	809	-	809	-	809
Retirement benefit remeasurements	-	20	-	-	20	-	20
Total comprehensive income for the period	-	20	(6,005)	24,441	18,456	(21)	18,435
Contributions of equity	2,015	(2,015)	-	-	-	-	-
Dividends paid	-	-	-	(5,427)	(5,427)	-	(5,427)
Recognition of share based payments	-	1,178	-	-	1,178	-	1,178
Other movements	-	-	(12)	-	(12)	338	326
Balance at 30 June 2016	298,080	(23,149)	11,193	137,445	423,569	(442)	423,127
Profit for the period	-	-	-	37,223	37,223	6	37,229
Currency translation movements	-	-	(152)	-	(152)	-	(152)
Cash flow hedge movements	-	-	(2,621)	-	(2,621)	-	(2,621)
Retirement benefit remeasurements	-	(194)	-	-	(194)	-	(194)
Total comprehensive income for the period	-	(194)	(2,773)	37,223	34,256	6	34,262
Dividends paid	-	-	-	(5,420)	(5,420)	-	(5,420)
Transfer of settled equity share schemes	-	(2,805)	-	2,805	-	-	-
Recognition of share based payments	-	1,804	-	-	1,804	-	1,804
Other movements	-	-	12	(14)	(2)	-	(2)
Balance at 31 December 2016	298,080	(24,344)	8,432	172,039	454,207	(436)	453,771
Profit for the period	-	-	-	28,115	28,115	-	28,115
Available for sale investments	-	-	1,279	-	1,279	-	1,279
Currency translation movements	-	-	(6,519)	-	(6,519)	-	(6,519)
Cash flow hedge movements	-	-	256	-	256	-	256
Total comprehensive income for the period	-	-	(4,984)	28,115	23,131	-	23,131
Contributions of equity	1,780	(1,317)	-	-	463	-	463
Dividends paid	-	-	-	(10,227)	(10,227)	-	(10,227)
Recognition of share based payments	-	1,362	-	-	1,362	-	1,362
Other movements	-	-	-	(3)	(3)	-	(3)
Balance at 30 June 2017	299,860	(24,299)	3,448	189,924	468,933	(436)	468,497

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

Consolidated statement of cash flows

	Half-year ended 30 June 2017 \$'000	Half-year ended 30 June 2016 \$'000
Cash flows from operating activities		
Receipts from customers	152,679	141,210
Payments to suppliers and employees	(273,772)	(197,153)
Interest received	312,907	257,509
Interest and other finance costs paid	(156,309)	(137,379)
Income taxes paid	(5,933)	(5,673)
Net cash inflow from operating activities¹	29,572	58,514
Cash flows from investing activities		
Net payments for property, plant and equipment	(3,795)	(5,367)
Payments for intangibles	(13,378)	(3,399)
Cash flows relating to investments	2,422	(4,817)
Amounts received from / (advanced to) related parties	569	(139)
Payments for arrangement fees	(4,359)	(4,061)
Repayment of notes	2,039	3,151
Repayment of / (investment in) debt securities	81,319	(33,696)
Net increase in loans and advances	(1,610,692)	(1,274,008)
Net cash outflow from deconsolidation of subsidiaries	-	(313)
Payments received from investment in associate	1,863	2,416
Receipts from sale of loan portfolios	595,826	403,767
Net cash (outflow) from investing activities	(948,186)	(916,466)
Cash flows from financing activities		
Net increase in borrowings	713,636	406,355
Net increase in deposits	85,583	407,539
Dividend paid	(10,227)	(5,425)
Net cash inflow from financing activities	788,992	808,469
Effects of exchange rate changes on cash and cash equivalents	215	(787)
Net (decrease) in cash and cash equivalents	(129,407)	(50,270)
Cash and cash equivalents at the beginning of the financial year	782,076	555,737
Cash and cash equivalents at end of period ¹	652,669	505,467

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

Notes

1. Net cashflows from operating activities include \$44m cash paid to 3rd parties in Pepper's servicing business (30 June 2016: \$12m paid). At the end of the period \$69m of this balance relates to cash and cash equivalents yet to be paid to 3rd parties (30 June 2016: \$106m).

1 Basis of preparation of half-year report

Basis of preparation

The general purpose interim financial report for the half-year ended 30 June 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* which ensures compliance with International Accounting Standard IAS 34 *Interim Financial Reporting*.

This report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Pepper Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

The accounting policies adopted in the preparation of this report are consistent with those adopted and disclosed in the annual report for the year ended 31 December 2016.

The amounts contained in this Financial Report and the Financial Statements are presented in Australian dollars and rounded to the nearest thousand dollars unless otherwise stated, under the option available under ASIC Corporations Instrument 2016/191.

Accounting judgements, estimated and assumptions

In preparing the interim financial report, the application of the Group's accounting policies requires the use of judgements, estimates and assumptions.

The areas of judgement, estimates and assumptions in the interim financial report, including the key sources of estimation uncertainty, are consistent with those in the annual financial report for the year ended 31 December 2016.

New standards and interpretations not yet adopted

AASB 9 Financial instruments: effective for annual reporting periods beginning on or after 1 January 2018

AASB 9 replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139.

Unless early adopted the standard is effective for the 31 December 2018 year end. The Group intends to report under AASB 9 for the first time in the interim report at 30 June 2018.

Management have put an AASB 9 cross functional project team in place to assess the implications of the new standard and to implement the new standard to ensure appropriate and consistent application across the Group's diverse range of financial activities.

As the Group has not concluded the initial impact assessment and as the effect the new standard could have on the financial results of the Group will change as the circumstances of the Group change up to the point of initial adoption, it is not yet practical to reliably estimate the financial impact on the financial statements.

We have, however, outlined the major changes under the standard below and where we believe the Group will be most impacted.

Impairment

AASB 9 brings about a move from an incurred loss model to an expected loss model. This model will be applicable to the majority of the Group's financial assets. Under the old model losses are recognised when incurred. Under the new model, at a minimum, affected assets will record an estimate of losses currently incurred and those expected to be incurred within the following 12 months. Additionally for the majority of financial assets which have experienced a significant increase in credit risk since initial recognition, a lifetime expected loss will be recognised.

The introduction of a lifetime loss model will introduce significant areas of complexity (such as the requirement to use forward looking information) and judgement (such as the interpretation of "significant increase in credit risk").

Due to the complexities and areas of judgement the cross functional project team have spent most of their in this area. The Group expects this aspect of the new standard to have the most significant impact on the results of the Group.

1 Basis of preparation of half-year report (continued)

New standards and interpretations not yet adopted (continued)

AASB 9 Financial instruments: effective for annual reporting periods beginning on or after 1 January 2018 (continued)

Classification and measurement

AASB 9 replaces the classification and measurement model in AASB 139 with a new model that categorises financial assets based on:

- the business model within which the assets are managed; and
- whether the contractual cash flows under the instrument solely represent the payment of principal and interest.

Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest.

An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

The majority of the Group's financial assets are not expected to be impacted by the changes and any impact is expected to be immaterial for the Group.

Hedging

AASB 9 introduces a more flexible hedge accounting model which is better aligned to the economic realities and risk management activities undertaken across both Pepper and the broader financial services sector.

Adoption of the new hedge accounting model is optional and current hedge accounting under AASB 139 can continue to be applied until the IASB completes its "accounting for dynamic risk management" project.

The Group has determined that, if implemented today, the impact of the new standard would be negligible due to the nature of the Group's current hedging activities.

AASB 15 Revenue from contracts with customers: effective for annual reporting periods beginning on or after 1 January 2018

AASB 15 replaces the existing revenue recognition guidance in AASB 18: Revenue and AASB 111: Construction Contracts. AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The Group is still in the process of assessing the full impact of the application of AASB 15. As the effect the new standard could have on the financial results of the Group will change as the circumstances of the Group change up to the point of initial adoption, it is not yet practical to reliably conclude on the final impact on the financial statements.

AASB 16 Leases: effective for annual reporting periods beginning on or after 1 January 2019

AASB 16 introduces a new lease accounting model for lessees that requires lessees to recognise all leases on balance sheet (except for short-term leases and low value assets) and recognise the amortisation of lease assets and interest on lease liabilities in the income statement. It will be mandatorily effective for reporting periods beginning on or after 1 January 2019. The Group is in the process of assessing the impact of the application of AASB 16. The financial impact on the financial statements has not yet been determined.

There have been no other new or amended accounting standards during the reporting period ended 30 June 2017 that have had or may have a significant impact on the financial results of the Group.

2 Segment information

The Group's executive management team examines the Group's performance both from a product and geographic perspective and has identified the following operating and reportable segments:

- The ANZ Division includes the revenues and direct expenses associated with the loan origination, servicing and other operations conducted by Pepper in Australia and New Zealand;
- The Europe Division includes the revenues and direct expenses associated with loan origination, servicing and other operations conducted by Pepper in Spain, Ireland and the United Kingdom;
- The Asia Division includes the revenues and direct expenses associated with lending and servicing operations conducted by Pepper in South Korea and in Hong Kong and China through the Group's investment in Prime Credit; and
- The Corporate Division represents group executives' costs and group support functions not specifically aligned to business operations in any of the other divisions.

	ANZ Division S'000	Europe Division S'000	Asia Division S'000	Corporate Division S'000	Total S'000
Half year ended 30 June 2017					
Revenue					
Interest revenue external to the Group	174,874	23,137	73,390	-	271,401
Intersegment interest	163	(163)	-	-	-
Fee revenue	23,483	54,083	2,308	-	79,874
Other revenue	10,337	3,462	806	3,683	18,288
Expenses					
Depreciation and amortisation	(3,981)	(1,676)	(1,062)	(355)	(7,074)
Borrowing costs	(110,057)	(7,003)	(16,079)	(5,397)	(138,536)
Loan loss expenses	(13,054)	(2,886)	(28,341)	-	(44,281)
Employee and other operating expenses	(50,083)	(60,148)	(22,648)	(15,387)	(148,266)
Other net income					
Equity profits from associates	-	-	5,381	-	5,381
Profit before taxation	31,682	8,806	13,755	(17,456)	36,787
Income tax expense	(8,984)	(701)	(1,882)	2,895	(8,672)
Profit after tax	22,698	8,105	11,873	(14,561)	28,115
Balance sheet as at 30 June 2017					
Total segment assets	6,882,638	620,300	1,520,247	-	9,023,185
Total segment liabilities	6,408,705	616,087	1,477,176	52,720	8,554,688
Investment in associates	-	-	96,060	-	96,060
Half year ended 30 June 2016					
Revenue					
Interest revenue external to the Group	157,022	18,886	48,420	222	224,550
Intersegment interest	376	(376)	-	-	-
Fee revenue	18,011	70,995	1,904	-	90,910
Other revenue	10,814	(307)	20	19	10,546
Expenses					
Depreciation and amortisation	(1,665)	(1,788)	(914)	-	(4,367)
Borrowing costs	(100,701)	(4,457)	(12,150)	(2,932)	(120,240)
Loan loss expenses	(11,762)	(2,200)	(16,697)	-	(30,659)
Employee and other operating expenses	(47,125)	(67,111)	(17,909)	(13,916)	(146,061)
Other net income					
Equity profits from associates	-	-	5,225	-	5,225
Profit before taxation	24,970	13,642	7,899	(16,607)	29,904
Income tax expense	(7,616)	(2,099)	(627)	4,858	(5,484)
Profit after tax	17,354	11,543	7,272	(11,749)	24,420
Balance sheet as at 31 December 2016					
Total segment assets	6,334,257	447,376	1,530,801	-	8,312,434
Total segment liabilities	5,878,287	450,776	1,491,441	38,159	7,858,663
Investment in associates	-	-	99,279	-	99,279

3 Earnings per share

Methodology

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period (excluding treasury shares). Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include the share options granted to employees.

Calculation

	Half-year ended 30 June 2017	Half-year ended 30 June 2016
Profit for the period attributable to the owners of the company (\$'000)	28,115	24,441
Weighted average number of ordinary shares (thousand):		
Issued ordinary shares at the start of the period	173,390	173,390
Effect of allotment and issuances	531	-
Issued ordinary shares at the end of the period	173,921	173,390
Weighted average number of shares (basic)	173,402	173,390
Weighted average number of diluted shares (thousand):		
Effect of share options in issue	5,220	2,494
Weighted average number of shares (diluted)	178,622	175,418
Basic earnings per share (cents)	16.2	14.1
Diluted earnings per share (cents)	15.7	13.9

4 Loans and advances

	As at 30 June 2017 \$'000	As at 31 December 2016 \$'000
Loans and advances residing in securitised term trusts	3,364,671	2,867,865
Loans and advances residing in funding warehouses	3,195,445	2,973,163
Loans and advances residing in corporate entities	1,475,637	1,231,737
Total loans and advances	8,035,753	7,072,765
Loans and advances by product		
Residential mortgages	5,624,573	5,101,150
Auto and equipment finance	1,199,145	928,763
Point-of-sale finance	157,950	135,941
Personal loans	853,768	751,603
Commercial loans and other	200,317	155,308
Total loans and advances	8,035,753	7,072,765
Impairment provisions (included in the balances above):		
Specific impairment provision	20,740	14,383
Collective provision	42,020	31,492
Total impairment provisions	62,760	45,875

The loan loss provision increase is commensurate with the significant absolute increase in the number of loans originated as well as reflecting the change in loan portfolio mix with increased contribution from higher margin personal loans and auto and equipment loans.

5 Borrowings

	As at 30 June 2017 \$'000	As at 31 December 2016 \$'000
Non-recourse facilities		
Securitised term funding facilities	3,392,872	3,122,689
Warehouse facilities - secured	3,351,486	2,988,954
Corporate debt facilities	186,658	141,200
Total borrowings	6,931,016	6,252,843

Securitised term funding facilities are secured only on the assets of each of the individual securitisation trusts. Warehouse facilities are fully secured by the loans and advances and other cash collateral residing in the warehouse trusts. Corporate debt facilities are secured over certain assets of the Group.

Non-recourse facilities

During the period, \$1.65bn of new securitised funding facilities were obtained (30 June 2016: \$782m) and at 30 June 2017 the Group had an undrawn balance of \$1.3bn on its warehouse funding facilities (31 December 2016: \$1.1bn)

Corporate debt facility

As at 30 June 2017 the Group had an undrawn balance of \$22m on its corporate debt facility (31 December 2016: \$67m).

6 Issued capital

	As at 30 June 2017		As at 31 December 2016	
	Number of shares '000	\$'000	Number of shares '000	\$'000
Pepper Group Limited ordinary shares	182,486	299,860	181,955	298,080
	182,486	299,860	181,955	298,080

During the period, the Company issued 531,448 shares under its long term employee incentive share scheme. In April 2017, the Company paid a fully franked dividend of \$10.2m to shareholders (30 June 2016: \$5.4m).

7 Other equity and reserves

	As at 30 June 2017 \$'000	As at 31 December 2016 \$'000
Equity settled employee benefits reserve	6,439	6,857
Common control reserve	(18,653)	(18,653)
Treasury shares	(12,085)	(12,548)
Total other equity	(24,299)	(24,344)
Foreign currency translation reserve	5,354	11,873
Cash flow hedge reserve	(3,185)	(3,441)
Available for sale reserve	1,279	-
Total other reserves	3,448	8,432

8 Fair value of financial assets and liabilities

Fair value of assets and liabilities not measured at fair value

The Group has considered all financial assets and liabilities not carried at fair value to determine whether the carrying value is an accurate reflection of fair value. For financial assets and liabilities whose carrying value does not accurately reflect the fair value, the Group performed a discounted cash flow valuation to determine fair value at the balance date.

The table below shows a comparison of the carrying amounts, as reported on the balance sheet, and the fair values of those financial assets and liabilities that are measured at amortised cost where the carrying value recorded in the balance sheet does not approximate to fair value:

	As at 30 June 2017		As at 31 December 2016	
	Carrying value S'000	Fair value S'000	Carrying value S'000	Fair value S'000
Loans and advances	8,035,753	8,038,835	7,072,765	7,076,786
Other investments ¹	23,911	23,911	22,256	22,391

Fair value measurements and valuation processes

The following assets and liabilities are measured at fair value by the Group for financial reporting purposes:

Financial instruments	Fair value hierarchy	Valuation technique(s) and key input(s)	30 June 2017 S'000	31 December 2016 S'000
Investment securities	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, appropriate discount rates.	134	80,666
Equity investments	Level 2	Recent arm's length market transactions.	7,769	6,927
Interest rate swaps	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, appropriate discount rates.	(2,661)	(1,777)
Cross currency interest rate swaps	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, appropriate discount rates.	(5,842)	34,682

In the six months to 30 June 2017 there has been no change in the fair value hierarchy or the valuation techniques applied.

9 Related party transactions

Related party transactions in the period ended 30 June 2017 were similar in nature to those disclosed in the Group's 2016 Annual Report. No related party transactions that have taken place in 2017 have materially affected the financial position or the performance of the Group during this period. There were no changes in the related parties transactions described in the 2016 Annual Report that could have a material effect on the financial position or performance of the Group in the current financial year.

10 Contingent liabilities and contingent assets

The Group has not issued any guarantees and does not have any contingent assets or contingent liabilities.

Note

1. \$11.8m of other investments are excluded from this analysis because they are either non-financial assets or they are already measured at fair value (31 December 2016: \$14.0m)

11 Significant events and transactions in the current reporting period

There were no other significant events or transactions during the first half of the year that have not been disclosed elsewhere in this financial report.

12 Matters subsequent to the end of the reporting period

Banco Primus acquisition

On 20 July 2017 Pepper signed a share purchase agreement to acquire 100% of Portuguese consumer finance bank, Banco Primus S.A Lisbon ("Primus") from parent company Credit Foncier de France ("CFF").

The transaction remains subject to a standard change of control approval from Bank of Portugal and the European Central Bank and is expected to complete during Q1 2018. Upon completion, Pepper will pay €65m in cash for 100% of the Primus shares.

The transaction will be funded through a mix of senior debt and equity. Pepper has a number of alternatives by which it can fund the capital requirement of this transaction and has already secured the necessary senior debt funding commitments of ~€500m to fund Primus' loan portfolios at close.

KKR transaction

On 10 August 2017 the Board of Pepper announced it had entered into a scheme implementation deed (the "SID") with Red Hot Australia Bidco Pty Ltd ("Bidco"), an entity owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC or its affiliates ("KKR"), under which it is proposed that Bidco will acquire all of the Pepper shares¹, by way of a scheme of arrangement (the "Scheme").

If the Scheme is implemented, Pepper shareholders not electing one of the election options will receive a cash payment of \$3.60 per Pepper share ("cash consideration").

The Scheme includes an equity alternative to the cash consideration ("scrip option") allowing shareholders (other than certain foreign ineligible shareholders) to instead receive one share in Red Hot Australia Holdco Pty Ltd ("Holdco"), which is the owner of 100% of the shares in Bidco, for each Pepper share they hold.²

Under the SID, the Pepper Board is also entitled to determine and pay to all shareholders a fully franked interim dividend in respect of the half year ended 30 June 2017 of up to 3 cents per share on or before implementation of the Scheme. Such a dividend will not reduce the cash consideration of \$3.60 per share under the Scheme or the amount of the scrip consideration under the scrip option. The Pepper Board intends to determine and pay an interim dividend of 3 cents per share, subject to compliance with relevant laws and the operating performance and financial condition of the Company at the relevant time.

For Pepper shareholders, the cash consideration of \$3.60 per share values Pepper's fully diluted equity³ at approximately \$675.9 million and represents:

- a premium of 25.6% to the 1 month volume weighted average price ("VWAP")⁴ of Pepper shares up to and including 26 May 2017 of \$2.87 (26 May 2017 being the trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction);
- a premium of 29.1% to the 3 month VWAP up to and including 26 May 2017; and
- a premium of 44.7% to the 12 month VWAP up to and including 26 May 2017.

For more details please refer to the announcement on the ASX website.

Notes

1. Except those the subject of the retention option: any shareholders whose receipt of a Holdco share under the scrip option would otherwise result in a tax becoming payable without an equivalent of rollover relief under a foreign tax jurisdiction applicable to that shareholder or the relevant beneficial holder, will have the option of retaining their Pepper shares (the "retention option").
2. Or alternatively to retain their Pepper shares by electing the retention option.
3. Fully diluted equity includes the 184.06m Pepper shares on issue at Scheme implementation plus an additional 3.7m employee share rights.
4. Volume weighted average price based on cumulative trading volume.

12 Matters subsequent to the end of the reporting period (continued)

New APRA powers to address financial stability risks - non-ADI lender rules

The Australian Government announced in the 2017-18 budget it would act to ensure the Australian Prudential Regulation Authority (APRA) is able to respond flexibly to financial and housing market developments that pose a risk to financial stability, by providing APRA with new powers in respect of the provision of credit by entities that are not authorised deposit-taking institutions (non-ADI lenders), to complement APRA's existing powers in respect of ADIs.

An exposure draft of the proposed bill (Treasury Laws Amendment (Non-ADI Lender Rules) Bill 2017) was issued on the 7th of July 2017. The exposure draft was consistent with the budget announcement, outlining the following intentions:

- to amend the Banking Act 1959 to: provide APRA with power to make rules concerning the lending activities of non-ADI lenders for the purpose of addressing financial stability risks ('non-ADI lender rules'), provide APRA with a new power to issue a direction to a non-ADI lender should the entity fail to comply with a non-ADI lender rule, and introduce penalties for non-ADI lenders that fail to comply with a direction by APRA; and
- to amend the Financial Sector (Collection of Data) Act 2001 to allow APRA to collect data from non-ADI lenders for the purposes of monitoring their activities and determining when to use its new powers.

The consultation period on the draft Bill closed on Monday, 14 August 2017. As the ultimate content of the Bill is unknown, it is not yet practical to reliably conclude on the final impact on the Group or its financial statements.

Directors' declaration

The directors of Pepper Group Limited declare that, in the directors' opinion:

- (a) As at the date of this declaration, there are reasonable grounds to believe that Pepper Group Limited will be able to pay its debts as and when they become due and payable; and
- (b) The condensed consolidated financial statements for the half year ended on 30 June 2017 and notes, as set out on pages 9 to 21, are in accordance with the *Corporations Act 2001*, including:
 - (i) section 304, which requires that the half year financial report to comply with the Accounting Standards made by the Australian Accounting Standards Board for the purposes of the *Corporations Act 2001* and any further requirements in the *Corporations Regulations 2001*; and
 - (ii) section 305, which requires that the financial statements, and the notes to the financial statements give a true and fair view of the financial position and performance of the Group for the six months ended 30 June 2017.

Signed in accordance with a resolution of the directors.



Seumas Dawes
Chairman and Non-Executive Director
Sydney, 25 August 2017



Michael Culhane
Chief Executive Officer and Director
Sydney, 25 August 2017

The Board of Directors
Pepper Group Limited
Level 27, 177 Pacific Highway
North Sydney NSW 2060

25 August 2017

Dear Board Members

Pepper Group Limited

In accordance with the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Pepper Group Limited.

As lead audit partner for the half-year review of the financial statements of Pepper Group Limited for the half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Jamie Gatt
Partner, Chartered Accountants



Heather Baister
Partner, Chartered Accountants

Sydney, 25 August 2017

Independent Auditor's Review Report to the members of Pepper Group Limited

We have reviewed the accompanying half-year financial report of Pepper Group Limited, which comprises the condensed consolidated balance sheet as at 30 June 2017, the condensed consolidated statements of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' report of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pepper Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pepper Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Jamie Gatt
Partner, Chartered Accountants



Heather Baister
Partner, Chartered Accountants

Sydney, 25 August 2017