Appendix 4D
Interim Financial Report
IOOF HOLDINGS LTD

ABN 49 100 103 722

1. Reporting Period — 31 December 2017

Previous reporting period — 30 June 2017

2. Results for announcement to the market

	$'000	% change from prior comparative period
Revenue from Shareholder activities [(1)]	456,168	no change
Profit from ordinary activities after tax attributable to owners of the Company	45,217	down 39%
Underlying Net Profit After Tax (UNPAT) [(2)]	94,840	up 19%

		Amount per share (cents)	Franked amount per share (cents)
Final dividend for the year ended 30 June 2017			
Paid:	1 September 2017	27.0	27.0
Interim dividend for the year ended 30 June 2018			
Record date:	21 February 2018	27.0	27.0
To be paid:	14 March 2018		

[(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 amortisation of intangible assets, acquisition costs - acquisition advisory, acquisition costs - integration preparation, acquisition costs - finance costs, termination payments, profit on divestment of subsidiaries, profit on divestment of assets, non-recurring professional fees (recovered)/paid, impairment of goodwill, onerous contracts, unwind of deferred tax liability recorded on intangible assets, other and income tax attributable. An UNPAT reconciliation is provided on the following page.

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	31 Dec 17 $'000	31 Dec 16 $'000
Profit attributable to Owners of the Company	**45,217**	**74,212**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:		
Reverse the impact of:		
Amortisation of intangible assets	19,606	19,253
Acquisition costs - Acquisition advisory	3,694	-
Acquisition costs - Integration preparation	1,209	-
Acquisition costs - Finance costs	456	-
Termination payments	1,221	3,215
Profit on divestment of subsidiaries	(143)	(6,261)
Profit on divestment of assets	(297)	(11,133)
Non-recurring professional fees (recovered)/paid	(902)	1,984
Impairment of goodwill	28,339	-
Onerous contracts	1,843	-
Unwind of deferred tax liability recorded on intangible assets	(5,074)	(5,028)
Other	1,290	-
Income tax attributable	(1,619)	3,178
UNPAT	**94,840**	**79,420**

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: retail; industry funds; self-managed; corporate and public sector. Further information regarding the differentiating features of these fund types is available in the financial statements for the year ended 30 June 2017.

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 $2.5 trillion as at 30 September 2017. Over the 12 months to September 2017 there was a 9% 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 6% 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 September 2017 Quarterly Superannuation Performance Statistics, the following were the asset allocation metrics for funds with greater than four members: 50.1% of investments were invested in equities; with 22.7% in Australian listed equities, 23.5% in international listed equities and 3.9% in unlisted equities; Fixed income and cash investments accounted for 32.9% of investments; 21.4% in fixed income and 11.5% in cash; Property and infrastructure accounted for 13.4% of investments and 3.6% 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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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 IOOF Group also 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.

On 28 September 2017, the IOOF Group completed its acquisition of National Australia Trustees Limited (NATL) 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 is considered a strong strategic fit with the IOOF Group’s existing trustee business, Australian Executor Trustees Limited (AET), as combined customers will benefit from greater scale and more specialist product offerings. The integration of AETS is proceeding to plan and is expected to be substantially complete by 30 June 2018.

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. The following features were viewed positively when considering whether to proceed with this acquisition (statistics as at 17 October 2017):

● ANZ Wealth Management is a highly complementary business – the IOOF Group will become the 2nd largest advice business by adviser numbers and further strengthen its position as 2nd largest advice business by Funds Under Advice (FUAdvice), and become the 5th largest platform provider in Australia by FUAdmin;
● The agreement includes a 20 year Strategic Alliance Agreement with ANZ to distribute IOOF Group wealth products through ANZ’s Australian banking network;
● Substantially increases scale – FUAdvice up 34%, financial adviser numbers up 71% and FUAdmin up 125%;
● Pre-tax cost synergies expected to be approximately $65m per annum from FY2021, with further potential for enhanced revenue; and
● A valuation which reflected significant legacy closed product rationalisation. Price to earnings of 9.0x, including anticipated run rate cost synergies based on ANZ Wealth Management UNPAT for the 12 months to 30 September 2017.

The transaction will be funded through a $539m capital issue, comprising a $461m fully underwritten institutional placement and a $78m share purchase plan, and $750m in new debt facilities. The excess of funds raised, or expected to be raised, over purchase consideration takes into account an estimated $130m in completion and integration costs expected to be incurred over approximately three years from the date of announcing the transaction.

The IOOF Group's UNPAT increased $15.4m or 19.4% to $94.8m for the half year ended 31 December 2017 relative to $79.4m UNPAT in the prior comparative period.

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Analysis of financial results - Group

Variances from the six month period to 31 December 2016 are denoted as pcp.

Gross margin increased by $9.3m on pcp

During the current period, average Funds Under Management, Administration and Advice (FUMA) were $116.2b, an increase of 8.8%. The increases were derived largely from equity market performance in the current period augmented by organic growth in advice and platform funds. Financial advice and distribution (Advice) flows of $1,208m were up 39.7% on pcp. 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 $617m were up 53.8% on pcp. This segment benefited from higher levels of flows across the sector and better penetration of the IOOF Group's exisiting client base. As far as the latter is concerned, the transfer of clients from the Bridges aligned TPS platform to the IOOF Group's contemporary, more marketable, Pursuit offering was the prime cause of this positive outcome.

The revenue impact from higher average funds was offset by negative impacts from product mix on earning rates or margins. Those negative impacts were $11m on pcp. Within platform, the lower rates for the current half principally reflected the ability of clients transferred via platform rationalisation to access lower fee scales. In addition, there is a 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 improved relative to pcp, driven by consolidation of underlying fund managers and resultant lower costs. In financial advice, Shadforth margins declined due to divestment and service mix impacts whilst new business from incoming advisers was dilutive on segment margin overall.

Other revenue increased by $1.0m on pcp

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

Operating expenditure decreased by $8.9m on pcp

The decrease in operating expenditure excludes the impact of expenditure items identified as reversed in calculating UNPAT. The most significant factor was a $6.9m reduction in information technology costs. 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 $0.4m which includes higher rates of pay and the transition of development resourcing noted above. The rate of increase has been significantly offset by lower staff numbers overall. This follows the realisation of efficiencies through platform rationalisation. Professional fees have decreased largely because pcp 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 $2.3m on pcp

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 $975m in purchase consideration to ANZ around October 2018.

Other profit impacts decreased by $1.2m on pcp

Non-controlling interest was $0.6m higher in line with Ord Minnett's increased profitability. Share of associates' profits declined $0.8m relative to pcp as a result of mandate outflows and higher costs within the Perennial Value Management Group (PVM). Share-based payments expense was $0.5m 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 life.

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Income tax increased by $4.8m on pcp

Income tax expense relative to pcp principally reflected the IOOF Group's improved profitability. This was partly offset by increased research and development (R&D) tax offsets and prior period amendments. There was an $0.8m lower spend on treasury shares to fulfil employee share plans ($0.2m 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

	31 Dec 17	31 Dec 16	Movement	
Financial advice and distribution	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	134,660	130,845	3,815	2.9%
Other revenue (incl share of net profits of associates)	2,619	2,503	116	4.6%
Operating expenditure	(76,462)	(76,961)	499	0.6%
Net financing	303	310	(7)	(2.3%)
Net non-cash items	(1,967)	(1,629)	(338)	(20.7%)
Income tax expense and non-controlling interest	(20,503)	(18,509)	(1,994)	(10.8%)
Underlying Profit after Tax	**38,650**	**36,559**	**2,091**	**5.7%**

● Average funds growth has been offset by Shadforth fee mix impacts and divestments of owned advice business into owner operated dealer groups. The addition of advisers has brought new revenue streams into the IOOF Group, albeit at a dilutive margin in percentage of average funds terms.

● Operating expenditure has reduced slightly with costs savings from the second half of the prior year largely offset by inflation.

	31 Dec 17	31 Dec 16	Movement	
Platform management and administration	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	106,266	103,716	2,550	2.5%
Other revenue (incl share of net profits of associates)	75	-	75	n/a
Operating expenditure	(45,060)	(49,810)	4,750	9.5%
Net financing	-	-	-	n/a
Net non-cash items	(2,176)	(2,733)	557	20.4%
Income tax expense and non-controlling interest	(17,886)	(15,656)	(2,230)	(14.2%)
Underlying Profit after Tax	**41,219**	**35,517**	**5,702**	**16.1%**

● Average funds benefited from significantly improved organic growth. Improvements in fund flows in the sector more generally, the transfer of Bridges' clients to Pursuit and the administration of increased native title and compensation funds from the trustee services segment were the key drivers of this outcome. This growth was complemented by positive investment returns.

● 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 pcp to facilitate higher levels of on-line transacting in future periods.

	31 Dec 17	31 Dec 16	Movement	
Investment management	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	30,438	27,681	2,757	10.0%
Other revenue (incl share of net profits of associates)	982	1,752	(770)	(43.9%)
Operating expenditure	(5,876)	(7,301)	1,425	19.5%
Net financing	-	282	(282)	n/a
Net non-cash items	(308)	(401)	93	23.2%
Income tax expense and non-controlling interest	(7,295)	(6,133)	(1,162)	(18.9%)
Underlying Profit after Tax	**17,941**	**15,880**	**2,061**	**13.0%**

● Net operating revenue improved in line with market based growth in average funds and improved margins from improved pricing of underlying external fund managers. Other revenue was affected by PVM performance.

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

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Analysis of financial results - Segments (continued)

	31 Dec 17	31 Dec 16	Movement	
Trustee services	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	15,477	14,116	1,361	9.6%
Other revenue (incl share of net profits of associates)	-	-	-	n/a
Operating expenditure	(10,082)	(9,549)	(533)	(5.6%)
Net financing	-	(1)	1	n/a
Net non-cash items	(292)	(296)	4	1.4%
Income tax expense and non-controlling interest	(1,537)	(1,286)	(251)	(19.5%)
Underlying Profit after Tax	**3,566**	**2,984**	**582**	**19.5%**

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

● Increased operating expenditure followed the acquisition of AETS and was partly offset by ongoing simplification of AET support activities.

Financial Position

The IOOF Group held cash and cash equivalents of $157.6m at 31 December 2017 (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 31 December 2017 (30 June 2017: 13%) following the issue of new capital to fund the 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. 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 earns in fees and charges. Deterioration in investment market conditions could also lead to reduced consumer interest in the IOOF Groups' 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.

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Risks (continued)

(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 monitors its systems for signs of poor performance, intrusion or interruption. Cyber security controls are highly complementary to those employed to minimise information technology risks.

(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 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 it operates 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.

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Risks (continued)

(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 trade 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 fair value 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 AFS or 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.

(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 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 its 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.

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Risks (continued)

(xvi) Dependence on financial planners

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.

(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 into Misconduct in the Banking, Superannuation and Financial Services Industry

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (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 and the IOOF Group has lodged a submission with the Commissioner pursuant thereto. An initial public hearing was held on 12 February 2018 and 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 compliment of qualified staff to ensure it is able to interact appropriately with the Royal Commission.

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 period, the Board has determined that a stable dividend of 27.0 cents per share, resulting in a payout ratio of 100%, is appropriate to ensure shareholders are not diluted prior to the completion of the ANZ Wealth Management transaction.

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Shareholder returns (continued)

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 31 December 2017 was 22.3% with 95% of UNPAT paid as dividends augmented by strong share price growth of 16.4%. The market valuation of the IOOF Group remained reflective of positive investor response to the future value to be derived from the acquisition of ANZ Wealth Management and positive movements in global equity markets generally. TSR in the 5 year period from 1 January 2013 was 84.4% in total and 13.0% on a compounding annualised basis. The IOOF Group is in a strong financial position with no borrowings and significant free cash.

	Six months ended 31 December		
	2017	2016	% change
Profit attributable to owners of the Company ($'000s)(1)	45,217	74,212	(39.1%)
Basic EPS (cents per share)	14.2	24.7	(42.5%)
Diluted EPS (cents per share)	14.2	24.7	(42.5%)
UNPAT ($'000s)	94,840	79,420	19.4%
UNPAT EPS (cents per share)	29.8	26.5	12.5%
Dividends declared ($'000s)	94,791	78,035	21.5%
Dividends per share (cents per share)	27.0	26.0	3.8%
Opening share price	$ 9.80	$ 7.83	25.2%
Closing share price at 31 December	$ 10.72	$ 9.21	16.4%
Return on equity (2)	12.0%	11.2%	0.8%

(1) Profit attributable to owners of the Company have been calculated in accordance with Australian Accounting Standards.

(2) Return on equity is calculated by dividing UNPAT by average equity during the period.

Returns to shareholders increase / decrease through both dividends and capital growth/decline. Dividends for 2017 and prior years were fully franked.

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, such as the acquisition of AETS and 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 acquisition of ANZ Wealth Management.

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

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 period. (pcp: Perennial Investment Management Ltd and partial divestment of a subsidiary).

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

IOOF Holdings Ltd - Appendix 4D for the six months ended 31 December 2017

UNPAT adjustments (continued)

Non-recurring professional fees (recovered)/paid: Recovery of certain litigation related pcp costs via successful insurance claim. (pcp: 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. 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 changing market dynamics where larger institutions now weight a greater proportion of funds to indexed products. This has combined with below benchmark performance in 2012 which adversely affected 5 year fund performance numbers.

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.

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 of at their accounting values. This DTL reduces in future periods at 30% of the amortisation applicable to those assets which have different accounting values and tax cost bases. The recognition of DTL and subsequent period 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.

Other: Deferred consideration revaluation relating to pcp divestment of Perennial businesses.

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

3. Net tangible assets

	31 Dec 2017 (cents)	30 Jun 2017 (cents)
Net tangible assets/(liabilities) per share *	171.1	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 period due to the purchase of this entity from National Australia Bank Ltd. The Group held 100% of the shares on issue as at 31 December 2017 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%
Record date for determining entitlement to dividend	21 February 2018		
Date for payment of interim dividend	14 March 2018		

6. Dividend reinvestment plans

The Company does not operate a dividend reinvestment plan.

IOOF Holdings Ltd - Appendix 4D for the six months ended 31 December 2017

7. Details of associates and joint venture entities

	Ownership interest held at the end of period		Contribution to net profit	
	Current period %	Prior comparative period %	Current period $'000	Prior comparative period $'000
Equity accounted associates				
Perennial Value Management Ltd *	52.4	52.4	982	1,715
Other associates			352	429
			1,334	2,144

* 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.*

8. Earnings per share

	31 Dec 2017 (cents)	31 Dec 2016 (cents)
Basic earnings per share	14.2	24.7
Diluted earnings per share	14.2	24.7
UNPAT earnings per share	29.8	26.5

Weighted average number of ordinary shares	31 Dec 2017 No. '000	31 Dec 2016 No. '000
Basic and UNPAT earnings per share	317,738	299,878
Diluted earnings per share	318,429	300,503

9. Other

The information contained in this Appendix 4D is based on the 31 December 2017 condensed consolidated interim financial report of IOOF Holdings Ltd and its subsidiaries, which have been subject to review by KPMG. The financial report is not subject to qualification. A copy of the financial report is attached.

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