Netwealth Group Limited
and Controlled Entities
Half Year Report 1H 2020

Netwealth Group Limited
ACN: 620 145 404

Contents

Appendix 4D

Report for the half year ended 31 December 2019 (1H 2020).

Netwealth Group Limited
ABN: 84 620 145 404

1. Details of the reporting period

Report for the half year ended 31 December 2019 (1H 2020).

Previous corresponding period half year ended 31 December 2018 (1H 2019).

2. Results for announcement to the market

	1H 2020 $'000	1H 2019 $'000	Increase/ (Decrease)	Var %
Revenue from ordinary activities	58,653	48,208	10,445	21.7%
Profit from ordinary activities before tax attributable to members	29,521	23,316	6,205	26.6%
Net profit after tax for the period attributable to members	20,531	16,259	4,272	26.3%
*Underlying net profit after tax for the period attributable to members	20,554	17,044	3,510	20.6%

*Adjusted to show the impact of pre-transition to AASB 16 in 1H 2020 and a one-off $0.8 million cost of client rectification costs and legal expenses in 1H 2019.

Refer to the attached annual report (Directors' report – Review of operations section) for further commentary on the half year results.

3. Net tangible assets per ordinary security

	1H 2020	1H 2019
Net tangible assets per ordinary security	28.9 cents	24.6 cents

4. Dividends information

	Amount per Share (cents)	Franked Amount per Share (cents)	% Franked	Tax rate for Franking Credit
Final dividend for FY 2019 (paid 26 Sep 2019)	6.60	2.83	100%	30%
Interim dividend for FY 2020 (to be paid 26 Mar 2020)	6.90	2.96	100%	30%

Interim Dividend Dates	
Ex-dividend date	25 February 2020
Record date	26 February 2020
Payment date	26 March 2020

There is no dividend reinvestment plan.

5. Control gained/loss over entities

Netwealth Advice Group Pty Ltd changed its name to Netwealth Fiduciary Services Pty Ltd on 3 October 2019.

Netwealth Superannuation Services Pty Ltd and Wealthtech Pty Ltd were newly incorporated on 21 October 2019 and 11 November 2019 respectively. These fully owned subsidiaries are not currently operating.

6. Details of associates and joint venture entities

Not applicable.

7. Compliance statement

This report is based on the consolidated financial statements for the half year ended 31 December 2019 which were subject to a review by Netwealth Group Limited's auditors, Deloitte Touche Tohmatsu with the review report attached.

Michael Heine
Joint Managing Director
18 February 2020

Corporate highlights

Netwealth has continued to experience significant growth in the half year to December 2019. Some highlights[1] for the half year were (comparative period being half year to 31 December 2018):

$58.7M
Revenue
Growth $10.4M (+21.7%)

$30.5M [1]
EBITDA
Growth $5.7M (+22.8%)

$20.6M [1]
NPAT
Growth $3.5M (+20.6%)

8.4 cents [1]
EPS

52.0% [1]
EBITDA margin

$30.5M [1]
Operating net cash flow pre tax

$28.5B FUA
Growth $5.2B (+22.2%) for 1H2020
Growth $9.5B (+50.2%) for CY2019

$4.4B
FUA net inflows
UP $2.4B (+124.9%)

Dividend 6.9 cps
Interim dividend 6.9 cps

$5.7B FUM
Growth $1.8B (+45.7%) for 1H2020
Growth $2.6B (+83.2%) for CY2019

$1.7B
FUM net inflows
UP $1.3B (+306.8%)

ASX 200
NWL included in the S&P ASX200 index from 23 Sep 2019

---

[1] Underlying EBITDA, EBITDA margin, NPAT, Operating net cashflow and EPS prepared applying accounting standard AASB 117 Leases. Accounts have been stated in accordance with the new accounting standard AASB16 Leases, adopted from 1 July 2019. A reconciliation is provided in pages 10-11. EPS has been calculated on the basis all performance shares and options currently on issue will vest in full.
EPS – Earnings per share; CPS – Cents per share

Directors' Report

The directors present their report on Netwealth Group Limited "the Company" and its controlled entities for the half year ended 31 December 2019 (1H 2020). The consolidated entity is referred to as "the Group" or "Netwealth". In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors
The names of the Directors in office at any time during, or since the end of the period are:

- Jane Tongs (Chairman)
- Michael Heine
- Matthew Heine
- Davyd Lewis
- Timothy Antonie
- Sally Freeman (appointed on 10 October 2019)

Directors (unless specified above) have been in office since the start of the financial year to the date of this report.

Company overview
Netwealth is a financial services business listed on the ASX on 20 November 2017 (ASX: NWL).

Netwealth was founded in 1999 and established to provide investors and wealth professionals with a better way to invest, protect and manage their current and future wealth. Netwealth seeks to enable, educate and inspire Australians to see wealth differently and to discover a brighter future.

Netwealth offers a range of innovative portfolio administration, superannuation, retirement, investment and Managed Accounts solutions to investors and intermediaries including Financial Intermediaries, private client and high net worth firms.

Netwealth's award-winning platform is currently rated Australia's Number 1 Platform for overall functionality and overall satisfaction providing wealth professionals with the technology required to efficiently manage and add value to our clients[2].

Corporate governance
Netwealth is committed to being ethical, transparent and accountable. We believe this is essential for the long-term performance and sustainability of our Company and supports the interests of our shareholders and clients. The full corporate governance statement is available on the Company's website at https://www.netwealth.com.au/web/about-netwealth/shareholders/.

[2] Investment Trends - December 2019 Platform Competitive Analysis and Benchmarking Report & Investment Trends – April 2019 Planner technology report

Diversity strategy

Netwealth understands the importance of diversity across styles of thought, religion, race, ethnicity, language, gender, sexual orientation, disability, age or any other area of potential difference and recognises that a diverse workforce with different skills and different ways of thinking can lead to a more innovative and efficient workplace which deliver stronger outcomes.

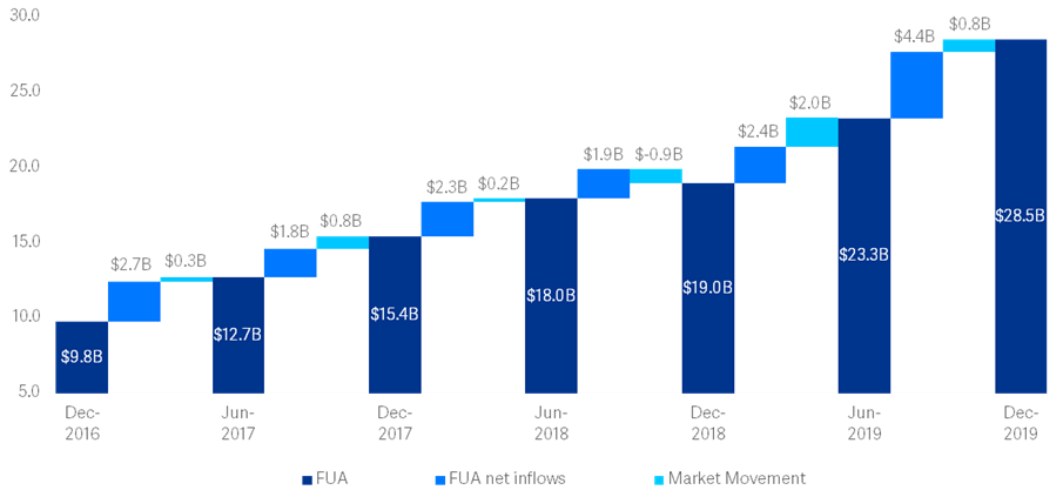
Netwealth has identified gender equality as a key area of focus along with other initiatives to support overall inclusion and diversity.

Review of operations

Netwealth Funds Under Administration (FUA) was $28.5 billion at 31 December 2019. FUA increased by $9.5 billion (50.2% increase) from 31 December 2018 and increased by $5.2 billion (22.2% increase) from 30 June 2019.

Record FUA net inflows of $4.4 billion delivered a material uplift in FUA for 1H 2020 in addition to market movement of $0.8 billion. FUA net inflows increased by $2.4 billion (124.9% increase) compared to 1H 2019 and $2.0 billion (81.6% increase) compared to 2H 2019.

Half yearly growth in FUA from Dec 2016 to Dec 2019



Source; Netwealth

Funds Under Management (FUM) at 31 December 2019 of $5.7 billion, increased by $2.6 billion (83.2% increase) compared to 31 December 2018.

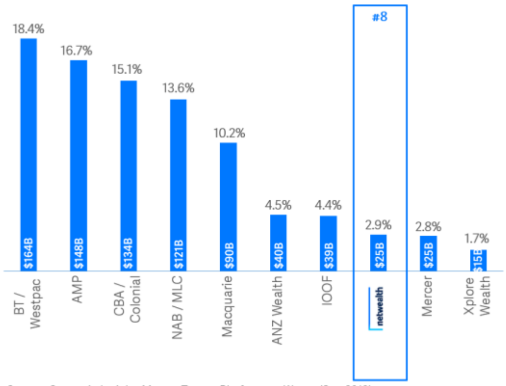
The Managed Account FUM at 31 December 2019 of $4.4 billion, increased by $2.3 billion (106.7% increase) for the 12 months to 31 December 2019. Managed Account net inflows of $1.5 billion for 1H 2020 and $1.9 billion for 12-month period.

Netwealth member accounts increased by 9,824 member accounts (15.0% increase) to 75,512 member accounts for the 12 months to 31 December 2019.

Financial Intermediaries using the platform also increased to 2,711 as at 31 December 2019, up 13.3% for the 12 months to 31 December 2019.

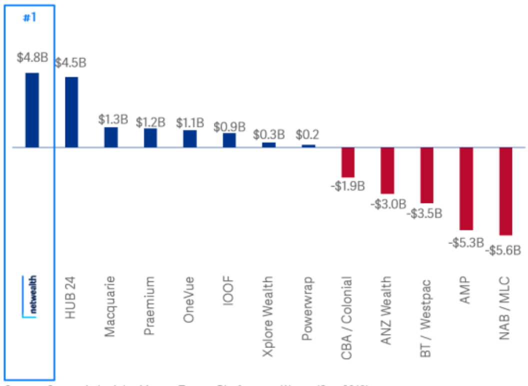
In the latest September 2019 Strategic Insights quarterly platform market update, Netwealth recorded the highest industry rolling 12-month FUA net inflows for the sixth consecutive quarter with FUA net inflows of $4.8 billion for the 12 months to September 2019 and moved up one position in the market to be the 8th largest platform.

Platform providers by FUA market share[1]
% market share (Sep 2019)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2019)
1. Total industry retail FUA of $887.8B (as at Sep 2019)

Platform provider net funds flows[2]
$'Billions (12 months to Sep 2019)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2019)
2. Total net flows of negative $-6.7B. (12 months to Sep 2019) (Not included above - Others of -$1.7B)

Netwealth was again recognised by the industry, it ranked highest overall for digital wealth application/service among wealth institutions in the Digital Wealth Report January 2020 by Investment Trends. Netwealth also ranked 1st for net promoter score, adviser experience, ongoing adviser support, overall functionality and client experience in the Adviser Ratings 2019 Financial Advice Landscape Report December 2019.

Review of financial results

Total revenue of $58.7 million for 1H 2020 increased by $10.4 million (21.7% increase) compared to 1H 2019.

Platform revenue of $57.3 million for 1H 2020 increased by $10.3 million (21.8% increase) compared to 1H 2019. Platform revenue growth primarily resulted from the increase in FUA and higher average cash balances during 1H 2020.

Netwealth's strategy is focused on delivering best in class functionality, technology and service at a competitive price which can be tailored to client's individual needs, investment requirements and sophistication.

A key focus for Netwealth is platform revenue per account. For 1H 2020, the annualised platform revenue generated from each member account increased to $1,564 for 1H 2020, up $103 (7.0% increase) compared to prior corresponding period (PCP).

Average member account size increased to $376,000 for December 2019 up from $323,000 in June 2019. As average account size grows which typically means investment options accessed by clients expand, Netwealth generates higher administration fees and additional revenues from ancillary fees.

Annualised platform revenue over average FUA of 44.6 bps for 1H 2020, down 4.7 bps compared to PCP and down 2.4 bps compared to 2H 2019. It has been driven primarily by recent clients being onboarded at a price below current retail rate, historical average fee rates and higher account balances.

Employee benefits expense of $19.9 million for 1H 2020, increased by $3.8 million (23.9% increase) compared to 1H 2019 as headcount progressively increased from June 2019. Netwealth are committed to build out its IT and Operations teams for scale and to maintain its technology functionality and service leadership. All internal IT platform development costs were expensed.

Underlying EBITDA[3] of $30.5 million increased by $5.7 million (22.8% increase) compared to PCP and Underlying EBITDA margin[3] of 52.0% up by 0.5% compared to PCP.

Underlying NPAT[3] of $20.6 million increased by $3.5 million (20.6% increase) compared to PCP and Underlying NPAT margin[3] of 35.0%, decreased by 0.4% compared to PCP.

---

[3] Underlying EBITDA and Underlying NPAT are presented under AASB 117 Leases before the transition to AASB 16 leases. A reconciliation is provided in pages 10-11.

Reconciliation of underlying results to the consolidated statement of profit or loss and other comprehensive income

Set out in the table below is a reconciliation of underlying adjustments to the consolidated statement of profit or loss and other comprehensive income. The underlying adjustments relate to a one-off client rectification costs incurred in 1H 2019 and on the basis of pre-transition to AASB 16 Leases. The Board and management monitor the underlying EBITDA pre AASB 16 and this information is provided to enable comparison with prior corresponding period.

	Consolidated Group for Half Year Ended			
	31 Dec 2019 $'000	31 Dec 2018 $'000	Variance $'000	Variance %
Net profit before tax	**29,521**	**23,316**	**6,205**	**26.7%**
Depreciation and amortisation	935	375	560	149.3%
Depreciation on right-of-use assets (post AASB 16)	645	-	645	100.0%
Interest on leases (post AASB 16)	36	-	36	100.0%
Rental Expense (pre AASB 16)	(663)	-	(663)	(100.0%)
Client rectification costs and legal expenses	-	1,121	(1,121)	(100.0%)
Underlying EBITDA	30,474	24,812	5,662	22.8%
Underlying EBITDA margin	52.0%	51.5%	0.5%	-
Income tax expense	(8,990)	(7,057)	(1,933)	(27.4%)
Depreciation and amortisation	(935)	(375)	(560)	(149.3%)
Net tax impact from leases (adoption of AASB 16)	5	-	5	100.0%
Tax impact from client rectification costs and legal expenses	-	(336)	336	100.0%
Underlying NPAT	20,554	17,044	3,510	20.6%
Underlying NPAT margin	35.0%	35.4%	(0.4%)	-

Underlying statement of profit or loss for 1H 2020 (pre-transition to AASB 16 Leases)

Set out in the table below is the underlying consolidated statement of profit or loss and other comprehensive income for 1H 2020 presented in full to reflect a one off adjustment on client rectification costs and pre-transition to AASB 16 Leases.

	Consolidated Group for Half Year Ended			
	31 Dec 2019 $'000	31 Dec 2018 $'000	Variance $'000	Variance %
Income				
Platform revenue	57,346	47,066	10,280	21.8%
Other income	1,307	1,142	165	14.5%
Total income	58,653	48,208	10,445	21.7%
Expenses				
Employee benefits expenses[1]	(19,852)	(16,025)	3,827	23.9%
Other costs and expenses[2]	(8,327)	(7,371)	956	13.0%
Total expenses	(28,179)	(23,396)	4,783	20.5%
Underlying EBITDA	30,474	24,812	5,662	22.8%
Underlying EBITDA margin	52.0%	51.5%	0.5%	-
Interest on Leases	-	-	-	0.0%
Depreciation and Amortisation	(935)	(375)	560	149.3%
Underlying NPBT	29,539	24,437	5,102	20.9%
Income tax expense	(8,985)	(7,393)	1,592	21.5%
Underlying NPAT	20,554	17,044	3,510	20.6%
Underlying NPAT margin	35.0%	35.4%	(0.4%)	-
Underlying EPS (cents per share)[3]	8.4	7.0	1.4	20.0%

[1]Employee benefits expense includes $0.3 million of non-cash share-based payments.

[2]Restated to exclude a once off client rectification costs of $0.8M in 1H2019 and on the basis of pre-transition to AASB 16 Leases. Refer to table on page 10 for the adjustments.

[3]Underlying EPS has been calculated on the basis all performance shares and options currently on issue will vest in full.

Key platform statistics

Set out in the below table is a summary of Netwealth's key operating and financial metrics for 1H 2020 and 1H 2019.

	Consolidated Group for Half Year Ended			
	30 Dec 2019	30 Dec 2018	Variance	Variance %
FUA (EOP*) ($ million)	28,511	18,988	9,523	50.2%
FUM (EOP*) ($ million)	5,749	3,139	2,610	83.2%
FUA net inflows ($ million)	4,355	1,936	2,419	124.9%
FUM net inflows ($ million)	1,706	419	1,287	306.8%
Annualised platform revenue/average FUA (bps)	44.6 bps	49.3 bps	(4.7 bps)	(9.6%)
Annualised platform revenue/average number of accounts ($)	1,564	1,461	103	7.0%

* EOP=End of Period

Significant changes in the state of affairs
Netwealth Superannuation Services Pty Ltd and Wealthtech Pty Ltd, both fully owned subsidiaries of Netwealth Group Limited were established during the half year. Neither are operating as at 31 December 2019.

Netwealth Advice Group Pty Ltd changed its name to Netwealth Fiduciary Services Pty Ltd on 3 October 2019.

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

Dividends
During the half year, the Company declared on 19 August 2019 and paid on 26 September 2019 a fully franked dividend of 6.60 cents per share, representing a total dividend of $15,686,000. There is no Dividend Reinvestment Plan (DRP).

Options and shares
On 4 October 2019, eligible employees who have served 3 or more years were offered ordinary shares valued at $1,000 as a gift for no consideration. As a result, 15,180 new ordinary shares were issued at $7.5544 per share during the half year.

On 4 October 2019, eligible employees nominated by the Board were granted ordinary share options as part of the Group's long-term incentive plan. This resulted in the Group issuing 1,046,377 options at an exercise price of $7.5544 per share during the half year.

Events subsequent to the end of the reporting period
On 18 February 2020, the Company declared a fully franked interim dividend for 1H 2020 of 6.90 cents per share (total dividend of $16,400,955). The interim dividend is payable on 26 March 2020.

There are no other matters or circumstances that have arisen since the end of the year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group.

Environmental regulation
Netwealth's operations are not regulated by a significant environmental regulation under law of the Commonwealth or of a state or territory.

Proceedings on behalf of the Group
No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a part for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the half year.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is set out on page 15.

Rounding of amounts
The Group is of a kind referred to in the Australian Securities and Investments Commissions Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in the financial statements have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors:

Jane Tongs
Chairman
18 February 2020

Auditor’s independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

18 February 2020

The Board of Directors
Netwealth Group Limited
Level 8, 52 Collins Street
Melbourne VIC 3000

Dear Directors,

Auditors independence declaration to Netwealth Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Netwealth Group Limited, regarding the half-year consolidated financial report for Netwealth Group Limited.

As lead audit partner for the review of the financial statements of Netwealth Group Limited for the half-year ended 31 December 2019, 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

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2019.

	Note	Consolidated Group for Half Year Ended 31 December 2019 $'000	 31 December 2018 $'000
Income			
Revenue		57,346	47,066
Other income		1,307	1,142
Total income	3	58,653	48,208
Expenses			
Employee benefits expenses		(19,852)	(16,040)
Other operating expenses		(5,358)	(5,946)
Occupancy expenses		(206)	(829)
IT and communication expenses		(2,100)	(1,702)
Finance cost	5	(36)	-
Depreciation		(1,535)	(326)
Amortisation		(45)	(49)
Total expenses		(29,132)	(24,892)
Profit before income tax		29,521	23,316
Income tax expense	6	(8,990)	(7,057)
Profit for the period		20,531	16,259
Total comprehensive income for the period		20,531	16,259
Total comprehensive income attributable to: Members of the parent entity		20,531	16,259
Earnings per share			
Basic (cents per share)		8.64	6.84
Diluted (cents per share)		8.64	6.84

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

As at 31 December 2019.

		Consolidated Group as at	
	Note	31 December 2019 $'000	30 June 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		73,279	58,459
Trade and other receivables		10,119	8,565
Other current assets		4,222	3,484
Financial assets		3,313	3,301
Total current assets		90,933	73,809
Non-current assets			
Property, plant and equipment		1,997	2,533
Intangible assets		338	383
Right-of-use assets	5	1,482	-
Deferred tax assets	6	4,783	4,700
Total non-current assets		8,600	7,616
Total assets		99,533	81,425
Current liabilities			
Trade and other payables		7,883	6,327
Provisions		3,541	3,206
Current tax liabilities	6	16,451	7,378
Lease liability	5	1,136	-
Total current liabilities		29,011	16,911
Non-current liabilities			
Lease liability	5	644	-
Provisions		802	667
Total non-current liabilities		1,446	667
Total liabilities		30,457	17,578
Net assets		69,076	63,847
Equity			
Issued capital	7	23,118	23,504
Reserves		1,066	844
Retained earnings		44,892	39,499
Total equity		69,076	63,847

The accompanying notes form part of these financial statements

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019.

Consolidated Group	Note	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2018		**23,259**	**778**	**43,375**	**67,412**
Shares fully paid during the period		106	-	-	106
Total comprehensive income for the period		-	-	16,259	16,259
Amounts recognised on issue of employee shares		-	34	-	34
Dividends paid or provided for		-	-	(25,099)	(25,099)
Balance at 31 December 2018		23,365	812	34,535	58,712
Balance at 1 July 2019		**23,504**	**844**	**39,499**	**63,847**
Shares issued and fully paid during the period		163	-	-	163
Total comprehensive income for the period		-	-	20,531	20,531
Amounts recognised on issue of employee shares		-	222	-	222
Reclassification[1]		(549)	-	549	-
Dividends paid or provided for	4	-	-	(15,687)	(15,687)
Balance at 31 December 2019		23,118	1,066	44,892	69,076

The accompanying notes form part of these financial statements.

[1] A prior period reclassification of equity in relation to dividends recognised in 2017 on unvested shares granted to employees.

Consolidated Statement of Cash Flows

For the half year ended 31 December 2019.

	Note	Consolidated Group for Half Year Ended 31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities			
Receipts from customers		60,408	50,463
Payments to suppliers and employees		(29,101)	(25,204)
Dividends received		32	11
Interest received		322	378
Interest paid[1]		(35)	-
Income tax paid	6	-	(7,635)
Net cash generated by operating activities		31,626	18,013
Cash flows from investing activities			
Purchase of property, plant and equipment		(353)	(321)
Proceeds from sale of investments		620	982
Purchase of investments		(604)	(1,274)
Net cash generated/(used) used in investing activities		(337)	(613)
Cash flows from financing activities			
Proceeds from issue of shares		27	106
Payment of lease liabilities[1]		(809)	-
Dividends paid	4	(15,687)	(25,099)
Net cash used in financing activities		(16,469)	(24,993)
Net increase in cash held		14,820	(7,593)
Cash and cash equivalents at beginning of year		58,459	52,669
Cash and cash equivalents at end of year		73,279	45,076

The accompanying notes form part of these financial statements.

[1] AASB 16 Leases became effective for the Group on 1 July 2019. With the implementation of AASB 16, rental payment which were previously recorded as payments to suppliers and employees has been split into 'principal' and 'interest' repayments in accordance with the Accounting Standards.

Notes to the Financial Statements

1 Significant Accounting Policies

Basis of preparation
This consolidated financial report for the half year ended 31 December 2019:

- is for the consolidated entity consisting of Netwealth Group Limited and its controlled entities (trading on the ASX under the symbol 'NWL');
- is presented in Australian dollars, with all values rounded to the nearest thousand dollars, or in certain cases, the nearest dollar, in accordance with the Australian Securities and Investment Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191;
- has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001;
- does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Netwealth Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporation Act 2001;
- complies with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
- has accounting policies and methods of computation which are consistent with the most recently published full year accounts, unless otherwise stated in this interim financial report.

Principles of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

The financial statements of all the entities are prepared for the same reporting period as the parent entity with consistent accounting policies.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between the fair value of the consideration received and the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests.

Leases
At the lease commencement date, the Group recognises the ROU assets with the equivalent lease liability measured at cost less incentives received at commencement date. The ROU depreciates in a straight line over the lease term. The lease liability is measured at the present value of the lease's future lease payments from commencement date, discounted using the Group's incremental borrowing rate.

Lease liability is subsequently remeasured when there is a change in future lease payments arising from a change in an index, rate used, residual guarantee, lease term or termination penalties. When it is remeasuring, a corresponding adjustment is also made to the carrying amount of the ROU asset.

Leases which are less than 12 months are treated as short term leases and will be directly expensed to the profit and loss.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Such options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if an event of significant change in circumstances occurs which affects this assessment that is within control of the Group.

Critical accounting estimates and key sources of estimation uncertainty
In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Adoption of new and revised Australian Accounting Standards and Interpretation

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) which are mandatorily applicable to the current interim period. Disclosures required by these standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

AASB 16 – Leases (applicable to annual reporting period beginning on or after 1 January 2019)

The Group has adopted AASB 16 Leases from 1 July 2019, replacing AASB 117 Leases.

Under AASB 16, all leases are accounted under a single on-balance sheet model, similar to accounting for finance leases under the old standard. Other than short-term leases of less than twelve months and leases of low-value assets, there is a recognition of right-of-use (ROU) assets and corresponding lease liabilities in the statement of financial position. Straight line operating lease expense recognition is replaced with a depreciation charge for the ROU assets (included in operating costs) and an interest expense on remaining lease liabilities (included in finance costs).

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Transition

The Group has elected to apply the "modified retrospective approach" when transitioning to the new AASB 16 Leases standard. Under this approach, the Group has not restated comparative reporting periods.

The Group has elected to recognise the ROU asset to be equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the transition to AASB 16.

Impact on Statement of Financial Position upon transition to AASB 16 on 1 July 2019 as follows:

Impact on Statement of Financial Position	$'000
Increase in new lease liabilities	(2,589)
Increase in new right-of-use assets	2,127
Decrease of the existing lease incentive liability	462
Net impact on statement of financial position	-

The following practical expedients have been applied, as permitted by the standard:

- Application of a single incremental borrowing rate for a portfolio of leases with reasonable similar characteristics;
- Excluding direct costs from the measurement of the right-of-use asset at the date of initial application;

- Operating leases with a term of less than 12 months from the date of initial application is treated as short-term leases; and

- Application of hindsight in determining lease terms where the contract contains options to extend or terminate the lease.

The Group reassessed the lease terms for each lease held and determined that the existing Melbourne Office leases will be terminated at 1 September 2020 following the likely outcome of current negotiations on a new Melbourne lease. Refer to Note 5 for further information.

At initial measurement, the Group had lease incentive liability of $0.5 million, which has been recognised as a reduction in the ROU asset.

Impact of AASB 16 adoption on earnings
Adoption of the new standard results in the expense front-loaded into the earlier years of the lease and lower in later years due to the interests charged on the capital outstanding as compared to straight-lined lease expenses under AASB 117.

Net Profit Before Tax is not expected to materially change this financial year. The expected impact for FY2020 is:

Impact on Statement of Profit or Loss on Adopting AASB16	$'000
Decrease in operating leases expense	(1,313)
Increase in interest expense	59
Increase in depreciation expense	1,274
Decrease in net profit before tax	(20)

AASB Interpretation 23 – Uncertainty over Income Tax Treatment (applicable to annual reporting period beginning on or after 1 January 2019)

Interpretation 23 clarified the application of the recognition and measurement criteria in AASB 112 Income Taxes in relation to uncertainty over income tax treatments. For any uncertain tax position, they must be all individually assessed for whether it is probable that the taxation authority will accept the position.

When it is not probable the taxation authority will accept the tax position, the uncertainty must be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount would either be based on:

- The single most likely amount; or
- The sum of the probability weighted amounts in a range of possible outcomes, which ever best estimates reflects the impact of the uncertainty.

As more information about the nature of the tax treatment becomes available, the amounts are reassessed.

Interpretation 23 is effective for the Group's financial reporting period beginning on 1 July 2019. The Group's existing recognition and measurement of accounting policies along with accounting related judgements were in alignment with those required by Interpretation 23, hence no transition adjustment to retained earnings was required.

2 Segment Information

The Group is organised into one reportable operating segment.

The reportable operating segment is based on the internal reports that are reviewed and used by the Board of Directors and the executive management team, identified as the Chief Operating Decision Makers (CODM), in assessing performance and in determining the allocation of resources. The CODM reviews segment profits (Segment EBITDA) on a monthly basis. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The Group's operations are all based in Australia.

3 Revenue

Revenue and other income

	Consolidated Group	
	31 December 2019 $'000	31 December 2018 $'000
Revenue		
Platform revenue	57,346	47,066
Total platform revenue	57,346	47,066
Other income		
Net gain on disposal of investments	25	69
Unrealised investments gains	4	(20)
Dividends and distributions received	35	11
Interest received	322	377
Cost of capital recovery	914	704
Other Income	7	1
Total other income	1,307	1,142
Total income	58,653	48,208

4 Dividends

Dividends paid or declared by the Company in the year ended 30 June 2019 were:

	Cents Per Share	Total Amount $'000	% Franked	Date of Payment
2019				
Final 2019 ordinary	6.60	15,687	100%	26 Sep 2019
Total dividend	6.60	15,687		

During the half year, the Company declared on 19 August 2019 and paid on 26 September 2019 a fully franked dividend of 6.60 cents per share representing a total dividend of $15,687,000. There is no dividend reinvestment plan.

Franking credits
Franking credits available to shareholders of the Company amount to $8,085,260 (Jun 2019: $14,722,573) at the 30 percent (2019: 30 percent) corporate tax rate.

Subsequent event
Since the end of the half year, the Company declared the following dividend on 18 February 2020. The dividend has not been provided for as at 31 December 2019 and there are no tax consequences.

	Cents Per Share	Total Amount $'000	% Franked	Date of Payment
Interim 2020 ordinary	6.90	16,401	100%	26 Mar 2020
Total dividend	**6.90**	**16,401**		

5 Leases

	Property $'000
Right-of-use assets	
Balance as at 30 June 2019	-
Change on initial applications of AASB 16	2,127
Balance as at 1 July 2019	2,127
Depreciation	(645)
Balance as at 31 December 2019	1,482

	Property $'000
Lease Liability	
Balance as at 30 June 2019	-
Change on initial applications of AASB 16	2,589
Balance as at 1 July 2019	**2,589**
Lease payments	(773)
Interest on leases	(36)
Total lease liability as at 31 December 2019	**1,780**
Current	1,136
Non-current	644
Total lease liability as at 31 December 2019	**1,780**

Impact of new lease
The Group is currently negotiating a new office lease of approximately 3,400 square metres to replace its existing head office in Melbourne. The new office will accommodate foreseeable growth in number of employees in Melbourne and is also designed to provide activity-based workspaces to enhance collaboration and stimulate innovation by promoting freedom to work in the way that suits them best. A non-binding heads-of-agreement has been signed for a period of 9 years commencing from 1 September 2020 with year 1 rent and outgoings estimated to be $2.5 million and annual increases set at 3.75% per annum. It is also estimated that the Group will capitalise $2.8 million of leasehold improvements net of lease incentive received, depreciated straight line over the life of the lease.

Following is the expected financial impact of the lease commencing from 1 September 2020:

Expected Impact on Statement of Financial Position	$'000
Recognition of new lease liabilities	(18,336)
Recognition of new right-of-use assets	18,336
Net impact on statement of financial position	**-**

Expected Impact on Statement of Profit or Loss (10 months to 30 June 2021)	$'000
Increase in interest expense	569
Increase in depreciation expense	1,698
Decrease in net profit before tax	**2,267**

6 Income Taxes

	Consolidated Group	
	31 December 2019 $'000	31 December 2018 $'000
a) The components of tax expense/(income) comprise:		
Current tax	8,918	7,470
Deferred tax	83	(414)
Under/(Over) provision from prior years	(11)	1
	8,990	7,057
b) The prima facie tax on profit before income tax is reconciled to income tax as follows: Prima facie tax before income tax at 30% (2019:30%):	8,857	6,995
Other non-allowable/assessable items	133	62
Income tax expense attributable to entity	8,990	7,057

	Consolidated Group	
	31 December 2019 $'000	30 June 2019 $'000
c) The components of deferred tax assets comprise:		
Expenditure deductible over 5 years	2,796	3,538
Temporary differences	2,787	1,625
	5,583	5,163
d) The components of deferred tax liabilities comprise:		
Property, equipment and intangible assets	264	445
Temporary differences	536	18
	800	463

	Opening Balance 31 Dec 2018 $'000	Charged to Income $'000	Charged Directly to Equity $'000	Transferred to Assets Held for Sale $'000	Closing Balance 30 Jun 2019 $'000
Deferred tax assets/liabilities					
Expenditure deductible over 5 years	4,281	(742)	-	-	3,539
Provision	1,266	24	-	-	1,290
Property, plant & equipment and intangible assets	(505)	60	-	-	(445)
FVTPL financial assets	(39)	39	-	-	-
Other temporary difference	1,109	(793)	-	-	316
	6,112	(1,412)	-	-	4,700

	Opening Balance 30 Jun 2019 $'000	Charged to Income $'000	Charged Directly to Equity $'000	Transferred to Assets Held for Sale $'000	Closing Balance 31 Dec 2019 $'000
Deferred tax assets/liabilities					
Expenditure deductible over 5 years	3,539	(743)	-	-	2,796
Provision	1,290	549	-	-	1,839
Property, plant & equipment and intangible asset	(445)	(326)	-	-	(771)
Other temporary differences	316	603	-	-	919
	4,700	83	-	-	4,783

Offsetting within tax consolidated group

Netwealth and its wholly owned subsidiaries have applied the tax consolidation legislation which result in these entities being taxed as a single entity. The deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

Current tax liability as at 31 December 2019

The income tax payable for FY2019 is not due to be paid to the Australian Taxation Office until May 2020 on lodgement of its income tax return. This is as a result of the Group forming an income tax consolidated group on 30 June 2018 and a nil income tax payable position for the Company in FY2018. The Group's monthly PAYG income tax instalments, currently on hold, are expected to resume in July 2020 following the lodgement of the Group's consolidated FY2019 income tax return.

7 Issued Capital

Issued capital comprised:

	Consolidated Group	
	31 December 2019 $'000	30 June 2019 $'000
237,694,996 Fully Paid Ordinary shares (June 2019: 237,679,816)	879,530	879,415
6,177,500 Performance shares (June 2019: 6,177,500)	2,937	2,937
Total share capital	882,467	882,352
Restricted shares	(3,314)	(3,340)
Reorganisation reserve	(856,035)	(855,508)
Issued capital	23,118	23,504

The Company has recognised in FY2018 a Reorganisation Reserve of $856 million to reflect the market value of $3.70 per Fully Paid Ordinary share from the restructure of equity at listing.

	Consolidated Group	
	31 December 2019 Number	30 June 2019 Number
Fully Paid Ordinary shares		
At the beginning of the reporting period	237,679,816	237,679,816
Ordinary shares issued during the half year	15,180	-
At the end of the reporting period	237,694,996	237,679,816
Shares with value	235,560,173	235,531,493
Restricted shares	2,134,823	2,148,323

On 17 October 2019, 15,180 ($114,676) Fully Paid Ordinary shares were issued as part of the Employee Gift Offer.

	Consolidated Group	
	31 December 2019 Number	30 June 2019 Number
Performance shares		
At the beginning of the reporting period	6,177,500	6,457,500
Shares cancelled during the half year	-	(280,000)
At the end of the reporting period	6,177,500	6,177,500
Restricted shares	6,177,500	6,177,500

The Company has issued share capital amounting to 237,694,996 Ordinary shares (June 2019: 237,679,816 shares) of no par value and 6,177,500 Performance shares (June 2019: 6,177,500 shares) of no par value.

At shareholders' meetings each Ordinary share is entitled to one vote when a poll is called, otherwise each Ordinary shareholder has one vote on a show of hands. Performance shares are not entitled to vote and do not participate in dividends. Restricted shares have no value until the employee loan associated with the Share Based Payment arrangement has been fully repaid.

8 Share Based Payments

As at 31 December, the Group had the following share-based payment arrangements:

Performance shares (Pre-Listing LTI Scheme)

The Performance shares give the participant the right to convert to fully paid ordinary shares in Netwealth Group Ltd upon meeting specific performance hurdles. These Performance shares carry no dividend or voting rights until the vest and converts to fully paid ordinary shares.

The following shares were granted during the previous financial years and are included in share-based payment:

Series	Grant date	Number	Plan	Expiry Date	Exercise Price	Fair Value at Grant Date
Series 10	11 August 2016	6,002,500	Performance shares	8 November 2026	$0.47	$0.04
Series 13	19 May 2017	175,000	Performance shares	8 November 2026	$0.61	$0.05

The following vesting conditions apply to all the Performance shares:

- The holder must be either continuously employed by or hold office continually with until 31 December 2020;
- In each of the four financial years ending with the FY2020, the holder must achieve performance ratings of 'Achieving';

- In each of the four financial years ending with FY2020, the holder must achieve behaviour ratings of 'Effectively displays'; and
- In FY2020, the Group must achieve an EPS equal to or more than the tiered EPS hurdle of $0.1143 to vest 70% of holdings, capping at 100% if EPS of $0.1571 is achieved.

Performance shares that do not vest will be compulsorily divested at a price of $0.6143 per Performance Share as at 31 December 2020. A holder does not receive any part of the proceeds of divestiture. Employees are entitled to keep their shares after termination of employment – subject to the basis of termination.

Ordinary share options (New LTI Scheme)

In the FY2019 annual report, it was disclosed that the Board has adopted a new LTI scheme which will apply from FY2020 onwards. Under the new scheme, the Board at its discretion may make offers of 'incentive securities" in the form of rights, options, restricted shares or a combination of these to eligible employees. The new LTI scheme will not apply to non-executive Directors.

During the half year, the Board offered options over ordinary shares to senior and key employees including Matthew Heine and Grant Boyle resulting in the Group issuing 1,046,377 ordinary share options to 115 employees:

Series	Grant date	Number	Plan	Expiry Date	Exercise Price	Fair Value at Grant Date
Series 14	17 October 2019	914,004	Options - LTI	30 June 2022	$7.5544	$2.73
Series 15	12 November 2019	132,373	Options - LTI	30 June 2022	$7.5544	$3.00

The following vesting conditions apply to the Options:

- The holder must be either continuously employed by or hold office continually with until 30 June 2022;
- In each of the three financial years ending with the FY2022, the holder must achieve performance ratings of 'effectively displays' and achieve all minimum KPI's as detailed in the performance plan applicable for the relevant year;
- 50% of Options are subjected to achieving a Total Shareholder Return relative to the Group's ranking in the Comparator Group (being the ASX 300 Diversified Financial Index);
- 50% of Options are subjected to the Group achieving the compound average annual growth rate EPS over the vesting period. It is tiered hurdles with a minimum 17.5%pa to vest 4.5%, capping at 50.0% once 22.5%pa is achieved.

9 Controlled Entities

	Country of Incorporation	Percentage Owned	
		31 December 2019 %	30 June 2019 %
Subsidiaries of Netwealth Group Limited			
Netwealth Holdings Limited	Australia	100	100
Netwealth Superannuation Services Pty Ltd	Australia	100	-
Wealthtech Pty Ltd	Australia	100	-
Subsidiaries of Netwealth Holdings Limited			
Netwealth Investments Limited	Australia	100	100
Netwealth Group Services Pty Ltd	Australia	100	100
Netwealth Fiduciary Services Pty Ltd*	Australia	100	100

*Previously known as Netwealth Advice Group Pty Ltd

Netwealth Advice Group Pty Ltd changed its name to Netwealth Fiduciary Services Pty Ltd on 3 October 2019.

Netwealth Superannuation Services Pty Ltd and Wealthtech Pty Ltd are new subsidiaries established during the half year, neither are operating as at 31 December 2019.

10 Events Occurring after Reporting Date

On 18 February 2020, the Company declared a fully franked interim dividend for 1H 2020 of 6.90 cents per share (total dividend of $16,400,955). The interim dividend is payable on 26 March 2020.

In the opinion of the Board, there are no other matters or circumstances which have arisen between 30 June 2019 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs for the Group in subsequent financial periods.

Directors' Declaration

The Directors declare that:

1. the attached financial statements and notes in accordance with the Corporations Act 2001, comply with Accounting Standards AASB 134 Interim Financial Reporting, Corporation Regulations 2001 and other mandatory professional reporting requirements;
2. the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the consolidated entity; and
3. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

Jane Tongs
Chairman
Dated 18 February 2020

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Independent Auditor's Review Report to the Members of Netwealth Group Limited

We have reviewed the accompanying half-year financial report of Netwealth Group Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the 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' declaration 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.

Responsibility of the Directors 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 31 December 2019 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 the Company, 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 the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

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 the Company 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 31 December 2019 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

Neil Brown
Partner
Chartered Accountants

Melbourne, 18 February 2020

nw

Level 8, 52 Collins Street
Melbourne, VIC 3000

PO Box 336
South Melbourne, VIC 3205

Freecall 1800 888 223
Phone +61 3 9655 1300
Fax +61 3 9655 1333
Email contact@netwealth.com.au
Web netwealth.com.au

ABN 84 620 145 404