

PACIFIC CURRENT GROUP

33° 51' 50.457" S, 151° 12' 23.437" E

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ASX ANNOUNCEMENT

26 February 2018

Accounting adjustment for 31 December 2017 consolidated half-year financial report

Pacific Current Group Limited (ASX: PAC) (**Pacific Current, Company or PAC**) advises that as announced on 9 February 2018, Pacific Current intends to lodge the consolidated half-year financial report of the Company and its controlled entities (**Group**) for the 6 months ended 31 December 2017 on 28 February 2018.

The reported results will reflect a change to PAC's application of the accounting standards associated with joint control and consolidation and a consequential restatement of results for the comparison periods as required under the accounting standard on presentation of financial statements.

The change specifically relates to accounting standard AASB 10: *Consolidated Financial Statements* and AASB 11: *Joint Arrangements*, and follows from a review by the Australian Securities and Investments Commission (**ASIC**) of PAC's application of those accounting standards, and ASIC's recommendation that the 31 December 2017 half-year financial statements be prepared based on consolidation of the Aurora Trust with PAC having occurred from the starting date of the merger of Northern Lights Capital Partners, LLC (**Northern Lights**) and PAC via the Aurora Trust.

Some information on the impact of the change is noted below. Further details will be provided in the Company's financial report for the 6 month period to 31 December 2017. The change does not alter the underlying results for the half-year.

Background

In November 2014 the businesses of the Company and Northern Lights were integrated into the Aurora Trust as a single operating entity.

For accounting purposes, the Company treated the Aurora Trust as an entity over which it and Northern Lights (and entities associated with BNP Paribas which were investors in Northern Lights) had joint control. Accordingly, the Company accounted for the Aurora Trust using the equity method in its audited financial reports for the financial years ended 30 June 2015 and 30 June 2016, as well as for 9 months of the financial year ended 30 June 2017 before simplification of the corporate structure of PAC and consequent consolidation of the Aurora Trust.

The Company noted in its accounts that this issue of control is a matter of judgment. It also released full annual audited financial statements of the Aurora Trust for the financial year ended 30 June 2016 (which included comparative figures for the financial year ended 30 June 2015).

As part of its regular financial reporting surveillance program, ASIC has reviewed the Company's 2017 annual report. ASIC recently notified the Company of its view that the Company should have consolidated Aurora Trust, and the Company's 31 December 2017 consolidated half-year financial statements should be prepared as though the financial results of the Aurora Trust had been consolidated since integration with the Northern Lights' businesses.



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Whilst the directors of the Company consider the Aurora Trust was jointly controlled, they recognise this is a complex matter and there is scope for differing views. In the circumstances, the directors have decided to prepare the consolidated half-year financial statements in accordance with ASIC's view.

Adjustment

The impact of the change is likely to see a material reported consolidated profit of the Group for the 6 month period to 31 December 2017 reflecting the previously announced proceeds from the sale of the Group's investment in Investors Mutual Limited (**IML**) in October 2017, and the impact of consolidating the Aurora Trust from an earlier period which unwinds previous revaluations of that investment. The reported consolidated profit is likely to be in the order of \$92 million, approximately \$68 million more than it would be if no change were made.

In addition, the restated results for the comparison periods will reflect:

- (a) the unwinding of the revaluations of the IML investment and other investments made at the time of the transaction with Northern Lights;
- (b) the unwinding of some of the revaluations that occurred following the simplification of the corporate structure of PAC and consequent consolidation of the Aurora Trust as noted in the Company's annual report for the financial year ended 30 June 2017; and
- (c) related tax impacts and other matters.

The expected impact of these changes to the comparison periods are:

- (a) a reduction in the equity position at 30 June 2017 of approximately \$48 million due to lower total assets of approximately \$72 million reflecting principally the unwinding of both the revaluation of IML at the date the joint venture with Northern Lights was first created and the subsequent revaluation on completion of the simplification in April 2017 mentioned above, and lower liabilities principally reflecting the removal of the deferred tax liability associated with these revaluations;
- (b) a reduction in the full-year profit attributable to members of PAC at 30 June 2017 of approximately \$51 million resulting from the removal of the upward revaluations of IML and some other assets as part of simplification of the corporate structure; and
- (c) an increase in the profit attributable to members of PAC at 31 December 2016 of approximately \$2 million resulting from the difference in the tax expense for the period.

Further details will be provided in the half-year financial report.

The change to PAC's application of the accounting standards has no impact on underlying results, and the Group's consolidated statement of financial position as at 31 December 2017 is not expected to be materially different to what it would be if no change were made to the consolidation accounting treatment of the Aurora Trust, as the principal assets that might otherwise create a difference have either been sold (e.g. the IML holding and the majority of the RARE Infrastructure Ltd (**RARE**) investment) or are now required to be held at fair value (e.g. PAC's residual holding in RARE) under both approaches.



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The half-year financial report has not been finalised or auditor-reviewed at this stage, and remains subject to final approval by the Company's board before its scheduled release on 28 February 2018. In consequence, final results may be different to the expected results noted above.

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ABOUT PACIFIC CURRENT GROUP // www.paccurrent.com

Pacific Current Group Limited (ASX:PAC) is a multi-boutique asset management firm dedicated to providing exceptional value to shareholders, investors and partners. We apply our strategic resources, including capital, institutional distribution capabilities and operational expertise to help our partners excel. As of 31 December 2017, Pacific Current Group had investments in fifteen boutique asset managers globally.

