# IOOF Holdings Ltd

ABN 49 100 103 722

Full Year
30 June 2016

Appendix 4E
Condensed Annual Financial Report

The Condensed Annual Financial Report constitutes the preliminary final report and contains information required by Appendix 4E of the Australian Securities Exchange Listing Rules. It should be read in conjunction with IOOF's 2016 Annual Financial Report when released, and is lodged with the Australian Securities Exchange under listing rule 4.3A.

# Contents



# Notes to the condensed consolidated financial statements



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

All amounts are in Australian dollars unless otherwise stated. The information on which the Condensed Consolidated Financial Statements is based is in the process of being audited by the IOOF Group's auditors, KPMG. The Company has a formally constituted Audit Committee of the Board of Directors. The signing of the Condensed Consolidated Financial Statements was approved by a resolution of a Committee of the Board of Directors on 8 August 2016.

# Appendix 4E
# Condensed Annual Financial Report
# IOOF HOLDINGS LTD

## ABN 49 100 103 722

## 1. Reporting Period — 30 June 2016

Previous reporting period — 30 June 2015

## 2. Results for announcement to the market

| | $'000 | % change from previous corresponding period |
|---|---|---|
| Revenue from Shareholder activities [(1)] | 907,882 | no change |
| Profit from ordinary activities after tax attributable to owners of the Company | 196,846 | up 42% |
| Underlying Net Profit After Tax (UNPAT) [(2)] | 173,367 | no change |

| | | Amount per share (cents) | Franked amount per share (cents) |
|---|---|---|---|
| Final dividend for the year ended 30 June 2015 | | | |
| Paid: | 15 October 2015 | 28.0 | 28.0 |
| Interim dividend for the year ended 30 June 2016 | | | |
| Paid: | 07 April 2016 | 28.5 | 28.5 |
| Proposed final dividend for the year ended 30 June 2016 | | | |
| Proposed record date: | 30 September 2016 | | |
| Proposed payment date: | 13 October 2016 | 26.0 | 26.0 |

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

*[(2)] UNPAT excludes the impact of amortisation of intangible assets, acquisition and divestment transaction costs, termination and retention incentive payments, onerous contracts, gain on divestment of subsidiaries, (profit)/loss on sale of assets, non-recurring professional fees, unwind of deferred tax liability recorded on intangible assets, reinstatement of Perennial non-controlling interests and income tax attributable. Impairment of Plan B brand name relates to the prior period only. An UNPAT reconciliation is provided on the following page.*

## IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2016

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Profit attributable to Owners of the Company** | **196,846** | **138,371** |
| Underlying net profit after tax (UNPAT) adjustments: | | |
| Reverse the impact of: | | |
| Amortisation of intangible assets | 39,681 | 38,612 |
| Acquisition and divestment transaction costs | 1,516 | 6,381 |
| Termination and retention incentive payments | 6,005 | 5,948 |
| Onerous contracts | 951 | 2,051 |
| Impairment of Plan B brand name | - | 1,400 |
| Gain on divestment of subsidiaries | (71,988) | (2,207) |
| (Profit)/loss on sale of assets | (8,125) | 642 |
| Non-recurring professional fees | 5,061 | - |
| Unwind of deferred tax liability recorded on intangible assets | (10,056) | (9,677) |
| Reinstatement of Perennial non-controlling interests | (825) | (1,765) |
| Income tax attributable | 14,301 | (5,998) |
| **UNPAT** | **173,367** | **173,758** |

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

**Retail** - privately operated trusts and other schemes. The majority of funds are channelled to administration services and investment management products through financial advisers. However, technological development is enabling an increasing range of offerings direct to fund members.
**Industry Funds** - superannuation entities which historically have provided for employees working in the same union, industry or group of related industries. Many industry funds now offer membership to members of the public. Industry funds generally administer these funds, but may outsource the management of investments.
**Self Managed** - the fund member acts as Trustee for his or her pool of funds, which can include funds from a limited number of other family members and associates. These funds are predominantly utilised where the Trustee perceives they have the requisite time and expertise to manage their own investment strategy and a sufficient scale of funds to make the fixed administration costs economically justifiable.
**Corporate** - funds established for the benefit of employees of a particular entity or a group of related entities, with joint member and employer control.
**Public Sector** - funds which provide benefits largely for government employees or employees of statutory authorities, or are schemes established by a Commonwealth, State or Territory law.

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

The IOOF Group administers and manages Retail funds. Australian Superannuation assets totalled $2.0 trillion as at 31 March 2016. Over the 12 months to March 2016 there was a 0.6% decrease in total superannuation assets and retail providers had a market share of approximately 27%. Our market share of that sub-set, as represented by our platform administration segment's flows to Funds Under Administration, was approximately 5%. There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

As at the end of the March 2016, for funds with greater than four members, 48.5% of investments were invested in equities; with 22.6% in Australian listed equities, 21.3% in international listed equities and 4.6% in unlisted equities. Fixed income and cash investments accounted for 33.7% of investments; 21.0% in fixed income and 12.7% in cash. Property and infrastructure accounted for 13.8% of investments and 4.0% were invested in other assets, including hedge funds and commodities.

## IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2016

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.

The IOOF Group's future FUMAS growth will be underpinned by organic and acquisition initiatives. Organic growth will be advanced through:

- increasing brand and product awareness to increase revenue;
- enhancing the adviser and fund member experience through continued technology development and experienced knowledgeable support staff;
- enhanced training initiatives and leading minimum qualification standards to give our staff and advisers every opportunity to optimise the experience of our clients and members;
- 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.

IOOF also has a long-term strategy of pursuing growth through acquisitions and has completed several acquisitions in previous years. IOOF 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.

The IOOF Group's UNPAT decreased $0.4m or 0.2% to $173.4m for the year ended 30 June 2016 relative to $173.8m in the prior corresponding period. There was, however, a $1.3m improvement in the IOOF Group's UNPAT derived from continuing operations.

On 6 August 2014, SFG Australia Ltd (Shadforth) joined the IOOF Group via a scheme of arrangement. Shadforth was an ASX-listed financial advice and end-to-end wealth management firm. Shadforth provides a full range of wealth management services to high net worth and affluent clients, including strategic financial advice, portfolio administration, portfolio construction and management services, insurance solutions, and stockbroking. The company also provides corporate superannuation services as well as accounting and tax services.

Senior employees of IOOF and Shadforth have overseen a rigorous integration process. The first priority was to identify duplicate and non-essential roles, largely at Shadforth head office, and agree exit dates with the individuals affected. All the staff identified in this manner had departed by 31 May 2015. The consequent reduction in employee numbers, particularly among more highly remunerated managerial staff, has provided the bulk of cost synergy savings to date. We have also identified the highest cost suppliers and either terminated them in favour of in-sourced teams or pre-existing external service providers or had their services re-priced downwards as befits the additional scale arising from the increased size of the newly combined group. More efficient occupancy arrangements, reflecting the lower number of staff, have also been implemented.

The Shadforth contribution represents a 22% increase on its operating performance in the prior corresponding period. In calculating that increase, we have allowed for it having been operated by the IOOF Group for only 11 months to 30 June 2015. The increase was driven principally by the realisation of cost synergies resulting from the integration process noted above.

On 2 November 2015, we announced the successful divestment of our interests in Perennial Fixed Interest and Perennial Growth Management to the Henderson Group plc (Henderson) for an upfront consideration of $71.6m and a deferred component dependent on future business performance, payable after two and four years. Additionally, two loss making Perennial subsidiaries with sub-scale Funds Under Management were divested in October and November 2014. The other two Perennial subsidiaries, when they operated pre-divestment, were not material in their impact on the IOOF Group's profitability. The results of all four businesses have been disclosed as a discontinued operation in the financial statements. These divestments allow IOOF to concentrate on its core advice, superannuation, multimanager and trustee business. The proceeds from the sale will potentially fund congruent acquisitions, retire debt or be returned to shareholders depending on opportunities and circumstances. Perennial Value Management and its subsidiary entities will remain a strategic portfolio investment for the IOOF Group.

## Analysis of financial results - Group

Analysis of the IOOF Group's result includes the material impact of acquiring Shadforth one month into the prior corresponding period. There was a $13.9m increment to UNPAT this financial year as a result of this acquisition, of which approximately $3.4m is attributable to ownership for an additional month in the current year. Where the Shadforth acquisition has had an impact on other parts of the IOOF Group, for example in financing additional borrowings, that will be highlighted in the review. The divested Perennial businesses have been excluded from the review and the impact on particular items of revenue or expense highlighted in discontinued operations disclosures.

## Gross margin decreased $1.4m

During the current period FUMAS decreased 2.4% to $131.1b. Excluding acquisition and divestment impacts, Funds Under Management, Administration and Advice (FUMA) declined 0.5% to a total of $104.7b, which was derived largely from equity market driven decreases. Platform and advice flows of $1.8b were positively impacted by high rates of satisfaction with service levels and branding initiatives, but partly offset by outflows associated with a large, low margin corporate super account. Investment management net outflows of $27m were also impacted by that account loss. The timing of movements, in particular the acquisition of Shadforth part way through the prior year, meant that average FUMA increased compared to the prior year resulting in a $17m positive impact on year on year gross margin movement.

The revenue impact from higher average funds was offset by a $21m negative impact of product mix on earning rates or margins. Within platform administration, these lower rates principally reflected a higher proportion of funds directed towards more contemporary platforms with lower fees, but commensurately lower attributable overheads. The introduction of the government mandated MySuper product has had a moderate lowering impact on margins. The final tranche of member transfers occurred in February 2016 and involved superannuants with higher average fund balances than had previously been moved. MySuper members incur mostly flat administration fees hence the impact on margins. Investment management margins also reduced given higher custody and transaction costs for actively managed multi-manager portfolios with higher relative performance. Shadforth margins also declined and had an impact at group level.

## Other revenue decreased $3.1m

Service charges to associated entities have been reduced in line with the significant number of divested holdings enacted in 2015 and 2016 and also as a result of the transfer of certain group operations activities to Perennial Value Management in the wake of divestments in the Perennial Group. The IOOF Group's broking businesses', (Ord Minnett and Bridges) contributions were up marginally in comparison to the prior year as result of increased adviser numbers.

## Operating expenditure decreased by $7.9m

The decrease above excludes the impact of expenditure items identified as reversed in calculating UNPAT. The major source of this was labour cost savings from the realisation of synergies on integrating the Shadforth business, however this was largely offset by having an additional month of Shadforth costs in the current period. The savings from Shadforth's operations have allowed for a complementary capability uplift in the Platform Management and Administration segment, most particularly in technology and consulting to enhace the client experience. In the absence of these major items, prudent constraint on discretionary activity has resulted in minor movements only in most cost categories.

## Net financing costs decreased by $2.0m

Net interest expense was lower due to increased interest earnings on the cash received from the sale of Perennial businesses and lower market borrowing rates, partly offset by an additional month's debt funding for the Shadforth acquisition.

## Other profit impacts decreased by $4.2m

Share of associates profits declined $1.6m as a result of mandate outflows and higher costs within the Perennial Value Management Group. Depreciation expense was $1.8m higher due to the aging profile and purchasing patterns of plant and equipment. Share-based payments expense was $1.5m lower due to the roll off of non-employee stakeholder plans. Non-controlling interests excluded Perennial entities due to classification as discontinued operations and was $0.5m higher in line with Ord Minnett's increased profitability. Income tax expense was broadly flat despite increased profitability from continuing operations due largely to the timing of research and development concessions.

## IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2016

### Analysis of financial results - Segments (excluding discontinued operations)

| | 2016 | 2015 | Movement | |
|---|---|---|---|---|
| **Platform management and administration** | $'000 | $'000 | $'000 | % |
| Net operating revenue | 218,161 | 222,691 | (4,530) | (2.0%) |
| Other revenue (incl equity accounted profits) | 375 | (51) | 426 | LARGE |
| Operating expenditure | (99,409) | (96,113) | (3,296) | (3.4%) |
| Net financing | 2 | - | 2 | n/a |
| Net non-cash items | (5,288) | (4,337) | (951) | (21.9%) |
| Income tax expense and non-controlling Interest | (34,820) | (37,865) | 3,045 | 8.0% |
| Underlying Profit after Tax | **79,021** | **84,325** | **(5,304)** | **(6.3%)** |

● Net operating revenue decrease was driven primarily by relatively stable average funds, derived from devaluing markets offset by organic growth at lower margins.

● Increased operating expenditure resulted primarily from information technology enhancements to products and services and a significant consulting engagement designed to improve client service.

| | 2016 | 2015 | Movement | |
|---|---|---|---|---|
| **Investment management** | $'000 | $'000 | $'000 | % |
| Net operating revenue | 57,719 | 61,827 | (4,108) | (6.6%) |
| Other revenue (incl equity accounted profits) | 5,572 | 11,209 | (5,637) | (50.3%) |
| Operating expenditure | (19,769) | (23,933) | 4,164 | 17.4% |
| Net financing | 1,236 | 389 | 847 | LARGE |
| Net non-cash items | (1,383) | (1,088) | (295) | (27.1%) |
| Income tax expense and non-controlling Interest | (11,996) | (13,180) | 1,184 | 9.0% |
| Underlying Profit after Tax | **31,379** | **35,224** | **(3,845)** | **(10.9%)** |

● Net operating revenue declines reflected lower average margins. Margins were affected by higher custody and transaction costs.

● Decreased operating expenditure resulted from Shadforth integration synergies.

| | 2016 | 2015 | Movement | |
|---|---|---|---|---|
| **Financial advice and distribution** | $'000 | $'000 | $'000 | % |
| Net operating revenue | 261,667 | 253,296 | 8,371 | 3.3% |
| Other revenue (incl equity accounted profits) | 4,700 | 5,201 | (501) | (9.6%) |
| Operating expenditure | (147,715) | (157,332) | 9,617 | 6.1% |
| Net financing | 731 | 741 | (10) | 1.3% |
| Net non-cash items | (3,967) | (4,901) | 934 | 19.1% |
| Income tax expense and non-controlling Interest | (36,981) | (31,117) | (5,864) | (18.8%) |
| Underlying Profit after Tax | **78,435** | **65,888** | **12,547** | **19.0%** |

● Net operating revenue increase reflected funds growth and revenue synergies derived from pricing parity with Shadforth.

● Reduced operating expenditure resulted from Shadforth integration synergies partly offset by wage increases in line with inflation.

| | 2016 | 2015 | Movement | |
|---|---|---|---|---|
| **Trustee services** | $'000 | $'000 | $'000 | % |
| Net operating revenue | 27,422 | 27,808 | (386) | (1.4%) |
| Other revenue (incl equity accounted profits) | - | 2 | (2) | (100.0%) |
| Operating expenditure | (18,601) | (17,715) | (886) | (5.0%) |
| Net financing | - | - | - | n/a |
| Net non-cash items | (246) | (181) | (65) | (35.9%) |
| Income tax expense and non-controlling Interest | (2,578) | (2,983) | 405 | 13.6% |
| Underlying Profit after Tax | **5,997** | **6,931** | **(934)** | **(13.5%)** |

● Gross revenue has increased in line with higher client numbers. Net operating revenue, however, has been adversely impacted by litigation provisioning which is classified as a fund administration expense.

● Increased operating expenditure resulted from increased staffing to facilitate organic growth initiatives, wage increases in line with inflation and certain one-off costs.

## Financial Position

The IOOF Group held cash and cash equivalents of $187.0m at 30 June 2016 (30 June 2015: $150.5m). 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. During the year, an additional $54.6m in net proceeds was received from the divestment of certain Perennial entities (see discontinued operations) which was the principal driver of the increased level of cash.

The overall debt to equity ratio stood at 13% at 30 June 2016 (30 June 2015: 13%). Net debt, borrowings less cash, stood at 0.1 times underlying earnings before interest, tax, depreciation and amortisation. This compares favourably to a covenant ratio upper limit of 2.5 times. Cash flow forecasting is conducted monthly which indicates that the IOOF Group's debt levels are able to be serviced from current business operations. We also conduct stress testing of lending covenants when assessing acquisition opportunities and monitor adherence to licence conditions monthly.

## Risk

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

**(i) Changes in investment markets**
IOOF 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 we earn in fees and charges. Deterioration in investment market conditions could also lead to reduced consumer interest in our 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 we operate. 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 on the earnings and assets. The Group manages this risk by continuously investing in product design and stakeholder relationships.

**(iii) Information technology**
IOOF relies heavily on information technology. Therefore, any significant or sustained failure in our core technology systems or cyber security could have a materially adverse effect on our operations in the short term, which in turn could undermine longer term confidence and impact our future profitability and financial position.

**(iv) Brands and reputation**
The Group's capacity to attract and retain financial planners, 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 our future profitability and financial position.

**(v) Provision of investment advice**
IOOF’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 our advisers whilst its potential financial impact is generally mitigated by taking out appropriate insurance cover.

**(vi) Operational risks**
Operational risk is the risk arising from the daily functioning of the Group’s businesses. IOOF has specific operational exposures relevant to the industry in which we operate including exposures in connection with product disclosure statements, investment management, tax and financial advice, legal and regulatory compliance, product commitments, process error, fraud, system failure, failure of security and physical protection systems and unit pricing errors.

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

## Risk (continued)

**(viii) Cash flow and fair value interest rate**

Interest rate risk is the risk to the 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, 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 IOOF to cash flow interest rate risk.

**(ix) Liquidity risk**

Liquidity risk relates to IOOF having insufficient liquid assets to cover current liabilities and unforeseen expenses. The 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 is also regularly reviewed and carefully monitored in accordance with those licence requirements.

**(x) 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 our 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 which enables it to operate key parts of its business. 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 we are required to hold a higher capital base.

**(xi) Insurance**

IOOF holds insurance policies, including errors and omissions (professional indemnity) and directors' and officers' insurance, which we regard as commensurate with industry standards, and adequate having regard to our business activities. These policies provide a degree of protection for IOOF's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that IOOF currently maintains will:

- be available in the future on a commercially reasonable basis; or
- provide adequate cover against claims made against or by IOOF, 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).

IOOF 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 IOOF incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

**(xii) 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 IOOF or its service providers could cause financial or reputation loss.

**(xiii) Dependence on key personnel**

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

**(xiv) Dependence on financial planners**

The success of our advice and platform business is highly dependent on the quality of the relationships we have with our financial planners and the quality of their relationships with their clients. Our ability to retain productive planners is in turn dependent on service levels, technological capability, suitability of product offerings and the quality and relevance of professional training.

## Risk (continued)

**(xv) 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 our financial position.

**(xvi) Dilution**
IOOF'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.

**(xvii) Regulatory and legislative risk and reform**
The financial services sectors in which we operate are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions. The regulatory regimes governing our business activities are complex and subject to change. The impact of future regulatory and legislative change upon IOOF 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.

## 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. Based on historical precedent, the occasions on which this range is not met or exceeded are expected to be infrequent.

Total Shareholder Return (TSR) measures the change in share value over a specified period together with the return by way of dividends received. IOOF’s TSR for the twelve months to 30 June 2016 was -6.8% with strong dividends partly offsetting market devaluations. The market valuation of IOOF is reflective of movements in global equity markets.  TSR in the period from the acquisition of Australian Wealth Management on 30 April 2009 to 30 June 2016 was 174% in total and 15% on a compounding annualised basis. The Group is in a strong financial position with low gearing and significant free cash.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Profit attributable to owners of the Company ($'000s)[(1)] | 196,846 | 138,371 | 101,285 | 79,769 | 19,373 |
| Basic EPS (cents per share) | 65.7 | 47.7 | 43.7 | 34.4 | 8.4 |
| Diluted EPS (cents per share) | 65.4 | 47.4 | 43.1 | 34.1 | 8.3 |
| Basic EPS (continuing operations) (cents per share) | 46.0 | 45.8 | 43.7 | 34.4 | 8.4 |
| UNPAT ($'000s) | 173,367 | 173,758 | 123,047 | 108,756 | 96,393 |
| UNPAT EPS (cents per share) | 57.8 | 59.9 | 53.1 | 46.9 | 41.6 |
| Dividends declared ($'000s) | 163,573 | 159,070 | 127,260 | 97,485 | 85,854 |
| Dividends per share (cents per share) | 54.5 | 53.0 | 47.5 | 42.0 | 37.0 |
| Opening share price | $ 8.99 | $ 8.40 | $ 7.36 | $ 6.05 | $ 6.60 |
| Closing share price at 30 June | $ 7.83 | $ 8.99 | $ 8.40 | $ 7.36 | $ 6.05 |
| Return on equity (non-statutory measure)[(2)] | 12.3% | 13.4% | 15.0% | 13.2% | 11.1% |

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

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

Returns to shareholders increase / decrease through both dividends and capital growth / decline. Dividends for 2016 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 and divestment transaction costs:** One off payments to external advisers in pursuit of corporate transactions, such as the acquisition of Shadforth and divestment of certain Perennial subsidiaries, which were not reflective of conventional recurring operations.

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

**Onerous contracts:** Non-cash entry to record the estimated present value of expected costs of meeting the obligations under terminated information technology contracts associated with platform rationalisation (2015: Shadforth lease contracts). For these contracts, the costs exceed the economic benefits expected to be received.

**Impairment of Plan B brand name:** Non-cash entry which reflects a one-off decision to cease use of the Plan B brand given the cost and promotional advantages afforded by the acquisition of Shadforth and its brand. The entry is not related to the conventional recurring operations of the IOOF Group.

**Gain on divestment of subsidiaries:** During the period, the IOOF Group divested its interests in Perennial Fixed Interest and Perennial Growth Management to Henderson (2015: Perennial Real Estate Investments and Perennial International Equiities Management).

**(Profit)/loss on sale of assets:** Divestments of non-core businesses, client lists and associates.

**Non-recurring professional fees**: Costs relating to specialist service and advice providers enlisted to assist the 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. It is not anticipated that this type and level of support will be required on a recurrent basis.

**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 newly legislated tax consolidation rules implemented during 2012. A deferred tax liability (DTL) is required to be recognised as there is an embedded capital gain should the assets be divested at their accounting values. This DTL reduces in future 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.

**Reinstatement of Perennial non-controlling interests:** Embedded derivatives exist given the IOOF Group's obligation to buy-back shareholdings in certain Perennial subsidiaries if put under the terms of their shareholders' agreements. International Financial Reporting Standards deems the interests of these non-controlling holders to have been acquired. Those interests must therefore be held on balance sheet as a liability to be revalued to a reserve each reporting period. In calculating UNPAT, the non-controlling interest holders share of the profit of these subsidiaries is subtracted from the IOOF Group result as though there were no embedded derivatives to better reflect the current economic interests of Company shareholders in the activities of these subsidiaries.

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

# IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2016

## 3. Net tangible assets

| | 30 June 2016 (cents) | 30 June 2015 (cents) |
|---|---|---|
| Net tangible assets/(liabilities) per share * | 14.6 | (12.7) |

* 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 Perennial Fixed Interest Pty Ltd and Perennial Growth Management Pty Ltd was lost during the period. The Group held 100% of the shares on issue as at 30 June 2015 which is nil as at 30 June 2016.

## 5. Dividends

| | Amount $'000 | Cents per share | % Franked |
|---|---|---|---|
| Final dividend for the year ended 30 June 2015 | 84,037 | 28.0 | 100% |
| Interim dividend for the year ended 30 June 2016 | 85,538 | 28.5 | 100% |
| Proposed Final dividend for the year ended 30 June 2016 | 78,035 | 26.0 | 100% |
| Proposed record date for determining entitlements to dividends | 30 September 2016 | | |
| Proposed payment date of final dividend | 13 October 2016 | | |

## 6. Dividend reinvestment plans

The Company does not operate a dividend reinvestment plan.

## 7. Details of associates and joint venture entities

| | Ownership interest held at the end of period | | Contribution to net profit | |
|---|---|---|---|---|
| | Current period % | Previous corresponding period % | Current period $'000 | Previous corresponding period $'000 |
| **Equity accounted associates** | | | | |
| Perennial Value Management Ltd * | 52.4 | 52.4 | 3,684 | 5,070 |
| Other associates | | | 1,147 | 1,407 |
| | | | 4,831 | 6,477 |

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

## IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2016

### 8. Earnings per share

| | 30 June 2016 (cents) | 30 June 2015 (cents) |
|---|---|---|
| Basic earnings per share | 65.7 | 47.7 |
| Diluted earnings per share | 65.4 | 47.4 |
| UNPAT earnings per share | 57.8 | 59.9 |

| **Weighted average number of ordinary shares** | 30 June 2016 No. '000 | 30 June 2015 No. '000 |
|---|---|---|
| Basic and UNPAT earnings per share | 299,838 | 289,896 |
| Diluted earnings per share | 300,853 | 292,104 |

At 30 June 2016, there were no options outstanding.

### 9. Other

The Directors of IOOF Holdings Limited confirm that the financial information and notes of the IOOF Group set out on pages 14 to 28 are in the process of being audited.

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

Dr Roger Sexton AM
**Chairman**
Melbourne
9 August 2016

## Condensed consolidated statement of comprehensive income

| | Note | 2016 $'000 | 2015* $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 1-3 | 907,882 | 909,939 |
| Expenses | 1-4 | (713,217) | (726,967) |
| Share of profits of associates accounted for using the equity method | | 4,831 | 6,477 |
| Finance costs | | (7,353) | (8,725) |
| **Profit before tax** | | 192,143 | 180,724 |
| Income tax expense | | (51,601) | (45,766) |
| **Statutory fund** | | | |
| Statutory fund revenue** | | 62,937 | 66,424 |
| Statutory fund expenses** | | (58,200) | (56,484) |
| Income tax (expense)/benefit - statutory** | | (4,737) | (9,940) |
| **Statutory fund contribution to profit, net of tax** | | - | - |
| **Profit for the period from continuing operations** | | 140,542 | 134,958 |
| **Discontinued operation** | | | |
| Profit for the period from discontinued operation | 1-2 | 58,924 | 5,569 |
| **Profit for the period** | | 199,466 | 140,527 |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Net change in fair value of share buy back liability | | - | (3,393) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Net change in fair value of available-for-sale financial assets | | 3,648 | 4,940 |
| Exchange differences on translating foreign operations | | 118 | (12) |
| Income tax on other comprehensive income | | (1,109) | (1,454) |
| *Total items that may be reclassified subsequently to profit or loss* | | 2,657 | 3,474 |
| **Other comprehensive income/(expense) for the period, net of income tax** | | 2,657 | 81 |
| **Total comprehensive income for the period** | | 202,123 | 140,608 |
| Profit attributable to: | | | |
| **Owners of the Company** | | **196,846** | **138,371** |
| Non-controlling interest | | 2,620 | 2,156 |
| **Profit for the period** | | 199,466 | 140,527 |
| **Total comprehensive income attributable to:** | | | |
| **Owners of the Company** | | **199,503** | **138,452** |
| Non-controlling interest | | 2,620 | 2,156 |
| **Total comprehensive income for the period** | | 202,123 | 140,608 |
| **Earnings per share:** | | | |
| Basic earnings per share (cents per share) | | 65.7 | 47.7 |
| Diluted earnings per share (cents per share) | | 65.4 | 47.4 |
| **Earnings per share - continuing operations:** | | | |
| Basic earnings per share (cents per share) | | 46.0 | 45.8 |
| Diluted earnings per share (cents per share) | | 45.8 | 45.5 |

Notes to the condensed consolidated financial statements are included on pages 19 to 28.

* 30 June 2015 has been restated. Refer Note 1-2 for details.

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

## Condensed consolidated statement of financial position

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | 186,992 | 150,533 |
| Receivables | | 102,378 | 103,340 |
| Other financial assets | | 43,378 | 42,911 |
| Prepayments | | 11,828 | 12,455 |
| Assets held for sale | | - | 9,055 |
| Deferred acquisition costs | | 2,482 | 3,639 |
| Associates | | 22,667 | 21,898 |
| Property and equipment | | 21,863 | 21,507 |
| Intangible assets | 3-1 | 480,169 | 523,457 |
| Goodwill | 3-2 | 991,712 | 1,013,105 |
| Assets relating to statutory funds* | 4 | 879,349 | 901,187 |
| **Total assets** | | **2,742,818** | **2,803,087** |
| **Liabilities** | | | |
| Payables | | 68,781 | 71,519 |
| Borrowings | 2-1 | 206,975 | 207,846 |
| Current tax liabilities | | 17,930 | 44,028 |
| Contingent consideration | | 1,491 | 7,298 |
| Share buy-back liabilities | | - | 27,327 |
| Provisions | | 62,394 | 67,676 |
| Deferred tax liabilities | | 101,163 | 92,527 |
| Liabilities held for sale | | - | 4,725 |
| Deferred revenue liability | | 2,499 | 3,736 |
| Lease incentives | | 2,536 | 2,960 |
| Liabilities relating to statutory funds* | 4 | 879,349 | 901,187 |
| **Total liabilities** | | **1,343,118** | **1,430,829** |
| **Net assets** | | **1,399,700** | **1,372,258** |
| **Equity** | | | |
| Share capital | 2-2 | 1,436,460 | 1,437,757 |
| Reserves | 2-4 | 11,266 | (8,918) |
| Accumulated losses | | (57,501) | (66,224) |
| **Total equity attributable to equity holders of the Company** | | **1,390,225** | **1,362,615** |
| Non-controlling interest | | 9,475 | 9,643 |
| **Total equity** | | **1,399,700** | **1,372,258** |

Notes to the condensed consolidated financial statements are included on pages 19 to 28.

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

## Condensed consolidated statement of changes in equity

| For the year ended 30 June 2016 | Ordinary shares $'000 | Treasury shares $'000 | Reserves $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2015 | 1,444,903 | (7,146) | (8,918) | (66,224) | 1,362,615 | 9,643 | **1,372,258** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period attributable to owners of the Company | - | - | - | 196,846 | 196,846 | 2,620 | **199,466** |
| Other comprehensive income for the year, net of income tax | - | - | 2,657 | - | 2,657 | - | **2,657** |
| **Total comprehensive income for the period** | - | - | 2,657 | 196,846 | 199,503 | 2,620 | **202,123** |
| *Contributions by and (distributions to) owners* | | | | | | | |
| Dividends to equity holders | - | - | - | (169,430) | (169,430) | (2,788) | **(172,218)** |
| Share-based payment expense | - | - | 1,966 | - | 1,966 | - | **1,966** |
| Recognition of Operating Risk Financial Reserve | - | - | 2,799 | - | 2,799 | - | **2,799** |
| Proceeds from exercise of options under executive and employee share option plan | 210 | - | - | - | 210 | - | **210** |
| Transfer from employee equity-settled benefits reserve on exercise of options | 5,931 | - | (5,931) | - | - | - | **-** |
| Treasury shares transferred to recipients during the period | (11,768) | 11,768 | - | - | - | - | **-** |
| Divestment of discontinued operation | - | - | 18,728 | (18,728) | - | - | **-** |
| Transfer of lapsed share options to retained earnings | - | - | (35) | 35 | - | - | **-** |
| Purchase of treasury shares | - | (7,438) | - | - | (7,438) | - | **(7,438)** |
| Total transactions with owners | (5,627) | 4,330 | 17,527 | (188,123) | (171,893) | (2,788) | **(174,681)** |
| **Balance at 30 June 2016** | 1,439,276 | (2,816) | 11,266 | (57,501) | 1,390,225 | 9,475 | **1,399,700** |

Notes to the condensed consolidated financial statements are included on pages 19 to 28.

## Condensed consolidated statement of changes in equity

| For the year ended 30 June 2015 | Ordinary shares $'000 | Treasury shares $'000 | Reserves $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2014 | 868,084 | (8,119) | (4,456) | (55,004) | 800,505 | 12,835 | 813,340 |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period attributable to owners of the Company | - | - | - | 138,371 | 138,371 | 2,156 | 140,527 |
| Other comprehensive income for the year, net of income tax | - | - | 81 | - | 81 | - | 81 |
| **Total comprehensive income for the period** | - | - | 81 | 138,371 | 138,452 | 2,156 | 140,608 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| *Contributions by and (distributions to) owners* | | | | | | | |
| Dividends to equity holders | - | - | - | (149,755) | (149,755) | (3,239) | (152,994) |
| Share-based payment expense | - | - | 3,559 | - | 3,559 | - | 3,559 |
| Fair value of shares issued in business combination | 581,535 | - | - | - | 581,535 | - | 581,535 |
| Transaction costs of issuing new shares | (293) | - | - | - | (293) | - | (293) |
| Proceeds from exercise of options under executive and employee share option plan | 4,880 | - | - | - | 4,880 | - | 4,880 |
| Transfer from employee equity-settled benefits reserve on exercise of options | 7,938 | - | (7,938) | - | - | - | - |
| Treasury shares transferred to recipients during the year | (16,999) | 16,999 | - | - | - | - | - |
| On-market purchase of shares transferred to option and rights holders during the year | (242) | - | - | - | (242) | - | (242) |
| Purchase of treasury shares | - | (16,026) | - | - | (16,026) | - | (16,026) |
| Transfer of lapsed share options to retained earnings | - | - | (164) | 164 | - | - | - |
| Return of capital to non-controlling members of subsidiary entities | - | - | - | - | - | (1,640) | (1,640) |
| Purchase of non-controlling shares | - | - | - | - | - | (469) | (469) |
| Total transactions with owners | 576,819 | 973 | (4,543) | (149,591) | 423,658 | (5,348) | 418,310 |
| **Balance at 30 June 2015** | 1,444,903 | (7,146) | (8,918) | (66,224) | 1,362,615 | 9,643 | 1,372,258 |

Notes to the condensed consolidated financial statements are included on pages 19 to 28.

## Condensed consolidated statement of cash flows

| | 2016 $'000 | 2015* $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | 1,004,844 | 1,037,747 |
| Payments to suppliers and employees | (757,836) | (791,240) |
| Dividends from associates | 2,757 | 8,141 |
| Net stockbroking purchases | (596) | (122) |
| Non-recurring professional fees | (5,061) | - |
| Termination and retention incentive payments | (5,799) | (5,857) |
| Income taxes paid | (69,458) | (62,324) |
| **Net cash provided by/(used in) operating activities** | 168,851 | 186,345 |
| **Cash flows from investing activities** | | |
| Dividends and distributions received | 839 | 753 |
| Interest received | 5,002 | 4,112 |
| Net proceeds on divestment of discontinued operation, net of tax | 54,586 | 371 |
| Acquisition of subsidiary, net of cash acquired | - | (35,779) |
| Acquisition and divestment transaction costs | (1,516) | (6,381) |
| Interest and other costs of finance paid | (7,022) | (8,337) |
| Proceeds on divestment of other assets | 5,868 | 3,773 |
| Receipt/(payment) of deferred purchase consideration | (4,188) | 1,003 |
| Purchase of non-controlling interests in subsidiaries | (2,112) | (1,444) |
| Net proceeds from sales/(purchases) of financial assets | (944) | 6,443 |
| Payments for property and equipment | (8,390) | (6,890) |
| Amounts (advanced to)/borrowed from other entities | 352 | (23) |
| Payments for intangible assets | (842) | (4,988) |
| **Net cash provided by/(used in) investing activities** | 41,633 | (47,387) |
| **Cash flows from financing activities** | | |
| Net borrowings drawn/(repaid) | (1,087) | 75,435 |
| Purchase of treasury shares | (7,438) | (16,268) |
| Proceeds from exercise of IFL share options | 210 | 4,880 |
| Proceeds from exercise of share options in subsidiaries | - | 662 |
| Cost of issuing additional shares | - | (291) |
| Return of capital to non-controlling members of Group entities | - | (1,640) |
| Dividends paid: | | |
| - members of the Company | (169,430) | (149,755) |
| - non-controlling members of subsidiary entities | (2,788) | (3,239) |
| - shareholders entitled to contractual share buy-back | (1,698) | (2,383) |
| **Net cash provided by/(used in) financing activities** | (182,231) | (92,599) |
| **Net increase/(decrease) in cash and cash equivalents** | 28,253 | 46,359 |
| **Cash and cash equivalents at the beginning of period** | 150,533 | 109,505 |
| Effects of cash reclassified to assets held for sale | 5,314 | (5,314) |
| Operating Risk Financial Reserve cash requirement | 2,799 | - |
| Effects of exchange rate changes on cash and cash equivalents | 93 | (17) |
| **Cash and cash equivalents at the end of period** | 186,992 | 150,533 |

Notes to the condensed consolidated financial statements are included on pages 19 to 28.

* 30 June 2015 has been restated. Refer Note 1-2 for details.

# Section 1 - Results for the period

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

## 1-1 Operating segments

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

The results of Shadforth are now shown in the respective segments of investment management, financial advice and distribution and corporate and other. Comparative disclosures have been restated to be on a comparable basis. Further detail on Shadforth's impact on these segments is available in the results presentation which can be accessed at the Company website at www.ioof.com.au

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

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

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

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

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

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

# Section 1 - Results for the period

## 1-1 Operating segments (continued)

| | Platform management and administration | | Investment management# | | Financial advice and distribution# | | Trustee services | | Corporate and other# | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| External management and service fee revenue | 394,082 | 401,693 | 99,318 | 107,995 | 260,285 | 247,526 | 24,995 | 24,039 | - | - | 778,680 | 781,253 |
| External other fee revenue | 5,829 | 9,608 | 1,847 | 1,819 | 22,656 | 23,640 | 4,213 | 3,449 | 562 | 715 | 35,107 | 39,231 |
| Service fees and other direct costs | (113,866) | (112,727) | (43,187) | (47,652) | (119,933) | (123,231) | (2,171) | 19 | 419 | 399 | (278,738) | (283,192) |
| Deferred acquisition costs | (517) | (1,104) | - | - | (603) | (853) | - | - | - | - | (1,120) | (1,957) |
| **Gross Margin** | **285,528** | **297,470** | **57,978** | **62,162** | **162,405** | **147,082** | **27,037** | **27,507** | **981** | **1,114** | **533,929** | **535,335** |
| Stockbroking revenue | - | - | - | - | 73,841 | 73,207 | - | - | - | - | 73,841 | 73,207 |
| Stockbroking service fees expense | - | - | - | - | (41,683) | (41,669) | - | - | - | - | (41,683) | (41,669) |
| **Stockbroking net contribution** | **-** | **-** | **-** | **-** | **32,158** | **31,538** | **-** | **-** | **-** | **-** | **32,158** | **31,538** |
| Inter-segment revenue(i) | - | - | - | - | 71,879 | 74,817 | 385 | 304 | 137 | 137 | 72,401 | 75,258 |
| Inter-segment expenses(i) | (67,367) | (74,779) | (259) | (335) | (4,775) | (141) | - | (3) | - | - | (72,401) | (75,258) |
| **Net Operating Revenue** | **218,161** | **222,691** | **57,719** | **61,827** | **261,667** | **253,296** | **27,422** | **27,808** | **1,118** | **1,251** | **566,087** | **566,873** |
| Other external revenue | 375 | - | 1,887 | 6,138 | 3,537 | 3,565 | - | 2 | 549 | 319 | 6,348 | 10,024 |
| Finance income | 2 | - | 1,236 | 531 | 800 | 1,041 | - | - | 3,743 | 3,617 | 5,781 | 5,189 |
| Inter-segment revenue(i) | - | - | - | - | 17 | 179 | - | - | - | - | 17 | 179 |
| Share of net profits of associates | - | (51) | 3,685 | 5,071 | 1,146 | 1,457 | - | - | - | - | 4,831 | 6,477 |
| Operating and other expenditure | (99,392) | (95,949) | (19,769) | (23,933) | (147,715) | (157,332) | (18,601) | (17,715) | (41,477) | (39,937) | (326,954) | (334,866) |
| Share-based payments expense | (503) | (766) | (296) | (324) | (409) | (1,582) | (20) | (26) | (726) | (802) | (1,954) | (3,500) |
| Finance costs | - | - | - | (142) | (69) | (300) | - | - | (7,284) | (8,283) | (7,353) | (8,725) |
| Inter-segment expenses(i) | (17) | (164) | - | - | - | - | - | - | - | (15) | (17) | (179) |
| Depreciation | (3,048) | (1,909) | (1,087) | (764) | (3,558) | (3,319) | (226) | (155) | - | (1) | (7,919) | (6,148) |
| Amortisation of intangible assets - IT Development | (1,737) | (1,662) | - | - | - | - | - | - | - | - | (1,737) | (1,662) |
| Non-controlling interests | - | - | - | - | (2,620) | (2,156) | - | - | - | - | (2,620) | (2,156) |
| Income tax expense | (34,820) | (37,865) | (11,996) | (13,180) | (34,361) | (28,961) | (2,578) | (2,983) | 20,515 | 21,489 | (63,240) | (61,500) |
| **UNPAT from continuing operations** | **79,021** | **84,325** | **31,379** | **35,224** | **78,435** | **65,888** | **5,997** | **6,931** | **(23,562)** | **(22,362)** | **171,270** | **170,006** |
| Discontinued Operations | | | | | | | | | | | **2,097** | **3,752** |
| **UNPAT** | | | | | | | | | | | **173,367** | **173,758** |

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

Segment disclosures have been prepared on an underlying (UNPAT) basis as discussed in section 2 of the Appendix 4E. Comparatives have been restated to be on a comparable basis.

#The results of Shadforth are now shown in the respective segments of investment management, financial advice and distribution and corporate and other. Comparative disclosures have been restated to be on a comparable basis.

# Section 1 - Results for the period

## 1-1 Operating segments (continued)

### Reconciliation of reportable segment revenues and expenses

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Total profit after tax for reportable segments** | **171,270** | **170,006** |
| Non-controlling interest | 2,620 | 2,156 |
| *UNPAT adjustments - continuing operations* | | |
| Amortisation of intangible assets | (39,681) | (38,612) |
| Acquisition and divestment transaction costs | (1,414) | (5,962) |
| Termination and retention incentive payments | (6,005) | (5,948) |
| Onerous contracts | (951) | (2,051) |
| Impairment of Plan B brand name | - | (1,400) |
| Profit/(loss) on sale of assets | 8,125 | (642) |
| Gain on divestment of subsidiaries | - | 1,677 |
| Non-recurring professional fees | (5,061) | - |
| Unwind of deferred tax liability recorded on intangible assets | 10,056 | 9,677 |
| Income tax attributable | 1,583 | 6,057 |
| **Profit for the period from continuing operations** | **140,542** | **134,958** |
| Profit for the period from discontinued operation | 58,924 | 5,569 |
| **Profit for the period** | **199,466** | **140,527** |

## 1-2 Discontinued operation

On 2 June 2015, we announced that we expected to divest our interests in Perennial Fixed Interest and Perennial Growth Management to Henderson for an upfront consideration of $71.6m and a deferred component dependent on future business performance, payable after two and four years. The sale to Henderson was completed on 1 November 2015. No amounts have been recognised as deferred consideration at 30 June 2016. These components of the Perennial Group were previously classified as held-for-sale.

Perennial Real Estate Investments and Perennial International Equities Management were divested in the 2015 financial year. These were not disclosed as a discontinued operation in the 2015 financial report due to immateriality. The 30 June 2015 figures below also include the impact of these divestments.

| | 4 months ended 1 Nov 15 $'000 | 12 months ended 30 Jun 15 $'000 |
|---|---|---|
| **Results of the discontinued operation** | | |
| Revenue | 9,486 | 27,808 |
| Expenses | (5,435) | (19,518) |
| **Results from operating activities** | 4,051 | 8,290 |
| Income tax | (1,221) | (3,092) |
| **Results from operating activities, net of tax** | 2,830 | 5,198 |
| Gain on sale of discontinued operation | 71,988 | 530 |
| Income tax on gain on sale of discontinued operation | (15,894) | (159) |
| **Gain on divestment of discontinued operation, net of tax** | 56,094 | 371 |
| **Profit for the period** | 58,924 | 5,569 |
| Basic earnings per share | 19.7 | 1.9 |
| Diluted earnings per share | 19.6 | 1.9 |

# Section 1 - Results for the period

## 1-2 Discontinued operation (continued)

| | 4 months ended 1 Nov 15 $'000 | 12 months ended 30 Jun 15 $'000 |
|---|---|---|
| **Cash flows from the discontinued operation** | | |
| Net cash provided by operating activities | 2,830 | 5,198 |
| Net cash provided by investing activities | 54,586 | 371 |
| **Net cash flow for the period** | 57,416 | 5,569 |

**Assets and liabilities of divestment group**

The net assets of the divestment group at the date of divestment are shown below. As at 30 June 2015 the related balances were classified as held for sale.

| | 1 Nov '15 $'000 |
|---|---|
| **Assets** | |
| Cash | 1,201 |
| Receivables | 1,231 |
| Other financial assets | 1,992 |
| Prepayments | 167 |
| Deferred tax assets | 339 |
| Goodwill | 21,393 |
| **Total assets** | 26,323 |
| **Liabilities** | |
| Payables | 1,481 |
| Current tax liabilities | 95 |
| Share buy-back liabilities | 24,058 |
| Provisions | 1,005 |
| **Total liabilities** | 26,639 |
| **Net assets and liabilities** | (316) |
| | |
| Consideration received in cash | 71,681 |
| Income tax paid | (15,894) |
| Cash and cash equivalents divested | (1,201) |
| **Net cash inflow** | 54,586 |

# Section 1 - Results for the period

## 1-3 Revenue

| | 2016 $'000 | 2015* $'000 |
|---|---|---|
| Management and service fees revenue | 778,680 | 781,253 |
| Stockbroking revenue | 73,841 | 73,207 |
| External other fee revenue | 35,107 | 39,231 |
| Finance income | | |
| Interest income on loans to Directors of controlled and associated entities | 295 | 408 |
| Interest income from non-related entities | 4,661 | 4,002 |
| Dividends and distributions received | 839 | 753 |
| Net fair value gains/(losses) on other financial assets at fair value through profit or loss | (14) | 26 |
| | 5,781 | 5,189 |
| Other revenue | | |
| Service revenue charged to related parties | 1,887 | 6,052 |
| Profit/(loss) on sale of assets | 8,125 | (96) |
| Gain on divestment of subsidiaries | - | 1,677 |
| Other | 4,461 | 3,426 |
| | 14,473 | 11,059 |
| **Total revenue** | 907,882 | 909,939 |

## 1-4 Expenses

| | 2016 $'000 | 2015* $'000 |
|---|---|---|
| Service Fees and other direct costs | | |
| Service and marketing fees expense | 254,591 | 260,961 |
| Stockbroking service fees expense | 41,683 | 41,669 |
| Other direct costs | 24,147 | 22,231 |
| | 320,421 | 324,861 |
| Operating expenditure | | |
| Salaries and related employee expenses | 199,990 | 206,679 |
| Employee defined contribution plan expense | 14,812 | 14,330 |
| Information technology costs | 50,296 | 50,592 |
| Professional fees | 7,492 | 7,090 |
| Marketing | 9,250 | 9,756 |
| Office support and administration | 18,539 | 17,839 |
| Occupancy related expenses | 20,335 | 22,277 |
| Travel and entertainment | 6,066 | 6,181 |
| Other | - | 68 |
| | 326,780 | 334,812 |
| Other expenses | | |
| Share-based payments expense | 1,954 | 3,500 |
| Acquisition and divestment transaction costs | 1,414 | 5,962 |
| Termination and retention incentive payments | 6,005 | 5,948 |
| Depreciation of property and equipment | 7,919 | 6,148 |
| Amortisation of intangible assets | 39,681 | 38,612 |
| Amortisation of intangible assets - IT development | 1,737 | 1,662 |
| Loss on divestment of non-current assets | 174 | 54 |
| Deferred acquisition costs | 1,120 | 1,957 |
| Non-recurring professional fees | 5,061 | - |
| Onerous contracts | 951 | 2,051 |
| Impairment of Plan B brand name | - | 1,400 |
| | 66,016 | 67,294 |
| **Total expenses** | 713,217 | 726,967 |

* 30 June 2015 has been restated. Refer Note 1-2 for details.

# Section 1 - Results for the period

## 1-5 Dividends

After 30 June 2016 the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

| | Cents per share | Total amount $'000 | Proposed payment date | Franked / unfranked |
|---|---|---|---|---|
| Proposed final 2016 dividend | 26.0 | 78,035 | 13 October 2016 | Franked |

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Dividend franking account | | |
| 30 per cent franking credits available to shareholders of IOOF Holdings Ltd for subsequent financial years | 83,923 | 95,505 |

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends declared after the balance date but not recognised as a liability is to reduce it by $33,443,000 (2015: $36,016,000).

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

| | Cents per share | Total amount $'000 | Date of payment | Franked / unfranked |
|---|---|---|---|---|
| **2016** | | | | |
| Interim 2016 dividend | 28.5 | 85,538 | 07 April 2016 | Franked |
| Final 2015 dividend | 28.0 | 84,037 | 15 October 2015 | Franked |
| | 56.5 | 169,575 | | |
| **2015** | | | | |
| Interim 2015 dividend | 25.0 | 75,033 | 10 April 2015 | Franked |
| Final 2014 dividend | 25.0 | 75,033 | 15 October 2014 | Franked |
| | 50.0 | 150,066 | | |

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

## 1-6 Earnings per share

| | 2016 Cents per share | 2015 Cents per share |
|---|---|---|
| Basic earnings per share | 65.7 | 47.7 |
| Diluted earnings per share | 65.4 | 47.4 |
| **Continuing operations** | | |
| Basic earnings per share | 46.0 | 45.8 |
| Diluted earnings per share | 45.8 | 45.5 |

**Basic earnings per share**

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Profit for the period attributable to owners of the Company | 196,846 | 138,371 |
| Earnings used in the calculation of basic EPS | 196,846 | 138,371 |

# Section 1 - Results for the period

## 1-6 Earnings per share (continued)

**Weighted average number of ordinary shares**

| | 2016 No. '000 | 2015 No. '000 |
|---|---|---|
| Weighted average number of ordinary shares (basic) | 299,838 | 289,896 |
| Effect of unvested performance rights | 1,011 | 2,077 |
| Effect of share options on issue | 4 | 131 |
| Weighted average number of ordinary shares (diluted) | 300,853 | 292,104 |

# Section 2 - Capital management and financing

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

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

## 2-1 Borrowings

This note provides information about the contractual terms of the IOOF Group's interest-bearing borrowings, which are measured at amortised cost.

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Syndicated facility agreement | 206,730 | 206,562 |
| Finance lease liabilities | 245 | 1,284 |
| | 206,975 | 207,846 |

## 2-2 Share capital

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| 300,133,752 fully paid ordinary shares (2015: 300,133,752) | 1,439,276 | 1,444,903 |
| 320,731 treasury shares (2015: 732,002) | (2,816) | (7,146) |
| | 1,436,460 | 1,437,757 |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | No. '000 | $'000 | No. '000 | $'000 |
| **Ordinary shares** | | | | |
| On issue at 1 July | 300,134 | 1,444,903 | 232,118 | 868,084 |
| Fair value of shares issued in business combination | - | - | 68,016 | 581,535 |
| Transaction costs of issuing new shares | - | - | - | (293) |
| Issue of shares on exercise of options under executive and employee share option plan | - | 210 | - | 4,880 |
| Transfer from employee equity-settled benefits reserve on exercise of options | - | 5,931 | - | 7,938 |
| Treasury shares transferred to recipients during the year | - | (11,768) | - | (16,999) |
| On-market purchase of shares transferred to option and performance rights holders during the year | - | - | - | (242) |
| On issue at 30 June | 300,134 | 1,439,276 | 300,134 | 1,444,903 |
| **Treasury shares** | | | | |
| On issue at 1 July | (732) | (7,146) | (961) | (8,119) |
| Purchase of treasury shares | (830) | (7,438) | (1,750) | (16,026) |
| Treasury shares transferred to employees during the year | 1,241 | 11,768 | 1,979 | 16,999 |
| On issue at 30 June | (321) | (2,816) | (732) | (7,146) |
| | 299,813 | 1,436,460 | 299,402 | 1,437,757 |

# Section 2 - Capital management and financing

## 2-3 Capital commitments and contingencies

**Operating lease commitments**

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

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

| 2016 | Less than one year $'000 | 1 to 5 years $'000 | Later than five years $'000 | Total $'000 |
|---|---|---|---|---|
| Premises | 17,307 | 31,676 | 4,619 | 53,602 |
| Office equipment | 117 | 3 | - | 120 |
| | 17,424 | 31,679 | 4,619 | 53,722 |

| 2015 | Less than one year $'000 | 1 to 5 years $'000 | Later than five years $'000 | Total $'000 |
|---|---|---|---|---|
| Premises | 19,767 | 46,025 | 8,999 | 74,791 |
| Office equipment | 405 | 160 | - | 565 |
| | 20,172 | 46,185 | 8,999 | 75,356 |

| **Guarantees and underwriting commitments** | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Rental bond guarantees | 11,447 | 12,185 |
| ASX settlement bond guarantee | 500 | 500 |
| ASIC bond guarantees | 120 | 120 |
| Other guarantees | 3,000 | 3,000 |
| | 15,067 | 15,805 |

**Contingent liabilities**

On 8 October 2015 plaintiff law firm Maurice Blackburn announced that it had conducted investigations and was seeking expressions of interest from IOOF shareholders in joining a class action. IOOF remains confident that the proposed action described by Maurice Blackburn is misconceived both factually and at law. It is purely speculative and is not in IOOF shareholders' interests.

IOOF has rejected the claim by Maurice Blackburn that it breached its continuous disclosure obligations or engaged in misleading or deceptive conduct. On 8 July 2016, the Australian Securities and Investments Commission announced that it had finalised its inquiries and decided to take no further action in relation to these allegations.

IOOF complies with the law in relation to its continuous disclosure obligations and has rejected any suggestion that its approach was inadequate. In the interests of its shareholders, IOOF will vigorously defend any claim.

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

## 2-4 Reserves

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Available-for-sale investment revaluation reserve | 10,436 | 7,897 |
| Business combinations reserve | (326) | (326) |
| Share buy-back revaluation reserve | - | (19,010) |
| Foreign currency translation reserve | 109 | (9) |
| Operating Risk Financial reserve* | 2,799 | - |
| Share-based payments reserve | (1,752) | 2,530 |
| | 11,266 | (8,918) |

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

# Section 3 - Operating assets and liabilities

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

## 3-1 Intangible assets (other than goodwill)

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Cost | 669,101 | 671,810 |
| Accumulated amortisation and impairment losses | (188,932) | (148,353) |
| | 480,169 | 523,457 |

| | IT Development $'000 | Computer software $'000 | Customer relationships $'000 | Brand names $'000 | Other Intangibles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Carrying value at 1 July 2015 | 4,115 | 7,711 | 431,771 | 69,348 | 10,512 | 523,457 |
| Additions | - | 241 | 37 | - | 943 | 1,221 |
| Divestments | - | (2) | (2,574) | - | (515) | (3,091) |
| Amortisation expense | (1,737) | (1,860) | (35,002) | (801) | (2,018) | (41,418) |
| **Carrying value at 30 June 2016** | 2,378 | 6,090 | 394,232 | 68,547 | 8,922 | 480,169 |

## 3-2 Goodwill

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Cost | 1,008,721 | 1,030,114 |
| Accumulated impairment | (17,009) | (17,009) |
| **Net carrying value of goodwill** | 991,712 | 1,013,105 |
| Carrying value at 1 July | 1,013,105 | 578,090 |
| Divestment of discontinued operation | (21,393) | - |
| Acquisition of Shadforth | - | 434,812 |
| Acquisition of CUA FP | - | 203 |
| **Carrying value at 30 June** | 991,712 | 1,013,105 |

# Section 4 - Statutory Funds

A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. These funds are not available to shareholders. Calculation of the members' funds financial position within this subsidiary is subject to actuarial input which had not been finalised at the reporting date. It is therefore possible that the financial position will change when audited financial statements are released, however the impact on the Group's profit for the period and net assets will be nil.

# Section 5 - Basis of preparation

These Condensed Consolidated Financial Statements:

● have been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards;

● should be read in conjunction with IOOF's Annual Financial Report for the year ended 30 June 2016 when released and any public announcements made by IOOF Holdings Ltd and its controlled entities (IOOF Group) for the year ended 30 June 2016 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules;

● do not include all notes of the type normally included in IOOF's Annual Financial Report;

● are presented in Australian dollars; and

● were approved by the Board of Directors on 8 August 2016.

### Accounting policies

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting policies, and using methods of computation consistent with those applied in the last annual consolidated financial statements as at and for the year ended 30 June 2015.

### Basis of measurement

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

● financial instruments at fair value through profit or loss are measured at fair value;

● available-for-sale financial assets are measured at fair value; and

● share-buy back liabilities are measured at fair value.

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

### Use of estimates and judgements

To conform with Australian Accounting Standards management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

### Rounding of amounts

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

# Section 6 - Subsequent Events

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