IOOF Holdings Ltd

ABN 49 100 103 722

Full Year
30 June 2018

Appendix 4E
Condensed Annual Financial Report

The Condensed Annual Financial Report constitutes the preliminary final report and contains information required by Appendix 4E of the Australian Securities Exchange Listing Rules. It should be read in conjunction with IOOF's 2018 Annual Financial Report when released, and is lodged with the Australian Securities Exchange under listing rule 4.3A.

Contents

Notes to the condensed consolidated financial statements

The Condensed Annual Financial Report and Appendix 4E has been prepared for IOOF Holdings Ltd (the "Company" or "Parent Entity") together with its subsidiaries which are variously described as "IOOF", "IOOF Group" or "the consolidated entity".

All amounts are in Australian dollars unless otherwise stated. The information on which the Condensed Consolidated Financial Statements is based is in the process of being audited by the IOOF Group's auditors, KPMG. The Company has a formally constituted Audit Committee of the Board of Directors. The signing of the Condensed Consolidated Financial Statements was approved by a resolution of the Board of Directors on 7 August 2018.

Appendix 4E
Condensed Annual Financial Report
IOOF HOLDINGS LTD

ABN 49 100 103 722

1. Reporting Year	30 June 2018
Prior year	30 June 2017

2. Results for announcement to the market

	$'000	% change from prior year
Revenue from Shareholder activities [1]	919,141	up 1%
Profit from ordinary activities after tax attributable to owners of the Company	88,301	down 24%
Underlying Net Profit After Tax (UNPAT) [2]	191,417	up 13%

		Amount per share (cents)	Franked amount per share (cents)
Final dividend for the year ended 30 June 2017			
Paid:	01 September 2017	27.0	27.0
Interim dividend for the year ended 30 June 2018			
Paid:	14 March 2018	27.0	27.0
Final dividend for the year ended 30 June 2018			
Record date:	21 August 2018		
Payment date:	4 September 2018	27.0	27.0

[1] Revenue from Shareholder activities excludes those revenues attributable to the activities of the consolidated benefit funds of IOOF Ltd.

[2] UNPAT excludes the impact of certain non-operational financial items. An UNPAT reconciliation is provided on the following page.

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	2018 $'000	2017 $'000
Profit attributable to Owners of the Company	**88,301**	**115,990**
Underlying net profit after tax (UNPAT) adjustments:		
Reverse the impact of:		
Amortisation of intangible assets	39,400	38,611
Acquisition costs - Acquisition advisory	5,367	-
Acquisition costs - Integration preparation	4,973	-
Acquisition costs - Finance costs	6,725	-
Onerous contracts	2,345	-
Termination payments	2,128	4,125
Profit on divestment of subsidiaries	(143)	(6,261)
Profit on divestment of assets	(2,643)	(11,930)
Non-recurring professional fees (recovered)/paid	(902)	2,013
Impairment of goodwill	28,339	38,592
Unwind of deferred tax liability recorded on intangible assets	(10,195)	(10,056)
Settlement of legal claims	44,250	-
Other	1,244	-
Acquisition tax provision release	-	(5,707)
Income tax attributable	(17,772)	3,980
UNPAT	**191,417**	**169,357**

UNPAT Adjustments:

Amortisation of intangible assets: Non-cash entry reflective of declining intangible asset values over their useful lives. Intangible assets are continuously generated within the IOOF Group, but are only able to be recognised when acquired. The absence of a corresponding entry for intangible asset creation results in a conservative one sided decrement to profit only. It is reversed to ensure the operational result is not impacted. The reversal of amortisation of intangibles is routinely employed when performing company valuations. However, the amortisation of software development costs is not reversed in this manner.

Acquisition costs - Acquisition advisory: One off payments to external advisers for corporate transactions, being the acquisition of AET Services (AETS) and planned acquisition of ANZ Wealth Management, which were not reflective of conventional recurring operations.

Acquisition costs - Integration preparation: Staff and specialist contractor costs related to integration preparation for the planned acquisition of ANZ Wealth Management.

Acquisition costs - Finance costs: Costs of securing finance for the planned acquisition of ANZ Wealth Management.

Onerous contracts: Non cash entry to record the estimated present value of expected costs of meeting the obligations under contracts where the costs exceed the economic benefits expected to be received pursuant to the contracts.

Termination payments: Facilitation of restructuring to ensure long term efficiency gains which are not reflective of conventional recurring operations.

Profit on divestment of subsidiaries: The IOOF Group partially divested a subsidiary during the year. (prior year: Perennial Investment Management Ltd and partial divestment of a subsidiary).

Profit on divestment of assets: Divestments of non-core businesses, client lists and associates.

Non-recurring professional fees (recovered)/paid: Recovery of certain litigation related prior year costs via successful insurance claim. (Prior year: Costs relating to specialist service and advice providers enlisted to assist the IOOF Group in better informing key stakeholders. These services were required following negative media allegations. In particular, but not limited to, process review, senate inquiry support, government relations, litigation defence and communications advice. This type and level of support was not required on a recurrent basis).

Impairment of goodwill: A non-cash impairment of $28.3m has been recognised in relation to goodwill allocated to Perennial Investment Partners Limited (Prior year: $38.6m). Reduced profitability from lower revenue has led to calculated value-in-use declining to below the carrying value of the aggregate goodwill and investment balances. Revenue decline has arisen due to institutional outflows. These outflows reflect below benchmark performance in certain core products and changing market dynamics, where larger instiutions now weight a greater proportion of funds to indexed products.

UNPAT Adjustments (continued):

Unwind of deferred tax liability recorded on intangible assets: Acquired intangible asset valuations for AASB 3 Business Combinations accounting are higher than the required cost base as set under tax consolidation rules implemented during 2012. A deferred tax liability (DTL) is required to be recognised as there is an embedded capital gain should the assets be divested at their accounting values. This DTL reduces in future years at 30% of the amortisation applicable to those assets which have different accounting values and tax cost bases. The recognition of DTL and subsequent reductions are not reflective of conventional recurring operations and are regarded as highly unlikely to be realised due to the IOOF Group's intention to hold these assets long term.

Settlement of legal claims: Provision for settlement of plaintiff claims in certain of the legal proceedings to which Australian Executor Trustees Limited is party in connection with its role as debenture trustee of Provident Capital Limited.

Other: Deferred consideration devaluation relating to prior periods' divestment of Perennial and other businesses.

Acquisition tax provision release: The acquisition of DKN in the 2012 financial year necessitated recognition of a provision related to an uncertain tax position. This was recognised at estimated fair value, however the provision was released as it was adjudged that a present obligation no longer existed. This was a one-off, non-cash, non-operational increment to the IOOF Group's statutory profitability.

Income tax attributable: This represents the income tax applicable to certain adjustment items outlined above.

Review of Strategy

The IOOF Group services the needs of financial advisers and their clients through appropriately licensed and regulated entities. The pool of investable funds emanates predominantly from superannuation which has been supported by Australia's mandatory contributions regime since the early 1990s. Competition for service offerings to superannuants and investors (fund members) in the Australian market place is currently drawn from five main fund types with the following differentiating features:

Retail - privately operated trusts and other schemes. The majority of funds are channelled to administration services and investment management products through financial advisers. However, technological development is enabling an increasing range of offerings direct to fund members.

Industry Funds - superannuation entities which historically have provided for employees working in the same union, industry or group of related industries. Many industry funds now offer membership to members of the public. Industry funds generally administer these funds, but may outsource the management of investments.

Self Managed - the fund member acts as Trustee for his or her pool of funds, which can include funds from a limited number of other family members and associates. These funds are predominantly utilised where the Trustee perceives they have the requisite time and expertise to manage their own investment strategy and a sufficient scale of funds to make the fixed administration costs economically justifiable.

Corporate - funds established for the benefit of employees of a particular entity or a group of related entities, with joint member and employer control.

Public Sector - funds which provide benefits largely for government employees or employees of statutory authorities, or are schemes established by a Commonwealth, State or Territory law.

Self Managed Funds are regulated by the Australian Taxation Office (ATO) whereas all others above are regulated by the Australian Prudential Regulation Authority (APRA).

The IOOF Group administers and manages Retail funds. Australian Superannuation assets totalled $2.6 trillion as at 31 March 2018. Over the 12 months to March 2018 there was a 6.8% increase in total superannuation assets and retail providers had a market share of approximately 23%. The IOOF Group's market share of that sub-set was 5.5% when measured by platform management and administration (platform) segment Funds Under Administration (FUAdmin). There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

As published in APRA's March 2018 Quarterly Superannuation Performance Statistics, the following were the asset allocation metrics for funds with greater than four members: 50.8% of investments were invested in equities; with 22.6% in Australian listed equities, 24.2% in international listed equities and 4.0% in unlisted equities; Fixed income and cash investments accounted for 32.1% of investments; 21.1% in fixed income and 11.0% in cash; Property and infrastructure accounted for 13.4% of investments and 3.7% were invested in other assets, including hedge funds and commodities.

The IOOF Group operates in the Wealth Management sector. The sector has a substantial and growing pool of funds underpinned by government compulsion. The attraction of the sector is further enhanced by high regulatory and technological barriers to entry from new competitors. As an incumbent participant, we seek to grow our Funds Under Management, Administration, Advice and Supervision (FUMAS) faster than our competitors. In doing so, the portion of our revenue net of direct costs (gross margin) which is levied on asset balances may reasonably be expected to rise proportionately with FUMAS. This proportionate rise may be affected by the impact of differentiated product pricing and competitive pressure on management fee rates. In conjunction, we seek to leverage a cost base which is largely fixed relative to the scale of our FUMAS.

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Review of Strategy (continued)

The IOOF Group's future FUMAS growth will be underpinned by asset revaluation, flows of funds from new and existing clients and acquisition initiatives. Funds flow will be advanced through:
● increasing brand and product awareness to increase revenue;
● enhancing the adviser and fund client experience through continued technology development and experienced knowledgeable support staff;
● operating an open architecture environment which allows our advisers and clients to utilise the administration service which best meets their objectives irrespective of whether it is an IOOF Group proprietary service or a competitor's service. All options, however, generate a favourable economic return for the IOOF Group;
● enhanced training initiatives and leading minimum qualification standards to give our staff and advisers every opportunity to optimise the experience of our clients;
● establishing skilled teams and robust analytical processes to enhance the prospect of achieving above benchmark performance in investment management; and
● continuous improvement in process efficiency to minimise operating costs.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) was established on 14 December 2017 and is ongoing at the date of this report. There has been speculation among media commentators, investment analysts and others that the structure of the industry in which the IOOF Group operates may be materially changed in a manner which is potentially disadvantageous to its profitability. The IOOF Group is not able to determine whether any material changes will eventuate, nor the form or timing of any potential changes should they be recommended. The IOOF Group will continue to closely monitor Royal Commission hearings, relevant public commentary and any reports by the Commissioner when they are released. The IOOF Group will also continue to advocate strongly for a regulatory framework which makes appropriate financial advice, provided by well capitalised, reputable, compliant license holders, available to as many Australians as possible.
The fifth round of public hearings will be held in Melbourne from 6 August to 17 August 2018. This round will consider how RSE Licensees fulfil their duties to members of regulated superannuation funds and the extent to which structural or governance arrangements may affect the fulfillment of those duties.
The IOOF Group has been included in the list of 13 Licensees who will be subject to this case study. External legal support has been engaged.

The IOOF Group has a long-term strategy of pursuing growth through acquisitions and has completed several acquisitions in previous years. The IOOF Group will continue to pursue acquisitions within the Wealth Management sector on an opportunistic basis. However acquisitions will only be considered where they present a logical strategic fit with existing operations and are priced reasonably for the expected value accretion to shareholders. The funding of acquisitions will be considered on a case by case basis taking into account the relative cost of available funding sources and the impact on balance sheet structure overall.

Acquisitions

On 28 September 2017, the IOOF Group completed its acquisition of National Australia Trustees Limited and has since renamed the operating entity AET Services Limited (AETS). AETS is a significant provider of trustee services with a recognised history in Western Australia, New South Wales, Queensland and Victoria. AETS's offering has proved to be a strong strategic fit with the IOOF Group’s existing trustee business, Australian Executor Trustees Limited (AET). The integration of AETS was completed in the year to 30 June 2018 with expected annualised synergies of approximately: $2m revenue, primarily via client best interest led transition of compensation trust funds to IOOF proprietary platforms; and $3m in cost synergies through scale efficiencies. The impact of synergy savings in the year to 30 June 2018 is $1.6m in reduced costs.

On 17 October 2017, the IOOF Group announced an agreement with Australia and New Zealand Banking Group Limited (ANZ) to acquire ANZ’s OnePath Pensions and Investments business and Aligned Dealer Groups (collectively “ANZ Wealth Management”) for a cash consideration of $975m, subject to a completion adjustment.

On 26 July 2018, the IOOF Group entered into a non-binding term sheet with ANZ in respect of implementing an accelerated economic completion of the acquisition of ANZ’s One Path Pensions and Investments (ANZ P&I) business and full legal ownership of ANZ’s Aligned Dealer Groups (ADGs).
The IOOF Group and ANZ are negotiating final legally binding arrangements to give effect to the following agreed outcomes:

● Full legal ownership of ANZ ADGs from 1 October 2018.
● Substantial economic completion of the ANZ P&I business will also be brought forward to 1 October 2018 through:
● an initial payment by the IOOF Group of $800m to ANZ; and
● ANZ to pay a return to the IOOF Group equivalent to 82% of the economic interests in the ANZ P&I business from 1 October 2018.
Final completion of the acquisition of the ANZ P&I business acquired by the IOOF Group will take place after successful completion of a successor fund transfer (which separates the ANZ P&I business products from OnePath Life), which is expected to occur towards the end of March 2019.

Assuming stable economic conditions more generally, the accelerated completion date for the ADGs and the proposed economic completion is expected to deliver Earnings Per Share broadly in line with forecasts previously disclosed in the initial announcement of the transaction.

It should also be noted that there is no assurance that any legally binding arrangement implementing the revised arrangements described above will be entered into or that any matter contemplated by the term sheet will be effected.

IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2018

Analysis of financial results - IOOF Group

The IOOF Group's UNPAT increased $22.1m or 13% to $191.4m for the year ended 30 June 2018 relative to $169.4m UNPAT in the prior year. Variances compare the year to 30 June 2018 with the year to 30 June 2017 and are denoted as prior year.

Gross margin increased by $9.4m

During the current year, average Funds Under Management, Administration and Advice (FUMA) were $118.9b, an increase of 8.6% on prior year. This increase was derived largely from equity market performance in the current year augmented by organic growth in advice and platform funds. Financial advice flows of $4.4b were up 48.3% on prior year. Outside of system growth and solid performance from aligned adviser groups, this was principally due to new advisers joining the IOOF Group under its Consultum license. Platform flows of $1.6b were up 33.7% on prior year. This segment benefited from higher levels of flows across the sector, enhanced capture of funds from other IOOF Group segments, principally trustee, and better penetration of the IOOF Group's existing client base.

The higher level of average funds boosted gross margin by $42m, but was partly offset by the more rapid growth in products with lower earning rates or margins (impact of -$33m on prior year). Within platform, the lower rates for the current year principally reflected the continuing trend for a higher proportion of funds to be directed towards more contemporary platforms with lower fees, but commensurately lower attributable overheads. Investment management margins were relatively stable which is reflective of the steady state maturity and complementary nature of that segment. In financial advice, new business from incoming advisers was dilutive on segment margin overall.

Other revenue increased by $3.9m

The IOOF Group's broking businesses', (Ord Minnett and Bridges) contributions were up in comparison to prior year due to improved equity market conditions for new issues and traded volumes more broadly.

Operating expenditure decreased by $9.4m

The decrease in operating expenditure excludes the impact of expenditure items reversed when calculating UNPAT. The most significant factor was a $7.6m reduction in information technology costs, which was an initiative first noted in analysis of the first half of the current year's results. This reduction was derived principally from a return to conventional recurring development spend following the completion of a number of client experience enhancement initiatives. The IOOF Group has also benefited from transferring software development from external consultants to internal employees. Labour represents the IOOF Group's most material cost. Labour costs have increased by $1.9m which includes higher rates of pay and the transition of development resources noted above. The rate of increase has been significantly offset by lower staff numbers overall. This follows the realisation of efficiencies through platform rationalisation in the first half of prior year. Administration costs reduced significantly through recovery of costs previously regarded as unrecoverable and therefore expensed. Professional fees have decreased largely because prior year acquisition related legal costs were expensed when the relevant opportunities were unsuccessful. Occupancy related expenses increased due to significant reconfiguration of the property footprint which has resulted in certain one-off service fees and short term duplication.

Net financing costs decreased by $10.1m

Net financing costs reduced as a result of applying approximately $557m of newly issued capital and surplus cash to extinguish $207m in borrowings and the residual to certificates of deposit. This application of funds reflected the need to eliminate unnecessary debt carrying costs whilst maintaining a relatively high level of liquidity given the expectation of paying $800m in purchase consideration to ANZ on 1 October 2018.

Other impacts decreased UNPAT by $2.6m

Non-controlling interest was $1.5m higher in line with Ord Minnett's increased profitability. Share of associates' profits declined $1.0m relative to prior year as a result of mandate outflows within the Perennial Value Management Group (PVM). Share-based payments expense was $1.4m higher due to the rebalancing of certain adviser plans to long term incentives. Partly offsetting these impacts, depreciation and amortisation were reduced, reflecting an increased proportion of related assets at the end of their estimated useful lives.

Analysis of financial results - IOOF Group (continued)

Income tax expense increased by $8.2m

Income tax expense relative to prior year principally reflected the IOOF Group's improved profitability. This was partly offset by increased research and development (R&D) tax offsets and prior year amendments. There was an $0.4m lower spend on treasury shares to fulfil employee share plans ($0.1m tax impact). The impact of this differential is relatively modest, in line with reasonable stability in the scale and breadth of plans overall.

Analysis of financial results - Segments

	2018	2017	Movement	
Financial advice	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	268,457	261,808	6,649	2.5%
Other revenue (incl share of profits of associates)	3,914	3,856	58	1.5%
Operating expenditure	(149,538)	(148,755)	(783)	(0.5%)
Net financing	715	560	155	27.7%
Net non-cash items	(4,231)	(3,221)	(1,010)	(31.4%)
Income tax expense and non-controlling interest	(41,271)	(37,894)	(3,377)	(8.9%)
Underlying Profit after Tax	**78,046**	**76,354**	**1,692**	**2.2%**

● Average funds' growth has been particularly strong through the addition of advisers. This has brought new revenue streams into the IOOF Group, albeit at a dilutive margin as a percentage of average funds.

● Operating expenditure has increased slightly. Costs have followed conventional seasonal trends with lower second halves derived from first half timing of adviser conferences. These events are largely profit neutral with expenses matched by participant and sponsor receipts in revenue.

	2018	2017	Movement	
Platform management and administration	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	209,972	212,450	(2,478)	(1.2%)
Other revenue (incl share of profits of associates)	75	-	75	n/a
Operating expenditure	(89,507)	(95,865)	6,358	6.6%
Net financing	3	1	2	LARGE
Net non-cash items	(4,446)	(5,380)	934	17.4%
Income tax expense and non-controlling interest	(35,091)	(33,939)	(1,152)	(3.4%)
Underlying Profit after Tax	**81,006**	**77,267**	**3,739**	**4.8%**

● Profitability improved due to more efficient delivery of products and services. Net operating margin, as represented by net operating revenue less operating expenditure divided by average funds, was stable at 0.32%.

● Gross margin decreased as a result of net funds diminution in high priced legacy and transition platforms, partly offset by high growth in platforms priced at contemporary competitive fee scales.

● Significantly reduced operating expenditure resulted primarily from reduced staff numbers, technology support and licence costs following platform rationalisation. In addition, there was higher IT investment in the prior year to facilitate higher levels of on-line transacting in future years.

	2018	2017	Movement	
Investment management	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	61,880	57,508	4,372	7.6%
Other revenue (incl share of profits of associates)	1,811	2,737	(926)	(33.8%)
Operating expenditure	(11,376)	(14,284)	2,908	20.4%
Net financing	-	436	(436)	n/a
Net non-cash items	(621)	(723)	102	14.1%
Income tax expense and non-controlling interest	(14,993)	(12,967)	(2,026)	(15.6%)
Underlying Profit after Tax	**36,701**	**32,707**	**3,994**	**12.2%**

● Net operating revenue improved in line with market based growth in average funds flowing largely from improved platform FUAdmin. Other revenue was affected by PVM performance.

● Decreased operating expenditure resulted from the divestment of Perennial Investment Management Ltd in the prior year.

	2018	2017	Movement	
Trustee services	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	33,647	28,490	5,157	18.1%
Other revenue (incl share of profits of associates)	-	-	-	n/a
Operating expenditure	(20,193)	(18,341)	(1,852)	(10.1%)
Net financing	-	-	-	n/a
Net non-cash items	(633)	(578)	(55)	(9.5%)
Income tax expense and non-controlling interest	(3,861)	(2,876)	(985)	(34.2%)
Underlying Profit after Tax	**8,960**	**6,695**	**2,265**	**33.8%**

Analysis of financial results - Segments (continued)

Trustee services (continued)

● Net operating revenue has increased in line with the acquisition of AETS and higher client numbers.

● Increased operating expenditure followed the acquisition of AETS and was partly offset by synergies extraction from that business.

Financial Position

The IOOF Group held cash and cash equivalents of $121.4m at 30 June 2018 (30 June 2017: $208.2m). Cash is held to satisfy regulatory net asset requirements and also to ensure adequate liquidity given management fee receipts are less frequent than payroll and service fee cash outflows.

The overall debt to equity ratio stood at 0% at 30 June 2018 (30 June 2017: 13%) following the issue of new capital to fund the planned ANZ Wealth Management acquisition and subsequent repayment of borrowings.

Cash flow forecasting is conducted monthly, principally to ensure sufficient liquidity for future needs and to monitor adherence to licence conditions, and stress testing of lending covenants is conducted when assessing funding options for acquisition opportunities.

Risks

The IOOF Group manages a number of risks in conducting its operations and implementing its strategy. An in depth discussion of risks and sensitivities will be outlined in Section 1 of the full financial statements when released. Material risks faced by the IOOF Group include, but may not be limited to, the following:

(i) Changes in investment markets
The IOOF Group derives a significant proportion of its earnings from fees and charges based on the level of FUMAS. The level of FUMAS will reflect (in addition to other factors such as the funds flowing into and out of FUMAS) the investment performance of those funds. Therefore, changes in domestic and/or global investment market conditions could lead to a decline in FUMAS, adversely impacting the amount the IOOF Group earn in fees and charges. Deterioration in investment market conditions could also lead to reduced consumer interest in the IOOF Group's financial products and services. The principal response to this risk has been to establish comprehensive investment governance committees, policies and procedures which are subject to continuous monitoring and oversight.

(ii) Competition
There is substantial competition for the provision of financial services in the markets in which the IOOF Group operates. A variety of market participants in specialised investment fund management, wealth advice and corporate trustee services compete vigorously for customer investments and the provision of wealth management services. These competitive market conditions may adversely impact earnings and assets. The IOOF Group manages this risk by continuously investing in product design, stakeholder relationships and continuous improvement initiatives.

(iii) Information technology
The IOOF Group relies heavily on information technology. Therefore, any significant or sustained failure in the IOOF Group's core technology systems could have a materially adverse effect on operations in the short term, which in turn could undermine longer term confidence and impact the future profitability and financial position of the IOOF Group. The IOOF Group has implemented a next-generation firewall, pursues continuous improvements to protect user devices and imposes segregation of duties between technology environments. More broadly, the IOOF Group uses policies and procedures which are subject to continuous monitoring and oversight, maintains a significant complement of experienced staff and employs specialist advisers. Information technology controls are highly complementary to those employed to minimise cyber security risks.

(iv) Cyber security

There is a risk of significant failure in the IOOF Group's operations and/or material financial loss as a result of cyber attacks. To manage this risk, the IOOF Group has followed the recommendation of ASIC and adopted the United States government's National Institute of Standards and Technology cybersecurity framework. In doing so, the IOOF Group has implemented measures and controls that cover identification, detection, monitoring and response in relation to cyber threats. More broadly, the IOOF Group has developed and tested its disaster recovery capability and procedures, implemented high availability infrastructure and architectures, conducted mandatory staff training which is focused on cyber risk and continually monitor systems for signs of poor performance, intrusion or interruption. Cyber security controls are highly complementary to those employed to minimise information technology risks.

Risks (continued)

(v) Brands and reputation
The IOOF Group's capacity to attract and retain financial advisers, employees, clients and FUMAS depends to a certain extent upon the brands and reputation of its businesses. A significant and prolonged decline in key brand value or IOOF Group reputation could contribute to lower new business sales, reduced inflows of investment funds and assets, damage to client strategies and may impact adversely upon the IOOF Group's future profitability and financial position. The IOOF Group actively monitors media and other public domain commentary on its affairs as well as proactively promoting the value of its services, products and community initiatives and building a customer centric culture.

(vi) Provision of investment advice
The IOOF Group's financial advisers and authorised representatives provide advice to clients and may be exposed to litigation if this advice is judged to be incorrect or if the authorised representative otherwise becomes liable for client losses. This risk is managed by having high educational, compliance and training standards for the IOOF Group's advisers whilst its potential financial impact is generally mitigated by taking out appropriate insurance cover.

(vii) Operational risks

Operational risk is the risk arising from the daily functioning of the IOOF Group's businesses. The IOOF Group has specific operational exposures relevant to the industry in which we operate including exposures in connection with product disclosure statements, investment management, tax and financial advice, legal and regulatory compliance, product commitments, process error, fraud, system failure, failure of security and physical protection systems and unit pricing errors. This risk is minimised via policies and procedures which are subject to continuous monitoring and oversight. The IOOF Group maintains a significant complement of experienced staff, builds a positive culture and utilises specialist advisers to carry out such monitoring.

(viii) Conduct risk

Conduct risk is the risk of failure of the IOOF Group's frameworks, product design or practices to prevent inappropriate, unethical or unlawful conduct (either by negligence or deliberate actions) on the part of the IOOF Group's management, employees, contractors or representatives. The IOOF Group's culture of honest and ethical behaviour is supported by the IOOF Code of Conduct and its Compliance Manual for Authorised Representatives, which set out the tenets of professional and personal conduct with which directors, employees, contractors, Authorised Representatives, agents and consultants are required to comply. These include promoting a healthy and safe environment, protecting private and confidential information, acting at all times within the law and acting in the best interests of the IOOF Group, its shareholders, clients and investors. As an additional safeguard, the IOOF Group's Whistleblower Policy protects employees from detrimental action where employees disclose, in good faith and with reasonable grounds, any unethical, illegal, fraudulent or undesirable conduct.

(ix) Credit risk
Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss that arises from receivables, loans and other receivables. The IOOF Group's counterparties generally do not have an independent credit rating. The IOOF Group assesses the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information.

(x) Cash flow and interest rate risk
Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. The financial instruments held that will be impacted by interest rate risk consist of cash and cash equivalents, certificates of deposit, loans, and borrowings. Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements. Interest rates (both charged and received) are based on market rates, and are closely monitored by management. They are primarily at variable rates of interest, and will expose the IOOF Group to cash flow interest rate risk. The IOOF Group intends to apply partial hedge cover to manage its interest rate risk exposure arising from its expected future borrowings to fund the ANZ Wealth Management acquisition.

(xi) Liquidity risk
Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover current liabilities and unforeseen expenses. The IOOF Group manages liquidity risk exposure by maintaining sufficient liquid assets and an ability to access a committed line of credit. The liquidity requirements for licensed entities in the IOOF Group are also regularly reviewed and carefully monitored in accordance with those licence requirements.

(xii) Reliance on Australian Financial Services Licence, Registrable Superannuation Entity and other licences
In order to provide the majority of its services in Australia, a number of the IOOF Group's controlled entities are required to hold a number of licences, most notably Australian Financial Services (AFS) or Registrable Superannuation Entity (RSE) licences. If any of those entities fails to comply with the general obligations and conditions of its licence, this could result in the suspension or cancellation of the licence. While it is not expected to occur, a breach or loss of licences could have a material adverse effect on business and financial performance. AFS and RSE licences also require the licence holder to maintain certain levels of capital. These capital requirements may change from time to time. Earnings dilution may occur where a higher capital base is required to be held.

Risks (continued)

(xiii) Insurance
The IOOF Group holds insurance policies, including errors and omissions (professional indemnity) and directors' and officers' insurance, which are commensurate with industry standards, and adequate having regard to our business activities. These policies provide a degree of protection for the IOOF Group's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that the IOOF Group currently maintains will:
• be available in the future on a commercially reasonable basis; or
• provide adequate cover against claims made against or by the IOOF Group, noting that there are some risks that are uninsurable (e.g. nuclear, chemical or biological incidents) or risks where the insurance coverage is reduced (e.g. cyclone, earthquake, flood, fire).

The IOOF Group also faces risks associated with the financial strength of its insurers to meet indemnity obligations when called upon which could have an adverse effect on earnings. If the IOOF Group incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

(xiv) Unit pricing errors

Systems failures or errors in unit pricing of investments are issues affecting the broader funds management industry that may result in significant financial losses and brand damage to a number of financial services organisations. A unit pricing error made by the IOOF Group or its service providers could cause financial or reputation loss. This risk is minimised via policies, procedures and contractual enforcement which are subject to continuous monitoring and oversight. The IOOF Group maintains a significant complement of experienced staff and utilises specialist service providers to maintain robust systems and accurate inputs.

(xv) Dependence on key personnel
The IOOF Group's performance is dependent on the talents and efforts of key personnel. The IOOF Group's continued ability to compete effectively depends on our capacity to retain and motivate existing employees as well as attract new employees. The loss of key executives or advisers could cause material disruption to operations in the short to medium term. While equity incentives of key personnel align their interests with the IOOF Group's future performance, they do not provide a guarantee of their continued employment. The IOOF Group utilises succession planning to manage this risk.

(xvi) Dependence on financial advisers
The success of the IOOF Group's advice and platform business is highly dependent on the quality of the relationships with its financial advisers and the quality of their relationships with their clients. The IOOF Group's ability to retain productive advisers is managed by monitoring and, where necessary, improving service levels, technological capability, suitability of product offerings and the quality and relevance of professional training.

(xvii) Acquisitions
Acquisition transactions involve inherent risks, including:
• accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
• integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
• diversion of management attention from existing business;
• potential loss of key personnel and key clients;
• unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
• decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.
Any of these risks could result in a failure to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on the IOOF Group's financial position. The IOOF Group maintains a significant complement of experienced staff and holds relationships with specialist advisers to assess acquisition opportunities. This is designed to ensure the Board is fully informed of the risks and opportunities associated with any potential individual acquisition.

(xviii) Dilution
The IOOF Group's need to raise additional capital in the future in order to meet its operating or financing requirements, including by way of additional borrowings or increases in the equity of any of the consolidated entity's companies, may change over time. Future capital raisings or equity funded acquisitions may dilute the holdings of particular shareholders to the extent that such shareholders do not subscribe to additional equity, or are otherwise not invited to subscribe in additional equity. This risk will be managed by examination of relevant factors and circumstances prevailing at that time.

Risks (continued)

(xix) Regulatory and legislative risk and reform
The financial services sectors in which the IOOF Group operates are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions. The regulatory regimes governing the IOOF Group's business activities are complex and subject to change. The impact of future regulatory and legislative change upon the IOOF Group cannot be predicted. In addition, if the amount and complexity of new regulation increases, so too may the cost of compliance and the risk of non-compliance. The IOOF Group maintains a significant complement of experienced staff and holds relationships with specialist advisers to minimise this risk.

(xx) Royal Commission
The Royal Commission was established on 14 December 2017 by the Governor-General of the Commonwealth of Australia. The conduct and activities of the IOOF Group are included in its terms of reference. The Commissioner is authorised to submit an interim report no later than 30 September 2018. The final report is due by 1 February 2019. Given those dates it is unclear at the date of reporting what impact the Royal Commission will have on the IOOF Group and the wealth management industry within which it operates. The IOOF Group has engaged external counsel and retains a complement of qualified staff to ensure it is able to interact appropriately with the Royal Commission.

(xxi) Sustainability risk
A sustainability risk is an uncertain environmental or social event or condition that, if it occurs, can cause a significant negative impact on the IOOF Group. The IOOF Group focuses on the environmental effects of its premises, investment manager policies and business processes in order to implement ways to minimise those effects. The IOOF Group also maintains a number of policies dedicated to diversity, inclusion and engagement to ensure that its interactions with clients, staff and other key external parties are conducted in a compliant manner which also meets community expectations.

Shareholder returns

The IOOF Group dividend is calibrated to provide shareholders with a benefit which reflects performance and offers an attractive yield when assessed against a range of other external economic factors and investment options. The Board also understands that dividend payments should not hinder future organisational plans. The Board has therefore determined that a pay-out ratio range of 60% - 90% of UNPAT is generally appropriate, but not binding. Due to the institutional placement completed by the IOOF Group during the year, the Board has determined that a stable dividend of 27.0 cents per share, resulting in a payout ratio of 98%, is appropriate to ensure shareholders are not diluted prior to the completion of the ANZ Wealth Management transaction.

Total Shareholder Return (TSR) measures the change in share value over a specified period together with the return by way of dividends received. The IOOF Group's TSR for the 12 months to 30 June 2018 was -2.8% with a dividend yield of 6.0% more than offset by share price decline of 8.3%. The market valuation of the IOOF Group was reflective of uncertainty over the long term effects of the Royal Commission on the wealth management industry despite positive movements in global equity markets generally. TSR in the 5 year period from 1 July 2013 was 57.7% in total and 9.5% on a compounding annualised basis. The IOOF Group is in a strong financial position with no borrowings and significant free cash.

	2018	2017	2016	2015	2014
Profit attributable to owners of the Company ($'000s)[1]	88,301	115,990	196,846	138,371	101,285
Profit for the year for continuing operations ($'000s)	93,626	119,851	140,542	140,527	103,378
Basic EPS (cents per share)	26.4	38.7	65.7	47.7	43.7
Diluted EPS (cents per share)	26.4	38.6	65.4	47.4	43.1
Basic EPS (continuing operations) (cents per share)	26.4	38.7	46.0	45.8	43.7
UNPAT ($'000s)	191,417	169,357	173,367	173,758	123,047
UNPAT EPS (cents per share)	57.3	56.5	57.8	59.9	53.1
UNPAT EPS (continuing operations) (cents per share)	57.3	56.5	57.1	58.6	53.1
Dividends declared ($'000s)	189,582	159,071	163,573	159,070	127,260
Dividends per share (cents per share)	54.0	53.0	54.5	53.0	47.5
Opening share price	$ 9.80	$ 7.83	$ 8.99	$ 8.40	$ 7.36
Closing share price at 30 June	$ 8.99	$ 9.80	$ 7.83	$ 8.99	$ 8.40
Return on equity (non-statutory measure)[2]	11.3%	12.1%	12.3%	13.4%	15.0%

[1] Profit attributable to owners of the Company has been calculated in accordance with Australian Accounting Standards.

[2] Return on equity is calculated by dividing UNPAT by average equity during the year.

Returns to shareholders increase/decrease through both dividends and capital growth/decline. Dividends for 2018 and prior years were fully franked.

3. Net tangible assets

	30 June 2018 (cents)	30 June 2017 (cents)
Net tangible assets/(liabilities) per share *	160.0	23.5

* Net tangible assets equate to net assets excluding goodwill, intangible assets and deferred tax liabilities arising from acquisitions.

4. Entities over which control has been gained or lost

Control over AET Services Limited was gained during the year due to the purchase of this entity from National Australia Bank Ltd. The Group held 100% of the shares on issue as at 30 June 2018 which was nil as at 30 June 2017.

5. Dividends

	Amount $'000	Cents per share	% Franked
Final dividend for the year ended 30 June 2017	81,036	27.0	100%
Interim dividend for the year ended 30 June 2018	94,791	27.0	100%
Final dividend for the year ended 30 June 2018	94,791	27.0	100%
Record date for determining entitlements to dividends	21 August 2018		
Payment date of final dividend	4 September 2018		

6. Dividend reinvestment plans

The Company does not operate a dividend reinvestment plan.

7. Details of associates and joint venture entities

	Ownership interest held at the end of year		Contribution to net profit	
	Current year %	Prior year %	Current year $'000	Prior year $'000
Equity accounted associates				
Perennial Value Management Ltd *	52.4	52.4	1,811	2,662
Other associates			713	816
			2,524	3,478

* Due to voting rights associated with different classes of shares in Perennial Value Management Ltd, 52.4% ownership interest does not result in control as defined by AASB 10 *Consolidated Financial Statements.*

IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2018

8. Earnings per share

	30 June 2018 (cents)	30 June 2017 (cents)
Basic earnings per share	26.4	38.7
Diluted earnings per share	26.4	38.6
UNPAT earnings per share	57.3	56.5

Weighted average number of ordinary shares	30 June 2018 No. '000	30 June 2017 No. '000
Basic and UNPAT earnings per share	334,072	299,820
Diluted earnings per share	334,822	300,493

At 30 June 2018, there were no options outstanding.

9. Other

The Directors of IOOF Holdings Limited confirm that the financial information and notes of the IOOF Group set out on pages 15 to 28 are in the process of being audited.

Further information regarding the IOOF Group and its business activities can be obtained at www.ioof.com.au

Mr George Venardos
Chair
Melbourne
7 August 2018

Condensed consolidated statement of comprehensive income

	Note	2018 $'000	2017 $'000
Revenue	1-2	919,141	907,519
Expenses	1-3	(780,083)	(724,745)
Share of profits of associates accounted for using the equity method		2,524	3,478
Finance costs		(2,103)	(6,828)
Profit before tax		139,479	179,424
Income tax expense		(45,853)	(59,573)
Statutory fund			
Statutory fund revenue*		61,798	65,016
Statutory fund expenses*		(44,401)	(52,124)
Income tax (expense)/benefit - statutory*		(17,397)	(12,892)
Statutory fund contribution to profit, net of tax		-	-
Profit for the year		**93,626**	**119,851**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		8,185	3,770
Exchange differences on translating foreign operations		(89)	15
Income tax on other comprehensive income		(2,444)	(1,134)
Other comprehensive income/(expense) for the year, net of income tax		5,652	2,651
Total comprehensive income for the year		99,278	122,502
Profit attributable to:			
Owners of the Company		**88,301**	**115,990**
Non-controlling interest		5,325	3,861
Profit for the year		93,626	119,851
Total comprehensive income attributable to:			
Owners of the Company		93,953	118,641
Non-controlling interest		5,325	3,861
Total comprehensive income for the year		99,278	122,502
Earnings per share:			
Basic earnings per share (cents per share)	1-5	26.4	38.7
Diluted earnings per share (cents per share)	1-5	26.4	38.6

Notes to the condensed consolidated financial statements are included on pages 20 to 28.

*A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards and are shown separately from shareholder funds in the financial statements. Calculation of the members' comprehensive income within this subsidiary is subject to actuarial input which had not been finalised at the reporting date. It is therefore possible that the components shown above will change when audited financial statements are released, however the impact on the IOOF Group will remain nil.

Condensed consolidated statement of financial position

	Note	2018 $'000	2017 $'000
Assets			
Cash		121,441	208,218
Certificates of deposit		407,443	-
Receivables		99,659	108,401
Other financial assets		55,087	45,430
Prepayments		17,307	14,403
Deferred acquisition costs		1,552	1,913
Associates		24,002	21,081
Property and equipment		19,339	21,480
Intangible assets	3-1	408,310	441,079
Goodwill	3-2	940,226	954,867
Assets relating to statutory funds*	4	1,036,491	934,119
Total assets		**3,130,857**	**2,750,991**
Liabilities			
Payables		65,139	60,007
Borrowings	2-1	-	206,948
Current tax liabilities		25,615	25,813
Contingent consideration		392	1,839
Provisions		116,335	64,639
Deferred tax liabilities		69,255	92,949
Deferred revenue liability		1,413	1,800
Lease incentives		3,530	2,429
Liabilities relating to statutory funds*	4	1,036,491	934,119
Total liabilities		**1,318,170**	**1,390,543**
Net assets		**1,812,687**	**1,360,448**
Equity			
Share capital	2-2	1,967,023	1,434,459
Reserves	2-4	19,413	13,349
Accumulated losses		(184,169)	(97,048)
Total equity attributable to equity holders of the Company		**1,802,267**	**1,350,760**
Non-controlling interest		10,420	9,688
Total equity		**1,812,687**	**1,360,448**

Notes to the condensed consolidated financial statements are included on pages 20 to 28.

*A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards and are shown separately from shareholder funds in the financial statements. Calculation of the members' funds financial position within this subsidiary is subject to actuarial input which had not been finalised at the reporting date. It is therefore possible that the components shown above will change when audited financial statements are released, however the impact on the IOOF Group will remain nil.

For the year ended 30 June 2018	Ordinary shares $'000	Treasury shares $'000	Reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2017	1,438,601	(4,142)	13,349	(97,048)	1,350,760	9,688	**1,360,448**
Total comprehensive income for the year							
Profit for the year attributable to owners of the Company	-	-	-	88,301	88,301	5,325	**93,626**
Other comprehensive income for the year, net of income tax	-	-	5,652	-	5,652	-	**5,652**
Total comprehensive income for the year	-	-	5,652	88,301	93,953	5,325	**99,278**
Transactions with owners, recorded directly in equity							
Contributions by and (distributions to) owners							
Dividends paid	-	-	-	(175,645)	(175,645)	(4,593)	**(180,238)**
Share-based payments expense	-	-	2,728	-	2,728	-	**2,728**
Issue of shares	539,264	-	-	-	539,264	-	**539,264**
Transaction costs of issuing new shares	(5,917)	-	-	-	(5,917)	-	**(5,917)**
Transfer from employee equity-settled benefits reserve on exercise of performance rights	2,093	-	(2,093)	-	-	-	**-**
Treasury shares transferred to recipients during the year	(2,393)	2,393	-	-	-	-	**-**
Transfer of lapsed performance rights to retained earnings	-	-	(223)	223	-	-	**-**
Purchase of treasury shares	-	(2,876)	-	-	(2,876)	-	**(2,876)**
Total transactions with owners	533,047	(483)	412	(175,422)	357,554	(4,593)	**352,961**
Balance at 30 June 2018	1,971,648	(4,625)	19,413	(184,169)	1,802,267	10,420	**1,812,687**

Notes to the condensed consolidated financial statements are included on pages 20 to 28.

For the year ended 30 June 2017	Ordinary shares $'000	Treasury shares $'000	Reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2016	1,439,276	(2,816)	11,266	(57,501)	1,390,225	9,475	1,399,700
Total comprehensive income for the year							
Profit for the year attributable to owners of the Company	-	-	-	115,990	115,990	3,861	119,851
Other comprehensive income for the year, net of income tax	-	-	2,651	-	2,651	-	2,651
Total comprehensive income for the year	-	-	2,651	115,990	118,641	3,861	122,502
Transactions with owners, recorded directly in equity							
Contributions by and (distributions to) owners							
Dividends paid	-	-	-	(155,934)	(155,934)	(3,648)	(159,582)
Share-based payments expense	-	-	1,295	-	1,295	-	1,295
Operating Risk Financial Reserve	-	-	(144)	-	(144)	-	(144)
Transfer from employee equity-settled benefits reserve on exercise of performance rights	1,322	-	(1,322)	-	-	-	-
Treasury shares transferred to recipients during the year	(1,997)	1,997	-	-	-	-	-
Transfer of lapsed performance rights to retained earnings	-	-	(397)	397	-	-	-
Purchase of treasury shares	-	(3,323)	-	-	(3,323)	-	(3,323)
Total transactions with owners	(675)	(1,326)	(568)	(155,537)	(158,106)	(3,648)	(161,754)
Balance at 30 June 2017	1,438,601	(4,142)	13,349	(97,048)	1,350,760	9,688	1,360,448

Notes to the condensed consolidated financial statements are included on pages 20 to 28.

Condensed consolidated statement of cash flows

	2018 $'000	2017 $'000
Cash flows from operating activities		
Receipts from customers	958,444	967,166
Payments to suppliers and employees	(670,098)	(725,564)
Dividends from associates	1,753	3,966
Net stockbroking purchases	(142)	(55)
Non-recurring professional fees recovered/(paid)	902	(2,013)
Termination payments	(2,304)	(3,933)
Income taxes paid	(72,682)	(60,288)
Net cash provided by operating activities	215,873	179,279
Cash flows from investing activities		
Dividends and distributions received	1,115	823
Interest received	8,051	4,313
Acquisition costs - Acquisition advisory	(5,367)	-
Acquisition costs - Integration preparation	(4,973)	-
Acquisition costs - Finance costs	(6,269)	-
Interest and other costs of finance paid	(2,061)	(6,608)
Purchase of certificates of deposit	(407,443)	-
Proceeds on divestment of subsidiaries	163	6,261
Acquisition of subsidiary, net of cash acquired	(18,329)	(1,045)
Purchase of shares in associates	(1,750)	-
Proceeds on divestment of other assets	3,967	14,814
Receipt of deferred purchase consideration	845	325
Net (purchases)/sales of financial assets	(110)	1,015
Payments for property and equipment	(9,341)	(7,440)
Amounts (advanced to)/borrowed from other entities	(114)	18
Payments for intangible assets	(1,289)	(4,934)
Net cash (used in)/provided by investing activities	(442,905)	7,542
Cash flows from financing activities		
Net borrowings repaid	(207,424)	(212)
Purchase of treasury shares	(2,876)	(3,323)
Proceeds from issue of shares	539,264	-
Transaction costs of issuing new shares	(8,452)	-
Dividends paid:		
- members of the Company	(175,645)	(155,934)
- non-controlling members of subsidiary entities	(4,593)	(3,648)
Net cash provided by/(used in) financing activities	140,274	(163,117)
Net increase in cash and cash equivalents	(86,758)	23,704
Cash and cash equivalents at the beginning of year	208,218	186,992
Cash and cash equivalents divested	-	(2,350)
Operating Risk Financial Reserve cash requirement	-	(144)
Effects of exchange rate changes on cash and cash equivalents	(19)	16
Cash and cash equivalents at the end of year	121,441	208,218

Notes to the condensed consolidated financial statements are included on pages 20 to 28.

Section 1 - Results for the year

This section focuses on the results and performance of the IOOF Group. On the following pages you will find disclosures explaining the IOOF Group's results for the year, segmental information and earnings per share. Where an accounting policy is specific to a single note, the policy is described in the note to which it relates.

1-1 Operating segments

The IOOF Group has the following five strategic divisions, which are its reportable segments. All segments' operating results are regularly reviewed by the IOOF Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

<u>Financial advice</u>
The provision of financial planning advice and stockbroking services supported by services such as investment research, training, compliance support and access to financial products.

<u>Platform management and administration</u>
The provision of administration and management services through master trust platforms, which offer a single access point to a range of investment products.

<u>Investment management</u>
The management and investment of monies on behalf of corporate, superannuation, institutional clients and private individual investor clients.

<u>Trustee services</u>
The provision of estate planning, trustee, custodial, agency and estate administration services to clients.

<u>Corporate and other</u>
Corporate and other costs include those of a strategic, shareholder or governance nature incurred in carrying on business as a listed entity managing multiple business units.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment underlying profit before income tax as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Section 1 - Results for the year

1-1 Operating segments (continued)

	Financial advice		Platform management and administration		Investment management		Trustee services		Corporate and other		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Management and service fees revenue	288,470	263,494	384,929	387,608	70,968	81,942	33,197	26,695	-	-	777,564	759,739
External other fee revenue	15,273	16,167	5,506	6,239	2,426	2,146	4,235	3,833	407	489	27,847	28,874
Service fees and other direct costs	(150,613)	(126,443)	(108,630)	(109,026)	(8,542)	(26,339)	(3,900)	(2,321)	384	398	(271,301)	(263,731)
Deferred acquisition costs	(179)	(372)	(141)	(157)	-	-	-	-	-	-	(320)	(529)
Gross Margin	**152,951**	**152,846**	**281,664**	**284,664**	**64,852**	**57,749**	**33,532**	**28,207**	**791**	**887**	**533,790**	**524,353**
Stockbroking revenue	96,304	85,478	-	-	-	-	-	-	-	-	96,304	85,478
Stockbroking service fees expense	(55,210)	(48,549)	-	-	-	-	-	-	-	-	(55,210)	(48,549)
Stockbroking net contribution	**41,094**	**36,929**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41,094**	**36,929**
Inter-segment revenue(i)	76,764	75,467	2,746	-	-	-	115	283	137	139	79,762	75,889
Inter-segment expenses(i)	(2,352)	(3,434)	(74,438)	(72,214)	(2,972)	(241)	-	-	-	-	(79,762)	(75,889)
Net Operating Revenue	**268,457**	**261,808**	**209,972**	**212,450**	**61,880**	**57,508**	**33,647**	**28,490**	**928**	**1,026**	**574,884**	**561,282**
Other revenue	3,193	3,028	75	-	-	75	-	-	774	1,197	4,042	4,300
Finance income	747	603	3	1	-	436	-	-	9,848	4,190	10,598	5,230
Inter-segment revenue(i)	8	12	-	-	-	-	-	-	-	-	8	12
Share of profits of associates	713	816	-	-	1,811	2,662	-	-	-	-	2,524	3,478
Operating expenditure	(149,538)	(148,755)	(89,499)	(95,853)	(11,376)	(14,284)	(20,193)	(18,341)	(37,885)	(40,682)	(308,491)	(317,915)
Share-based payments expense	(1,263)	(102)	(359)	(189)	(95)	(211)	(50)	(15)	(961)	(778)	(2,728)	(1,295)
Finance costs	(32)	(43)	-	-	-	-	-	-	(2,071)	(6,785)	(2,103)	(6,828)
Inter-segment expenses(i)	-	-	(8)	(12)	-	-	-	-	-	-	(8)	(12)
Depreciation of property & equipment	(2,968)	(3,119)	(3,563)	(3,454)	(526)	(512)	(583)	(563)	-	-	(7,640)	(7,648)
Amortisation of intangible assets - IT Development	-	-	(524)	(1,737)	-	-	-	-	-	-	(524)	(1,737)
Non-controlling interest	(5,325)	(3,861)	-	-	-	-	-	-	-	-	(5,325)	(3,861)
Income tax expense	(35,946)	(34,033)	(35,091)	(33,939)	(14,993)	(12,967)	(3,861)	(2,876)	16,071	18,166	(73,820)	(65,649)
UNPAT	**78,046**	**76,354**	**81,006**	**77,267**	**36,701**	**32,707**	**8,960**	**6,695**	**(13,296)**	**(23,666)**	**191,417**	**169,357**

(i) Segment revenues, expenses and results include transfers between segments. Such transfers are priced on a commercial basis and are eliminated on consolidation.

Segment disclosures have been prepared on an underlying (UNPAT) basis as discussed in section 2 of the Appendix 4E.

Section 1 - Results for the year

1-1 Operating segments (continued)

Reconciliation of reportable segment revenues and expenses

	2018 $'000	2017 $'000
Profit attributable to Owners of the Company	**88,301**	**115,990**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:		
Amortisation of intangible assets	39,400	38,611
Acquisition costs - Acquisition advisory	5,367	-
Acquisition costs - Integration preparation	4,973	-
Acquisition costs - Finance costs	6,725	-
Onerous contracts	2,345	-
Termination payments	2,128	4,125
Profit on divestment of subsidiaries	(143)	(6,261)
Profit on divestment of assets	(2,643)	(11,930)
Non-recurring professional fees (recovered)/paid	(902)	2,013
Impairment of goodwill	28,339	38,592
Unwind of deferred tax liability recorded on intangible assets	(10,195)	(10,056)
Settlement of legal claims	44,250	-
Other	1,244	-
Acquisition tax provision release	-	(5,707)
Income tax attributable	(17,772)	3,980
UNPAT	**191,417**	**169,357**

1-2 Revenue

	2018 $'000	2017 $'000
Management and service fees revenue	777,564	759,739
Stockbroking revenue	96,304	85,478
External other fee revenue	27,847	28,874
Finance income		
Interest income on loans to Directors of associated entities	260	254
Interest income from non-related entities	9,128	4,098
Dividends and distributions received	1,122	824
Net fair value gains on other financial assets at fair value through profit or loss	88	54
	10,598	5,230
Other revenue		
Profit on divestment of assets	2,643	11,930
Profit on divestment of subsidiaries	143	6,261
Other	4,042	10,007
	6,828	28,198
Total revenue	919,141	907,519

Section 1 - Results for the year

1-3 Expenses

	2018 $'000	2017 $'000
Service Fees and other direct costs		
Service and marketing fees expense	248,306	241,153
Stockbroking service fees expense	55,210	48,549
Other direct costs	22,995	22,578
	326,511	312,280
Operating expenditure		
Salaries and related employee expenses	213,912	211,987
Information technology costs	33,979	41,532
Professional fees	9,038	10,959
Marketing	8,665	8,446
Office support and administration	14,010	17,120
Occupancy related expenses	23,327	21,989
Travel and entertainment	5,560	5,877
Other	-	5
	308,491	317,915
Other expenses		
Share-based payments expense	2,728	1,295
Acquisition costs - Acquisition advisory	5,367	-
Acquisition costs - Integration preparation	4,973	-
Acquisition costs - Finance costs	6,725	-
Termination payments	2,128	4,125
Depreciation of property and equipment	7,640	7,648
Amortisation of intangible assets	39,400	38,611
Amortisation of intangible assets - IT development	524	1,737
Impairment of goodwill	28,339	38,592
Deferred acquisition costs	320	529
Non-recurring professional fees (recovered)/paid	(902)	2,013
Onerous contracts	2,345	-
Settlement of legal claims	44,250	-
Other	1,244	-
	145,081	94,550
Total expenses	780,083	724,745

1-4 Dividends

After 30 June 2018 the following dividends were declared by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount $'000	Payment date	Franked / unfranked
Final 2018 dividend	27.0	94,791	4 September 2018	Franked

	2018 $'000	2017 $'000
Dividend franking account		
30 per cent franking credits available to shareholders of IOOF Holdings Ltd for subsequent financial years	77,399	84,469

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:
(a) franking credits that will arise from the payment of the current tax liabilities; and
(b) franking credits that the IOOF Group may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends declared after the balance date but not recognised as a liability is to reduce it by $40,625,000 (2017: $34,730,000).

Section 1 - Results for the year

1-4 Dividends (continued)

The following dividends were declared and paid by the IOOF Group during the current and preceding financial year:

	Cents per share	Total amount $'000	Date of payment	Franked / unfranked
2018				
Interim 2018 dividend	27.0	94,791	14 March 2018	Franked
Final 2017 dividend	27.0	81,036	01 September 2017	Franked
	54.0	175,827		
2017				
Interim 2017 dividend	26.0	78,035	30 March 2017	Franked
Final 2016 dividend	26.0	78,035	13 October 2016	Franked
	52.0	156,070		

Franked dividends declared or paid during the year were franked at the tax rate of 30 per cent.
Dividend amounts shown are inclusive of any dividends paid on treasury shares.

1-5 Earnings per share

	2018 Cents per share	2017 Cents per share
Basic earnings per share	26.4	38.7
Diluted earnings per share	26.4	38.6

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2018 $'000	2017 $'000
Profit for the year attributable to owners of the Company	88,301	115,990
Earnings used in the calculation of basic EPS	88,301	115,990

Weighted average number of ordinary shares	2018 No. '000	2017 No. '000
Weighted average number of ordinary shares (basic)	334,072	299,820
Effect of unvested performance rights	750	673
Weighted average number of ordinary shares (diluted)	334,822	300,493

Section 2 - Capital management and financing

This section outlines how the IOOF Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The IOOF Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to maintain an optimal structure to reduce the cost of capital.

2-1 Borrowings

The IOOF Group's interest-bearing borrowings are measured at amortised cost.

	2018 $'000	2017 $'000
Syndicated facility agreement	-	206,908
Finance lease liabilities	-	40
	-	206,948

The IOOF Group's borrowings were fully repaid during the year.

Section 2 - Capital management and financing

2-1 Borrowings (continued)

	Borrowings $'000
Opening balance 1 July 2017	206,948
Net borrowings repaid	(207,424)
Capitalised establishment fees	476
Closing balance 30 June 2018	-

2-2 Share capital

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

	2018 $'000	2017 $'000
351,076,027 fully paid ordinary shares (2017: 300,133,752)	1,971,648	1,438,601
484,964 treasury shares (2017: 476,411)	(4,625)	(4,142)
	1,967,023	1,434,459

	2018		2017	
	No. '000	$'000	No. '000	$'000
Ordinary shares				
On issue at 1 July	300,134	1,438,601	300,134	1,439,276
Issue of shares	50,942	539,264	-	-
Transaction costs of issuing new shares	-	(5,917)	-	-
Transfer from employee equity-settled benefits reserve on exercise of performance rights	-	2,093	-	1,322
Treasury shares transferred to recipients during the year	-	(2,393)	-	(1,997)
On issue at 30 June	351,076	1,971,648	300,134	1,438,601
Treasury shares				
On issue at 1 July	(476)	(4,142)	(321)	(2,816)
Purchase of treasury shares	(287)	(2,876)	(380)	(3,323)
Treasury shares transferred to recipients during the year	278	2,393	225	1,997
On issue at 30 June	(485)	(4,625)	(476)	(4,142)
	350,591	1,967,023	299,658	1,434,459

2-3 Capital commitments and contingencies

Operating lease commitments

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

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

2018	Less than one year $'000	1 to 5 years $'000	Later than five years $'000	Total $'000
Premises	17,967	54,114	34,904	106,985

2017	Less than one year $'000	1 to 5 years $'000	Later than five years $'000	Total $'000
Premises	18,045	50,600	30,322	98,967
Office equipment	3	-	-	3
	18,048	50,600	30,322	98,970

Section 2 - Capital management and financing

2-3 Capital commitments and contingencies (continued)

Guarantees and underwriting commitments	2018 $'000	2017 $'000
Rental bond guarantees	12,256	16,281
ASX settlement bond guarantee	1,000	500
ASIC bond guarantees	20	140
Other guarantees	3,000	3,000
	16,276	19,921

On 26 July 2018, the IOOF Group entered into a non-binding term sheet with Australia and New Zealand Banking Group Limited (ANZ) in respect of implementing an accelerated economic completion of the acquisition of ANZ's One Path Pensions and Investments (ANZ P&I) business and full legal ownership of ANZ's Aligned Dealer Groups (ADGs).

Pursuant to the planned acquisition of ANZ Wealth Management, the purchase price will be funded through a combination of the fully underwritten institutional placement conducted during the year and debt facilities of $675m. The IOOF Group has committed to take up the following facilities prior to acquisition completion and intends to leverage domestic and international Debt Capital Markets in its longer term finance strategy beyond these repayment terms:
- $240m with a 5 year repayment term from date of draw down with commercial margins against 90 day BBSY;
- $375m with a 3 year repayment term from date of drawdown with commercial margins against 90 day BBSY; and
- $60m revolving facility to cover regulatory and property guarantees and capital commitments.

A committment fee is to be paid under conventional terms until draw down is required.

Contingent liabilities of the IOOF Group exist in relation to claims and/or possible claims which, at the date of signing these accounts, have not been resolved. An assessment of the likely loss to the Company and its controlled entities has been made in respect of the identified claims, on a claim by claim basis, and specific provision has been made where appropriate. The IOOF Group does not consider that the outcome of any other current proceedings, either individually or in aggregate, is likely to materially affect its operations or financial position.

2-4 Reserves

	2018 $'000	2017 $'000
Available-for-sale investment revaluation reserve	18,804	13,074
Business combinations reserve	(326)	(326)
Foreign currency translation reserve	44	121
Operating Risk Financial Reserve*	2,655	2,655
Share-based payments reserve	(1,764)	(2,175)
	19,413	13,349

*This reserve is held for certain AET Superannuation products. Other similar reserves exist within the IOOF Group, however these are generally held by the relevant funds.

Section 3 - Operating assets and liabilities

This section shows the assets used to generate the IOOF Group's trading performance and the liabilities incurred as a result.

3-1 Intangible assets (other than goodwill)

	2018 $'000	2017 $'000
Cost	677,147	670,159
Accumulated amortisation	(268,837)	(229,080)
	408,310	441,079

	IT Development $'000	Computer software $'000	Customer relationships $'000	Brand names $'000	Other intangibles $'000	Total $'000
Carrying value at 1 July 2017	641	5,246	361,558	67,746	5,888	441,079
Acquisition through business combination	-	-	6,188	-	-	6,188
Additions	1,167	-	-	-	122	1,289
Divestments	-	-	(20)	-	(302)	(322)
Amortisation expense	(524)	(979)	(35,790)	(801)	(1,830)	(39,924)
Carrying value at 30 June 2018	1,284	4,267	331,936	66,945	3,878	408,310

Section 3 - Operating assets and liabilities

	2018 $'000	2017 $'000
3-2 Goodwill		
Cost	1,024,166	1,010,468
Accumulated impairment	(83,940)	(55,601)
Net carrying value of goodwill	940,226	954,867
Carrying value at 1 July	954,867	991,712
Acquisition through business combination	13,698	1,747
Impairment of goodwill	(28,339)	(38,592)
Carrying value at 30 June	940,226	954,867

A non-cash impairment of $28.3m has been recognised in relation to goodwill allocated to Perennial Investment Partners Limited (Prior year: $38.6m). Reduced profitability from lower revenue led to calculated value-in-use declining to below the carrying value of the aggregate goodwill and investment balances. Revenue decline has arisen due to institutional outflows. These outflows reflect below benchmark performance in certain core products and changing market dynamics, where larger institutions now weight a greater proportion of funds to indexed products.

Section 4 - Statutory funds

A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards and are shown separately from shareholder funds in the financial statements. Calculation of the members' comprehensive income/financial position within this subsidiary is subject to actuarial input which had not been finalised at the reporting date. It is therefore possible that the components shown above will change when audited financial statements are released, however the impact on the IOOF Group will remain nil.

Section 5 - Basis of preparation

These condensed consolidated financial statements:

- have been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards;
- should be read in conjunction with the IOOF Group's Annual Financial Report for the year ended 30 June 2018 when released and any public announcements made by the IOOF Group for the year ended 30 June 2018 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules;
- do not include all notes of the type normally included in the IOOF Group's Annual Financial Report;
- are presented in Australian dollars; and
- were approved by the Board of Directors on 7 August 2018.

Accounting policies

These condensed consolidated financial statements have been prepared in accordance with accounting policies, and using methods of computation consistent with those applied in the last annual consolidated financial statements as at and for the year ended 30 June 2017.

Basis of measurement

These condensed consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value; and
- available-for-sale financial assets are measured at fair value.

The statement of financial position is presented in order of liquidity.

Use of estimates and judgements

To conform with Australian Accounting Standards management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Rounding of amounts

The amounts contained in these condensed consolidated financial statements have been rounded to the nearest thousand dollars, except where otherwise indicated, as permitted by Australian Securities and Investments Commission Corporations Instrument 2016/191.

Section 6 - Subsequent events

On 7 August 2018, the IOOF Group announced, in accordance with its continuous disclosure obligations, that it's wholly-owned subsidiary, Australian Executor Trustees Limited (AET), agreed settlements in relation to certain of the legal proceedings to which AET is party in connection with its role as debenture trustee of Provident Capital Limited (Provident and the Provident Proceedings).

AET entered into a settlement deed with Mr Creighton and has now finalised and will shortly execute the terms of a settlement deed with Mr and Mrs Smith, the representative plaintiffs in the two proceedings brought against AET in relation to Provident. Those settlements, when finalised, are expected to result in full and final settlement, without any admission as to liability, of all claims (including as to legal costs) made against AET as part of the Provident Proceedings. These settlements remain subject to approval by the Supreme Court of New South Wales.

As a result, and subject to Court approval of the settlements with Mr and Mrs Smith and Mr Creighton, the amount AET is expected to be obliged to pay to the plaintiffs and group members in the Provident Proceedings is $44.3m.

AET also agreed settlements with PwC and HLB Mann Judd in respect of the cross-claims brought by AET against those parties as part of the Provident Proceedings, which relate to their role as auditors of Provident.

Subject to Court approval, these settlements are expected to resolve all aspects of the Provident Proceedings other than AET’s and the IOOF Group’s cross-claims against their insurers and insurance broker.

The IOOF Group and AET will continue to vigorously pursue their claims against their insurers and insurance broker to judgment (if a satisfactory settlement cannot be achieved prior). In pursuing those claims, AET and the IOOF Group are seeking to recover from those parties up to the whole of the amount that they are obliged to pay the plaintiffs and group members in the Provident Proceedings (less amounts recovered through the settlements with PwC and HLB Mann Judd), together with their costs of those Proceedings.

The IOOF Group will continue to keep the market informed in relation to the outcome of the Provident Proceedings and any settlement discussions in accordance with its continuous disclosure obligations.

The settlements with the representative plaintiffs amount to $44.3m and have been provided for in the year ended 30 June 2018 as an adjusting event given the Provident Proceedings were active throughout that financial year.

The Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report or the condensed consoldiated financial statements that has or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.