# Annual Report 2018

## For the year ended 30 June 2018

Netwealth Group Limited
ACN: 620 145 404

## Contents



## Our purpose is

# To enable people to see wealth differently and discover a brighter future

# Appendix 4E

Report for the year ended 30 June 2018 (FY2018).

## Netwealth Group Limited

ABN: 84 620 145 404

## 1. Details of the reporting period

Report for the year ended 30 June 2018 (FY2018)

(Previous corresponding period year ended 30 June 2017 (FY2017))

## 2. Results for announcement to the market

| | FY2018 $'000 | FY2017 $'000 | Increase/ (Decrease) | VAR % |
|---|---|---|---|---|
| Revenue from ordinary activities | 83,260 | 61,251 | 22,009 | 35.9% |
| Profit from ordinary activities before tax attributable to members | 29,189 | 23,592 | 5,597 | 23.7% |
| Net profit for the period attributable to members | 20,818 | 13,554 | 7,264 | 53.6% |
| Pro forma net profit for the period attributable to members | 29,047 | 16,824 | 12,223 | 72.7% |

### Brief explanation of the figures reported

The FY2018 profit from ordinary activities before tax and net profit for the period attributable to members includes a one off $12.4 million (pre-tax) cost of listing on the Australian Stock Exchange (ASX).

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

## 3. Net tangible assets per ordinary security

| | FY2018 | FY2017 |
|---|---|---|
| Net tangible assets as per ordinary security | 28.2 cents | 18.3 cents |

Note:

As part of the capital reorganisation, prior to listing on the ASX, each share on issue was split into seven shares. The impact of the share split have been reflected in the net tangible assets per ordinary security in FY2018. For FY2017, this would have been equivalent to 120.8 cents had the shares not been adjusted to be on the same basis.

## 4. Dividends information

| | Amount per share (cents) | Franked amount per share (cents) | % Franked | Tax rate for franking credit |
|---|---|---|---|---|
| Interim 2018 dividend per share (paid 16 Oct 2017)[1] | 3.77 | 1.62 | 100% | 30% |
| Final 2018 dividend per share (to be paid 27 Sep 2018) | 5.38 | 2.31 | 100% | 30% |
| Special 2018 dividend per share (to be paid 27 Sep 2018) | 5.18 | 2.22 | 100% | 30% |

| Final and Special dividend dates | |
|---|---|
| Ex-dividend date | 10 September 2018 |
| Record date | 11 September 2018 |
| Payment date | 27 September 2018 |

There is no dividend reinvestment plan (DRP).

## 5. Control gained/loss over entities

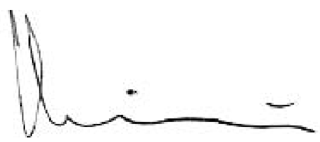
A 100% owned subsidiary, Australian Planning Services Pty Ltd was divested on 20 October 2017.

## 6. Details of associates and joint venture entities

Not applicable.

## 7. Compliance statement

This report is based on the consolidated financial statements for the year ended 30 June 2018 which have been audited by the Group's auditors, Deloitte Touche Tohmatsu with the audit report attached.



**Michael Heine**
Joint Managing Director

27 August 2018

1 The Interim dividend of 26.39 cents per share has been restated to 3.77 cents per share, to reflect the one in to seven share split which occurred during FY2018.

# Corporate highlights

## NPAT $29.0M[(1)]

Growth $12.2M (+72.7%)

Statutory NPAT $20.8M

## EBITDA $42.3M[(1)]

Growth $17.4M (+69.7%)

Statutory EBITDA $29.9M

## #1 Platform[(2)]

Overall platform functionality & client satisfaction

## FUA net inflows $4.2B

Growth $0.3B (+7.4%)

## FUA $17.96B

Growth $5.2B (+40.9%)

## FUM $2.85B

Growth $1.3B (+82.1%)

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Comparative period being year to 30 June 2017.

(1) Pro forma EBITDA, NPAT, Operating Cashflow and EPS have been prepared consistently with the IPO Prospectus, adjusted to exclude the impact of the IPO transactions costs and the company's discontinued operations. Reconciliation provided Page 20

(2) Investment Trends – December 2017 Platform Competitive Analysis and Benchmarking Report & May 2018 Planner technology report

(3) Pro forma EPS has been prepared consistently with the IPO Prospectus, adjusted to exclude the impact of the IPO transactions costs and the company's discontinued operations. EPS has been calculated based on the ordinary and performance shares held post completion of the IPO.

(4) Recurring platform revenue is based on 30 June 2018 expected future revenue streams excluding insurance transition fees and transaction fees.

## EPS 11.9 cents[3]

Pro forma based
on shares post IPO

## 5.38 cents

Dividend Per Share
post IPO

## 5.18 cents

Special Dividend
Per Share

## Cashflow +$39.4M[1]

Operating Cash Flow Pre-tax

Statutory Operating Cash
Flow pre tax $28.4M

## 94.2%[4]

Recurring
Platform Revenue

## NWL

Successful listing on
the ASX 20 Nov 2017

# Chairman’s letter

**Jane Tongs**
Chairman

**“The Board is committed to being ethical, transparent and accountable, and meeting community expectations. These attributes are essential for the long-term performance and sustainability of Netwealth.”**

**Dear Shareholders,**

It is my pleasure to present to you, on behalf of the Board of Directors (the Board) of Netwealth Group Limited (the Company or Netwealth) the FY2018 Annual Report, our first since the Initial Public Offering (IPO) on the 20 November 2017.

The purpose of the IPO, as set out in the prospectus, was to allow existing shareholders an opportunity to realise part or all their investment, provide a liquid market for shares in Netwealth, provide greater financial flexibility to grow the business, and provide greater public exposure of Netwealth and its products. As at 30 June 2018, the Company had a market capitalisation of $2.0 billion based on a share price of $8.22. Approximately 36.4% of shares on issue were on free float.

Netwealth has achieved strong growth across all key prospectus pro forma financial measures in FY2018[2]. Total income increased by 35.9% or $22.0 million to $83.3 million. EBITDA increased by $17.4 million or 69.7% to $42.3 million. EBITDA margin also increased from 40.7% to 50.8%. This was driven by both growth in revenues and through effective cost management. NPAT for FY2018 was $29.0 million, $1.7 million (6.3%) ahead of the FY2018 IPO forecast and an increase of $12.2 million from the previous year. NPAT margin was 34.9% for FY2018, an increase of 7.4% from the previous year.

As outlined in the prospectus, during the year, Netwealth successfully divested the operations of its advice-related business, Bridgeport Financial Services Pty Ltd (BFS) and the financial planning software support & professional development business of Pathway Licensee Services Pty Ltd (PLS), allowing us to focus on our core business as a specialist platform provider.

The Board is committed to being ethical, transparent and accountable, and meeting community expectations. These attributes are essential for the long-term performance and sustainability of Netwealth. We will continue to invest in best practice risk, governance processes, and people to ensure that we maintain our high standards. The Board has a defined process to continue to add and to renew its skills. Our focus has enabled us to generate profitable growth from the structural shift within the platform market from long established wealth management businesses to our specialist platform, with its innovative product and service offering. We have maintained our ranking as Investment Trends Australia’s No.1 Platform for overall satisfaction and service.

We believe a major impediment to the accumulation of retirement savings is the poor standard of financial literacy in the community. As part of our commitment to the community we have partnered with Banqer to support financial literacy in schools. More than 170 schools and over 8,000 children participated in this program which provides classrooms with an online virtual economy, enabling children as young as 5 to begin their financial education in an exciting way. For more information, visit www.banqer.co/netwealth.

Netwealth also partnered with Karma Currency Foundation and GoodCompany to offer the Netwealth Giving Program to employees. Through this partnership employees can volunteer to work on a community project as a team. Netwealth was ranked 25th in the report “Top 40 Workplaces to Give Back 2018” issued by GoodCompany, which measured the support to the community through volunteering, payroll giving, fundraising, sponsorship and other pro-social initiatives.

The Board believes Netwealth has the vision, people, technology, systems and leadership to continue to innovate and grow, ensuring Netwealth remains a market leader. The strategic goals and plans approved for the year ahead will ensure our focus remains on achieving sustainable growth in revenues and profitability while ensuring a high level of governance and employee engagement.

2 All Profit metrics are quoted on pro forma basis prepared consistently with the Netwealth Prospectus; adjusted to exclude the impact of the IPO transactions costs and the company’s discontinued operations

A company is only as good as the people who work in it. On behalf of the Board I would like to thank our Joint Managing Directors (JMDs), our leadership team and our staff for their hard work and achievements this year. They are the reason we are successful.

I thank our shareholders and clients for their support and constructive advice without which we would not be a success.

Yours sincerely

**Jane Tongs**
Chairman

27 August 2018

# Joint Managing Directors' letter

Michael Heine
Joint Managing Director

Matthew Heine
Joint Managing Director

"In FY2018, we continued to grow our market share and improve profitability. We were ranked both number one for overall satisfaction for the 7th year in a row and ranked number one for best overall platform functionality for the 3rd year in a row"

**Dear Shareholders,**

This past year has been a very exciting and successful year for Netwealth. In November 2017, Netwealth was listed on the ASX and we are delighted to present our first annual report as a listed entity.

In FY2018, we continued to grow our market share and improve profitability. We were ranked both number one for overall satisfaction for the 7th year in a row and ranked number one for best overall platform functionality for the 3rd year in a row by *Investment Trends*[3].

Underpinning our growth and market recognition are our employees. We are committed to our team and we look to empower them to live and breathe our core guiding values being Agile, Courageous, Genuine, Collaborative, Curious and Optimistic.

**FY2018 key achievements[4]**

- NPAT reached $29.0 million, growth of $12.2 million (72.7%) in FY2018 and 6.3% ahead of the prospectus forecast.
- EBITDA margin continued to expand to 50.8%, in FY2018, up from 40.7%.
- Funds Under Administration (FUA) reached $17.96 billion, achieving 40.9% ($5.2 billion) growth in FY2018.
- Achieved the highest platform flows in our industry for the year ended March 2018, obtaining 22.1% ($4.6 billion) of total net flows (latest industry market data)[5].
- Australia's No.1 Platform ranked No.1 for overall satisfaction 7 years in a row by Investment Trends, ranked No.1 for functionality 3 years in a row by Investment Trends[3] and the winner for investment functionality and adviser satisfaction in the administration platform market according to Adviser Ratings research published in July 2018[6].
- Operating cash flow pre-tax of $39.4 million, an exceptionally high pro forma cash conversion ratio of 93.1% and a debt free balance sheet.
- Final FY2018 dividend per share of 5.38 cents (fully franked) and Special FY2018 dividend per share 5.18 cents (fully franked) to be paid on 27 September 2018.

3 Investment Trends – December 2017 Platform Competitive Analysis and Benchmarking Report & Investment Trends – May 2018 Planner technology report

4 Pro forma EBITDA, NPAT, Operating Cashflow and EPS have been prepared consistently with the IPO Prospectus, adjusted to exclude the impact of the IPO transactions fees and the company's discontinued operations. Reconciliation provided Page 20

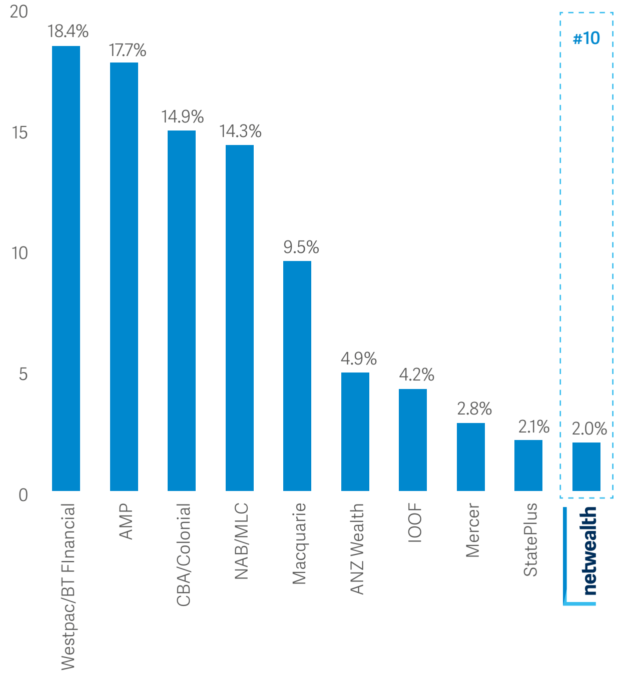
5 Source: Strategic Insight: Master Trusts, Platforms & Wraps (Mar 2018) Total net flows of A$20.6bn (12 months to Mar 2018)

6 Advisor Rating: 2018 Australian Financial Advice Landscape.

The size of the platform market in which Netwealth operates as at 31 March 2018 was $809 billion and is forecast to grow to $1.55 trillion by FY2026[7].

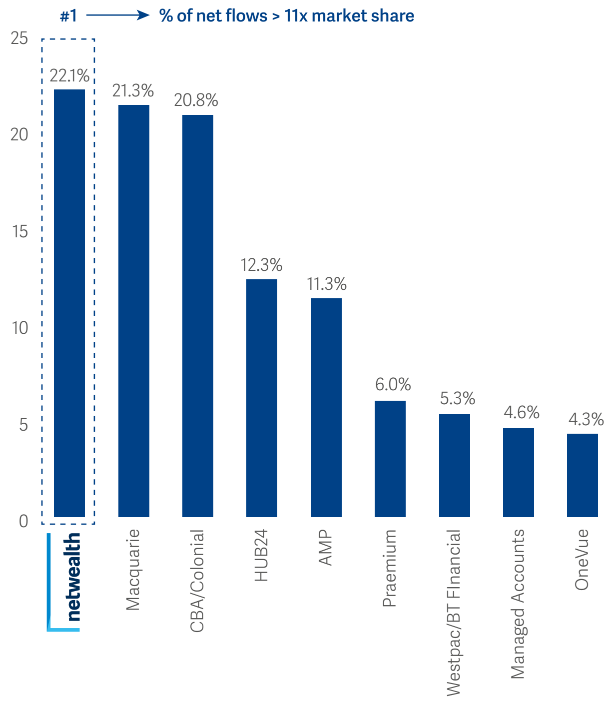
As displayed below, Netwealth had the highest net inflows in the market for the 12 months to March 2018 at 22.1% ($4.6 billion) and gained 0.6% market share in the period to increase our market share to 2.0%. This result placed Netwealth as the largest specialist platform provider in Australia and in the top 10 overall platform providers in Australia. Our net inflows were 11 times that of our market share of 2.0% and we continue to see significant opportunity for continued growth of FUA, Funds Under Management (FUM) and profitability.

**Platform providers by FUA market share (March 2018)**




Source: Strategic Insight: Master Trusts, Platforms & Wraps (Mar 2018)
Total Industry retail FUA of A$809.3bn (as at Mar 2018)

**Platform providers net funds flows (12 months to March 2018)**

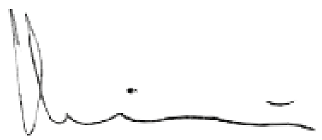



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Mar 2018)
Total net flows of A$20.6bn (12 months to Mar 2018)

We would like to thank our staff for their continued dedication, commitment and hard work.

We look forward to continuing our exciting and successful journey together with our staff, our clients and our shareholders.

Yours sincerely



**Michael Heine**
Joint Managing Director

27 August 2018

**Matthew Heine**
Joint Managing Director

27 August 2018

7 Strategic Insight: Master Trusts, Platform & Wraps (March 2018).

# Review of Operations

## About Netwealth

The key products of Netwealth are:

- Superannuation including accumulation and retirement income products;
- Investment wrap products for self-managed superannuation and non-superannuation investments;
- Managed accounts; and
- Managed funds.

Netwealth seeks to grow its market share by providing Financial Intermediaries and their clients market leading products and services, superior administration and market leading technology and functionality through our online platform.

Netwealth's platform is the core of our value proposition. The platform is built, developed and maintained by Netwealth's in house technology team based in Melbourne. We seek to ensure that Netwealth maintains a market leading technology position including ensuring that the platform is continually updated and scaled out to meet the expected growth of the business.

The platform design is based on a deep understanding of the needs of Financial Intermediaries and clients. The platform products are continuously enhanced using feedback from Financial Intermediaries, clients and other users. Through Netwealth's platform, Financial Intermediaries and clients can invest and manage a wide array of domestic and international products.

## Operational update

### Operational performance

FY2018 ended with Netwealth at $17.96 billion in FUA.

FUA increased by $5.2 billion (40.9%) in the 12 months to June 2018, which included $1.0 billion of market movement.

FUA net inflows for FY2018 were $4.2 billion, an increase of $0.3 billion (7.4%) on FY2017. The increase was $1.1 billion (34.5%) if the one-off client transition executed in FY2017 is excluded.

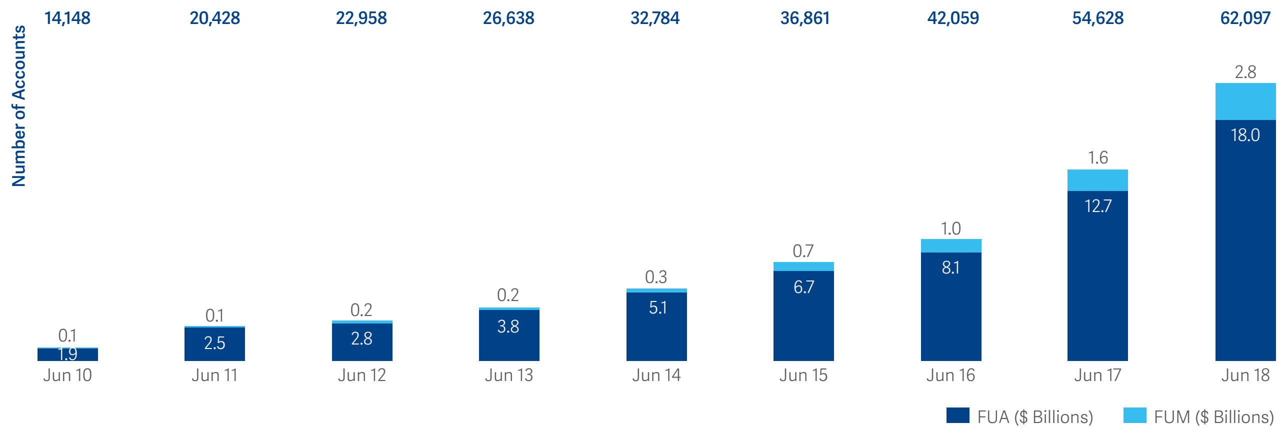



Figure: Source Netwealth: FUA, FUM & member accounts growth from June 2010 to June 2018

Our Financial Intermediaries client base increased by 7.8% to 2,271 during FY2018 and our member account base increased by 13.7% to 62,097 members.

Managed Account continued to be a significant driver of FUM growth, increasing by $1.2 billion (170.2%) to $1.8 billion for FY2018.

In FY2018, the fee paying FUA proportion of FUA was 61.6%, the platform revenue to average FUA earn rate was 53.4bps and platform revenue per average member account increased to $1,405. These figures reflect a higher proportion of inflows into Wrap accounts and high value accounts transitioning onto the platform resulting in relatively more accounts having a balance greater than the $1 million fee cap.

The fee paying FUA may change over time based on pricing agreed from time to time with licensees who have significant scale, it may also include higher fee caps.

Netwealth's focus is on average revenue earned per account and on overall growth of NPAT. Basis points earned on FUA will vary from period to period, reflecting the changing mix of new business.

Netwealth continues to seek the benefits of scale and the cost efficiencies expected from the growth of FUA and is continually improving processes through automated technology.

Credit Suisse have estimated that the churn between platforms is set to increase to 2.25% of FUA or ~ $20 billion per annum by FY2020 (~50 % increase from current levels). This churn is expected to be driven by advisers shifting from Institutions to independent dealer groups and the independent Financial Intermediaries shifting their client monies to the specialist platform providers.[8]

As noted earlier, Netwealth held a 2% market share but received more than 22% of net industry inflows.

We seek to continue to expand our distribution among Financial Intermediaries and see the current trend of Financial Intermediaries moving to non-aligned licensees and the shifting priorities of the major institutions together with the impact of the Royal Commission continuing to drive new business and growth to Netwealth.

## Industry recognition

The listing of Netwealth on the ASX has been favourably received and has raised the brand recognition of the Company to a wider audience. The heightened brand recognition assists Netwealth to win and retain new and existing business opportunities.

Netwealth continues to be recognised as the leading specialist platform in the market. In March 2018, it ranked No.1 for overall satisfaction, for the seventh year in a row by the Investment Trends Planner Technology report. It increased its overall score, winning 11 sub categories including online functionality for planner and client, Record of Advice (ROA) functionality, technical support and ease of use/navigation. Netwealth placed in the top three in all sub categories.

In December 2017, in the Investment Trends Platform Competitive Analysis & Benchmarking Report, Netwealth was ranked No.1 for functionality, for the third year in a row, and was also awarded best reporting, best new functionality in 2017, best client portal and best transaction tools.

The graph below shows Netwealth's overall functionality rating compared to nine competitors.

### Number one for overall functionality and overall satisfaction^

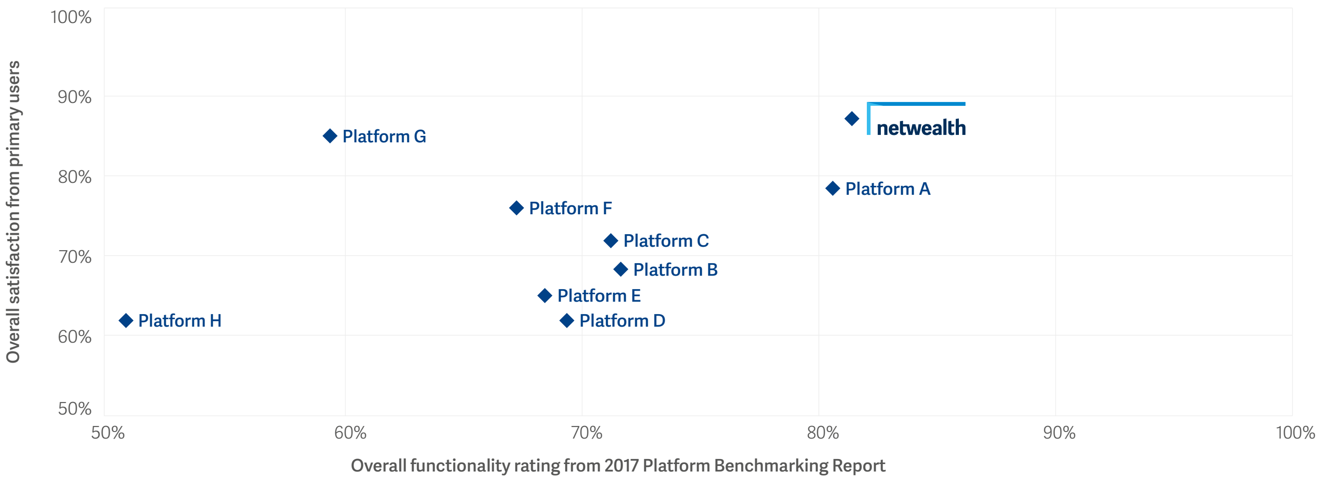



Figure: Composite score based on weighted average using Very Good = 100%, Good = 67%, Average = 50%, Poor = 17%, Very Poor = 0%

^ Investment Trends – December 2017 Platform Competitive Analysis and Benchmarking Report & May 2018 Planner technology report

8 Credit Suisse, Australia Platform released 29 June 2018.

Netwealth was the winner for investment functionality and adviser satisfaction in the administration platform market according to Adviser Ratings research published in July 2018. As Financial Intermediaries are demanding more from their administration platforms, Netwealth provided the preferred investment functionality along with excellent customer and technical support.

In July 2018, Netwealth was ranked 15th most innovative Company in Australia and New Zealand by the *Australian Financial Review*. The *Australian Financial Review* survey defines innovation as "change that adds value" and our Sophisticated Modelling and Rebalancing Technology (SMART) ROA functionality was recognised as change that adds value for our clients, Financial Intermediaries noting the time saved.

Netwealth also won the award for "Best Advised Product" in the annual Chant West Super Awards – 2018. Items noted for Netwealth's success were the range of Managed Account offered, the Netwealth Core product options including the new Global Specialist Series SMA (GSS) and our SMART ROA tool which help Financial Intermediaries efficiency and lead to better client outcomes.

The Fintech Business Awards 2018 recognises outstanding achievement in the Australian financial technology (fintech) sector and in March 2018, Netwealth won the Investment Platform Innovator of the Year acknowledging our innovation and ability in providing administrative and transactional services to the market.

## Platform enhancements

Our success would not be achievable without the hard work, innovation and talent we have across the business. Our team are guided by a company culture that centres on our core values; Agile, Courageous, Genuine, Collaborative, Curious and Optimistic. Netwealth's success stems from our people and their commitment to provide our clients with award winning functionality and service which has resulted in not only market share growth but growth in revenue and profits.

As business and transactional efficiency is key to our offering and is valued by Financial Intermediaries and clients, in FY2018 we focused on enhancing our service and platform through targeted product development, including:

- A new mobile phone app providing all users with business, portfolio and account information.
- Releasing SMART ROAs which reduce the administration burden by providing Financial Intermediaries with the ability to produce highly customised and automated ROA's for multiple clients which can be accepted online.
- Adding additional automated data feeds of client data to third party planning, accounting and relationship management software to improve data quality and service outcomes for Financial Intermediaries, accountants and clients.
- Implementing new bulk trading functionality for managed funds and term deposits which enable Financial Intermediaries to undertake highly efficient trading for multiple client accounts whilst also ensuring timely implementation.

In the fourth quarter, Managed Models were added to our SMART solution to provide additional multi-asset capabilities. During the year, four new Netwealth diversified index models (GSS Managed Models) were added to Netwealth Managed Account, including making these available through the low-cost 'Core' option within Netwealth's Accelerator products, providing an additional simple and low-cost investment solutions for clients.

We are focused on expanding our retail and private label Managed Account service. In FY2018 the Netwealth Managed Account expanded with the addition of 17 new retail Managed Models (including the GSS Managed Models) and seven new private label Managed Accounts with 37 private Managed Models created for those Managed Accounts.

Integrated banking feeds have been added to client portfolio reporting, allowing data from over 100 Australian financial institutions to be viewed together with a client's Netwealth accounts to enable the client and their Financial Intermediaries to view the client's wealth in one easy accessible location.

Netwealth is also focused on continually improving the security of our platform offering. In FY2018 we released a number of security enhancements including two factor authentication for straight through payment transactions and an optional two factor authentication for logging into our website.

Netwealth is committed to continually develop innovative transactional efficiency solutions for our Financial Intermediaries and clients. We also remain focused on enhancing our clients by continually improving our customer service and support. Our strategy is to further enhance our brand presence and to be the platform of choice for Financial Intermediaries and clients.

## Outlook

Netwealth is well positioned given its industry recognition and current market dynamics. Netwealth had the highest platform flows in our industry for the year ended March 2018, obtaining 22.1% ($4.6 billion) of total net inflows as per the latest industry data, Strategic Insights quarterly platform market update March 2018. Netwealth has doubled its market share from 1.0% ($6.6 billion) in March 2015 to 2.0% ($16.0 billion) in March 2018. Netwealth is now Australia's largest specialist platform provider and in the top 10 overall platform providers in Australia.

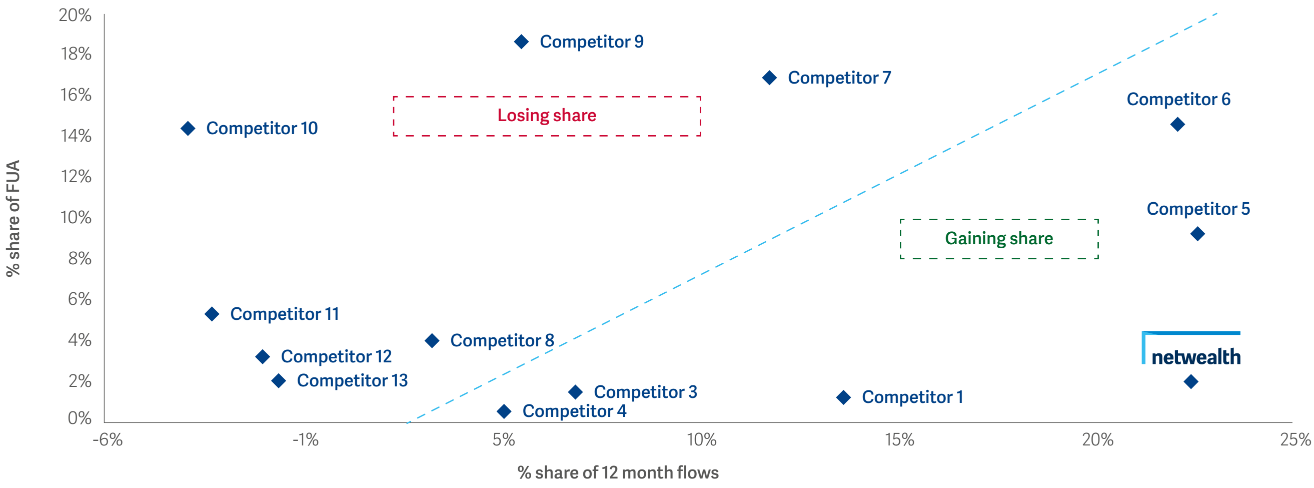



Figure: Netwealth is gaining market flows in excess of market share

Source: UBS/Strategic Insight: Master Trusts, Platforms & Wraps (Mar 2018)

Netwealth strategic goals are:

- Maintain market leading functionality and features across all core products including Managed Accounts;
- Provide quality administration and service excellence;
- Win and retain profitable business, and develop new revenue streams to diversify revenue sources; and
- Maintain and enhance technology and infrastructure that is secure, stable, flexible and scalable.

We aim to continue to increase our distribution within Australia and will continue to invest in sales and distribution to service our new and existing financial intermediaries and clients.

Netwealth continues to invest and grow our information technology team and has recently established a new team focused on data analytics and artificial intelligence applications which we see driving innovation and critical to the future of our business.

Our focus is to increase our data analytics capabilities by analysing data at scale and creating actionable insights that will streamline product and service innovation, maximise margins and improve customer service.

Netwealth operates in a highly regulated environment and we take our compliance and governance responsibilities very seriously and instil a strong culture in all staff.

We continue to closely monitor the regulatory environment and ensuring that we meet not only our legal obligations but also community expectations.

As such, there are many challenges and opportunities resulting from the current environment. The Board envisions that Netwealth will be a beneficiary of expected changes as more financial intermediaries are empowered to choose a platform that best suit their client's needs.

## Innovations

### At Netwealth, we constantly challenge ourselves to think differently and to identify opportunities that matter – to our clients, to the industry and to us.

In December 2017 Investment Trends awarded Netwealth the best new functionality award for its SMART ROA service. In July 2018, this innovation was further recognised by the Australian Financial Review in its AFR Most Innovative Companies Awards, where Netwealth was ranked number 15 out of 100.

### Key innovations included:

**SMART ROA**

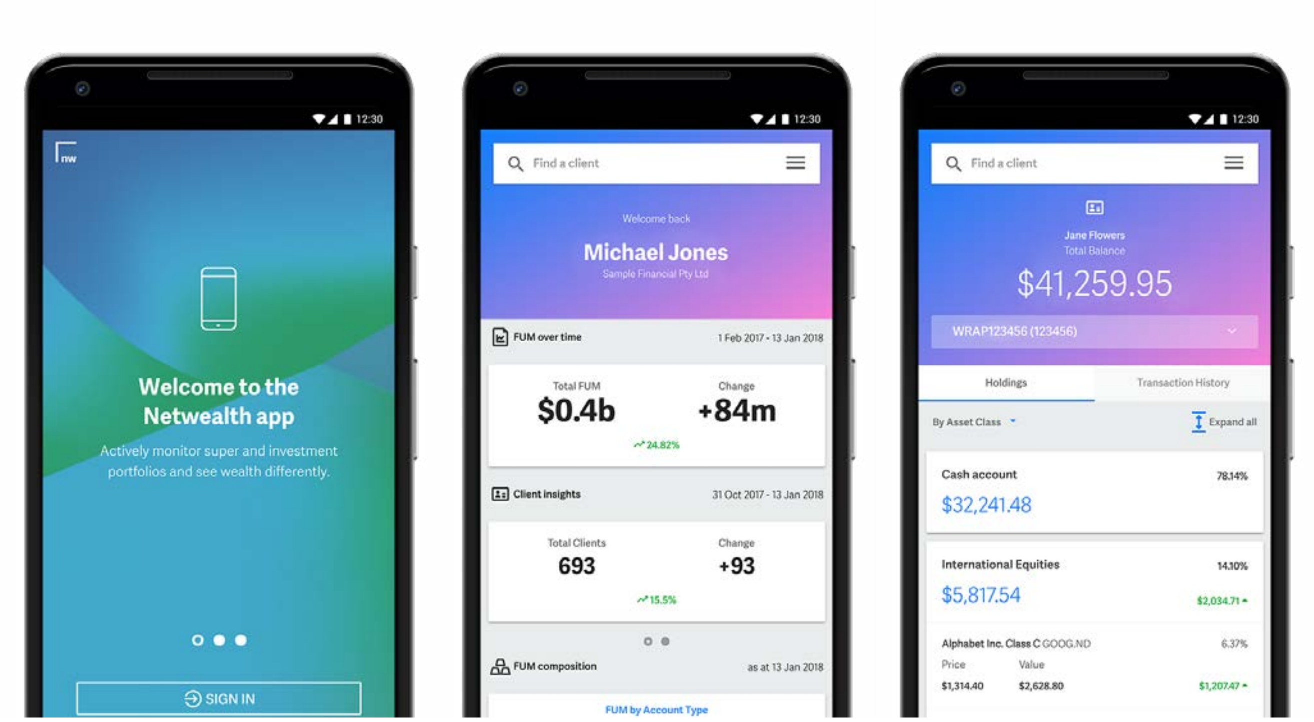
Financial Intermediaries regularly propose changes to some of their clients' investment portfolios. Implementation requires a client-approved advice document, often for many clients at once. Creating the advice documents and seeking client review and approval on a large scale is time-consuming, often resulting in high costs or mistiming the investment opportunity for clients. The SMART ROA service overcomes this by letting a Financial Intermediary select a group of clients for whom they recommend a particular investment buy and/or sell, arrange for the investment, and then generate the required advice documents for all selected clients in a matter of minutes. Each client is alerted by email/SMS that a recommendation is awaiting their approval online. Once accepted online, the advice is automatically executed regardless of the asset type being traded (domestic or international equities, managed funds or cash). This feature has the potential to save hundreds of hours' work and more timely investment execution.

**Non-custodial/off-platform data (xWRAP) and external bank feeds**

According to the 2018 Netwealth AdviceTech Report, 80.52% of Financial Intermediaries hold more than 25% of their clients' super and investments "off platform". These assets typically are those not available to purchase via the platform and may include things like property or investments in non-listed companies. With the introduction of Netwealth's xWRAP service, Financial Intermediaries can administer and report on non-custodial or "off platform" assets, including the creation of performance and asset allocation reports.

**Mobile app release**

In January 2018 we released our first native mobile app for both Apple and Android operating systems. (A native mobile app is an app developed for a specific platform that can be installed through an app store.) The mobile app provides business, portfolio and account information for both Financial Intermediaries and clients.



## Our people

### Netwealth is a fast-growing financial services company focused on attracting, keeping, motivating and developing talented, innovative, creative and team-orientated people.

Under the leadership of JMDs Michael and Matthew Heine, managers at Netwealth are not traditional command and control managers but are hands-on experts and instrumental in shaping their teams and the outcomes.

Wherever possible, teams have a flat structure, and leaders have deep knowledge about the work conducted. People work across the business in an open plan environment. All employees are encouraged to speak up, and to be curious in their approach to their roles.

We strive to create an engaged workforce where people can reach their full potential. In FY2018, our engagement results continue to be in the top quartile of like-businesses that we benchmark against, with an overall engagement rate of 75% (from 86% response rate).

### A purpose driven organisation

Netwealth is driven by its purpose, which is to enable people to see wealth differently and discover a brighter future. Netwealth's key values are to be Curious, Optimistic, Courageous, Collaborative, Agile and Genuine.

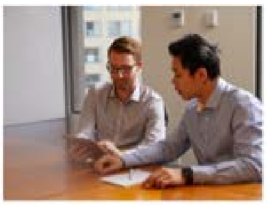
These organisational values and behaviours guide the way employees work together, communicate and live on a day-to-day basis.

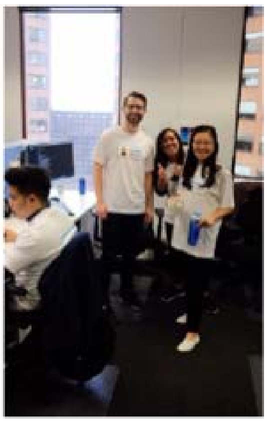
An example is agility. Netwealth seeks to adapt to change and execute its agreed priorities quickly and efficiently. Netwealth's IT development area utilises agile software development methodologies, delivering software updates on a fortnightly release cycle. This ensures that Netwealth is constantly building, delivering and implementing change to improve its products, meet changing regulatory requirements and to enhance efficiencies and service levels across the business. This agile approach extends beyond IT and into each part of Netwealth's business including Operations, Compliance and Marketing.

This agile approach extends into each part of Netwealth's business.

### Hack days at Netwealth

Netwealth runs company-wide Hackathons, where we invite everyone from the business to submit an innovative idea for our technology team to create, in conjunction with the business. For two days the IT team transforms into an incubation lab to prototype and test these innovative new products and services. The most recent hackathon, 'Rise of The Machines', encouraged staff to consider the possibilities of big data, artificial intelligence and intelligent interfaces.



### Diversity, inclusion and gender equality

Netwealth recognises the importance and value that a diverse workforce with different skills and ways of thinking and how this can lead to an innovative and efficient workplace and that delivers strong outcomes. A diverse and inclusive culture has the benefit of increasing employee engagement, improved performance, retention of talent and improved employee wellbeing.

Inclusion and diversity drives Netwealth's ability to attract, retain, motivate and develop the best talent, create an engaged workforce, deliver the highest quality services to its customers and continue to grow the business.

Netwealth has identified gender equality as a key area of focus for FY2019, whilst indirectly working on a number of other initiatives to support overall inclusion and diversity. These include:

- Improving the gender balance of our workforce at all organisational levels, particularly in leadership roles;

| | % of women | |
|---|---|---|
| | 2017-18 | Target |
| Independent Directors | 33% | 30% |
| Executive Management | 33% | 30% |
| Managers | 25% | 40% |

- Recently introduced 12 weeks paid parental leave for primary care givers and 2 weeks paid parental leave for secondary care givers;
- Celebrating International Women's Day;
- Trialling an in-house child care facility for children ages between 5-12 during school holidays; and
- Netwealth does not believe in differential pay for person performing the same job with equivalent experience, we therefore embrace the principals of the Workplace Gender Equality Agency report.

## Community partnership & programs

**Netwealth's community partnerships and programs supports our continual commitment to Netwealth's purpose of enabling people to see wealth differently and discover a brighter future.**

### Improving financial literacy in schools with Banqer

Netwealth recognises the importance of promoting education for sustainable development. In schools we support financial literacy, helping our younger Australians also see wealth differently.

Netwealth is currently in partnership with Banqer, to bring a program to 15,000 Australia kids nationally. Banqer is a virtual classroom economy created where kids can learn to earn, save, spend and invest their money in a safe and engaging way. Banqer has a number of learning modules, including bank accounts, income, interest on savings, superannuation, taxation, real estate and insurance.

After one year of partnership with Banqer, we have achieved impressive outcomes:

- 6,413 – Number of sponsored students;
- 12% – Average increase in financial literacy rates over the school year;
- Of the kids participating in the online virtual economy:
  - 32.77% – Have made a greater number of positive contributions to their savings account than negative contributions;
  - 72% – Have experienced creating a CV;
  - 59.2% – Have experienced applying for a job and being hired;
  - 57.68% – Have experienced working for a wage;
  - 58.16% – Have experienced earning income in multiple tax brackets;
  - 35% – Have experienced making mortgage payments on one or more properties; and
  - 25.11% – Have insured an investment property.

"We are absolutely loving Banqer! We have found using it in our classrooms to be extremely motivating for the students and we see their financial knowledge increasing daily as we explore the modules. It is brilliantly set up and we can see that it mirrors real life. We feel our students will be much better equipped to deal with their real finances in the future!" – Shannon Blakey, St Michael's Primary School

## Make it Break it – Swinburne University innovation design sprint

Similar to Banqer, we believe that financial literacy education can be improved and we have recently extended our education program to include university students at Swinburne University.

We worked with Swinburne University and MASS Media to conduct an intensive 5 day workshop to solve the real-life social question, 'how do we get more people to engage with their super and investments?' Using a known user-centred design methodology teams developed creative ideas and prototyped them in a customer-facing environment.


### Workplace giving platform

Netwealth recognises the importance of being a responsible corporate citizen to help drive positive and sustainable changes in our local communities. We have partnered with GoodCompany to help Netwealth employees give to charities and volunteer, via The Netwealth Giving program.

Through the program our employees are encouraged to give their time or money by making donation to charity or volunteering to work on a community project. Netwealth supports this by giving each staff member one day of paid leave per year to volunteer.

## Pro forma financial performance

Platform revenue increased by $20.8 million (34.3%) to $81.5 million in FY2018. Revenue growth resulted from strong FUA growth and improved margins on ancillary revenue throughout FY2018.

Total operating expenses increased by $4.6 million (12.8%) to $41.0 million in FY2018. Of total operating expenses, 70% related to employee benefits expense ($28.7 million). During FY2018 employee benefits expense increased by $3.9 million (15.9%) as headcount increased by 28, mainly in Investment Operations, Information Technology, Investor Services and Sales Product and Marketing. The proportion of employee benefits expense to platform revenue reduced by 5.6% to 35.3% in FY2018, highlighting the operating leverage being achieved.

Other operating expenses have increased by $0.7 million to $12.2 million in FY2018 due to general increases across the business. Rent and occupancy costs increased by $0.2 million to $1.7 million in FY2018 as an additional floor was leased in the Melbourne office and annual rent increases. IT and communications costs increased by $0.5 million to $2.3 million as website facilities and software systems increased by $0.3 million and system licencing and support increased by $0.2 million.

These results combined to produce an EBITDA of $42.3 million for FY2018, an increase of $17.4 million (69.7%) in the year. The EBITDA margin for FY2018 increased to 50.8% in FY2018. Pro forma EBITDA has grown significantly over the past 3 years with a CAGR of 41.2%. In the 12 months to June 2018, platform revenue to average FUA earn rate decreased by 7.5bps to 53.4bps. Netwealth is confident that benefits of scale and the continuation of technology driven cost efficiencies, will cushion the impacts of margin compression and Netwealth will continue to achieve strong growth in EBITDA.

NPAT increased by $12.2 million (72.7%) to $29.0 million in FY2018 and NPAT margin increased by 7.4% to 34.9% in FY2018.

Operating net cash flow pre-tax was $39.4 million for FY2018, which was a 93.1% cash conversion ratio of EBITDA.

Statutory FY2018 results included $12.4 million of costs associated with listing ($8.7 million after tax). A full reconciliation between pro forma and statutory is provided on page 20.

## Pro forma performance versus prospectus

The FY2018 NPAT result of $29.0 million exceeded the prospectus forecast by $1.7 million (6.3%). Revenue exceeded forecast by $1.7 million and expenses were lower than forecast by $0.6 million. This resulted in a EBITDA profit of $42.3 million for FY2018, $2.4 million (5.9%) ahead of our prospectus forecast. FUA at $17.96 billion was $2.7 billion ahead of the forecast, FUM at $2.9 billion was $0.4 billion ahead of the forecast and FUA net inflows at $4.2 billion was $1.7 billion ahead of forecast net inflows.

## Statutory results

The table below sets out a summary of Netwealth's statutory statement of profit for FY2018 and FY2017 and the FY2018 prospectus forecast.

| | Consolidated Group for year ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 June 2018 | 30 June 2017 | FY2018/FY2017 Variance | | Prospectus FY2018 | Prospectus Variance | |
| | $'000 | $'000 | $'000 | % | $'000 | $'000 | % |
| Income | | | | | | | |
| Platform revenue | 81,460 | 60,637 | 20,823 | 34.3% | 80,229 | 1,231 | 1.5% |
| Other income | 1,800 | 614 | 1,186 | 193.2% | 1,323 | 477 | 36.1% |
| **Total income** | **83,260** | **61,251** | **22,009** | **35.9%** | **81,552** | **1,708** | **2.1%** |
| Expenses | | | | | | | |
| Employee benefits expenses | (28,739) | (24,799) | 3,940 | 15.9% | (28,035) | 704 | 2.5% |
| Other costs and expenses | (24,654) | (12,240) | 12,414 | 101.4% | (25,694) | (1,040) | (4.0%) |
| **Total expenses** | **(53,393)** | **(37,039)** | **16,354** | **44.2%** | **(53,729)** | **(336)** | **(0.6%)** |
| **EBITDA on continuing operations** | **29,867** | **24,212** | **5,655** | **23.4%** | **27,823** | **2,044** | **7.3%** |
| EBITDA margin | 35.9% | 39.5% | (3.6%) | – | 34.1% | 1.8% | – |
| Depreciation and Amortisation | (678) | (620) | 58 | 9.4% | (780) | (102) | (13.1%) |
| **NPBT on continuing operations** | **29,189** | **23,592** | **5,597** | **23.7%** | **27,043** | **2,146** | **7.9%** |
| Income tax expense | (9,572) | (7,266) | 2,306 | 31.7% | (8,693) | 879 | 10.1% |
| **NPAT on continuing operations** | **19,617** | **16,326** | **3,291** | **20.2%** | **18,350** | **1,267** | **6.9%** |
| NPAT margin | 23.6% | 26.7% | (3.1%) | – | 22.5% | 1.1% | – |
| Profit/(Loss) from discontinued operations | 1,201 | (2,772) | 3,973 | 143.3% | 1,414 | (213) | (15.1%) |
| **NPAT for the period** | **20,818** | **13,554** | **7,264** | **53.6%** | **19,764** | **1,054** | **5.3%** |

## Reconciliation of pro forma adjustments to the consolidated statement of profit or loss and other comprehensive income

Set out in the table below is a reconciliation of pro forma adjustments to the statutory profit statement. In presenting the pro forma statement of profit and loss, pro forma adjustments have been made for material one-off expenses or receipts which will not occur going forward.

| | Consolidated Group for year ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 June 2018 | 30 June 2017 | FY2018/FY2017 Variance | | Prospectus FY2018 | Prospectus Variance | |
| | $'000 | $'000 | $'000 | % | $'000 | $'000 | % |
| **Statutory EBITDA on continuing operations** | **29,867** | **24,212** | **5,655** | **23.4%** | **27,823** | **2,044** | **7.3%** |
| IPO transaction costs | 12,423 | 238 | 12,185 | 5,119.7% | 12,117 | 306 | 2.5% |
| Listing Cost | – | (525) | 525 | 100.0% | – | – | 0.0% |
| Discontinued operations indemnity | – | 1,000 | (1,000) | (100.0%) | – | – | 0.0% |
| **Pro forma EBITDA on continuing operations** | **42,290** | **24,925** | **17,365** | **69.7%** | **39,940** | **2,350** | **5.9%** |
| Pro forma EBITDA margin | 50.8% | 40.7% | 10.1% | – | 49.0% | 1.8% | – |
| Depreciation and Amortisation | (678) | (620) | 58 | 9.4% | (780) | (102) | (13.1%) |
| **Pro forma NPBT on continuing operations** | **41,612** | **24,305** | **17,307** | **71.2%** | **39,160** | **2,452** | **6.3%** |
| Income Tax expense | (9,572) | (7,266) | 2,306 | 31.7% | (8,693) | 879 | 10.1% |
| Tax impact from IPO transaction costs & listing cost | (3,729) | 85 | (3,814) | (4,487.1%) | (3,635) | (94) | 2.6% |
| Tax impact from discontinued operation indemnity | – | (300) | 300 | 100.0% | – | – | 0.0% |
| Tax impact from Group Tax Consolidation | 736 | – | 736 | 100.0% | 490 | 246 | 50.2% |
| **Pro forma NPAT on continuing operations** | **29,047** | **16,824** | **12,223** | **72.7%** | **27,322** | **1,725** | **6.3%** |
| Pro forma NPAT margin | 34.9% | 27.5% | 7.4% | – | 33.5% | 1.4% | – |

## Pro forma results

Set out in the table below is the pro forma statement of profit for FY2018 and FY2017 and the FY2018 forecast as set out in the IPO prospectus in October 2017.

| | Consolidated Group for year ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 | FY2018/FY2017 Variance $'000 | FY2018/FY2017 Variance % | Prospectus FY2018 $'000 | Prospectus Variance $'000 | Prospectus Variance % |
| Income | | | | | | | |
| Platform revenue | 81,460 | 60,637 | 20,823 | 34.3% | 80,229 | 1,231 | 1.5% |
| Other income | 1,800 | 614 | 1,186 | 193.2% | 1,323 | 477 | 36.1% |
| **Total income** | **83,260** | **61,251** | **22,009** | **35.9%** | **81,552** | **1,708** | **2.1%** |
| Expenses | | | | | | | |
| Employee benefits expenses | (28,739) | (24,799) | 3,940 | 15.9% | (27,796) | 943 | 3.4% |
| Other costs and expenses | (12,231) | (11,526) | 705 | 6.1% | (13,816) | (1,585) | (11.5%) |
| **Total expenses** | **(40,970)** | **(36,326)** | **4,644** | **12.8%** | **(41,612)** | **(642)** | **(1.5%)** |
| **Pro forma EBITDA on continuing operations** | **42,290** | **24,925** | **17,365** | **69.7%** | **39,940** | **2,350** | **5.9%** |
| EBITDA margin | 50.8% | 40.7% | 10.1% | – | 49.0% | 1.8% | – |
| Depreciation and Amortisation | (678) | (620) | 58 | 9.4% | (780) | (102) | (13.1%) |
| **Pro forma NPBT on continuing operations** | **41,612** | **24,305** | **17,307** | **71.2%** | **39,160** | **2,451** | **6.3%** |
| Income tax expense | (12,565) | (7,481) | 5,084 | 68.0% | (11,838) | 727 | 6.1% |
| **Pro forma NPAT on continuing operations** | **29,047** | **16,824** | **12,223** | **72.7%** | **27,322** | **1,725** | **6.3%** |
| NPAT margin | 34.9% | 27.5% | 7.4% | – | 33.5% | 1.4% | – |

## Pro forma cash flow statement FY2018

The table below sets out the summary pro forma consolidated statement of cash flows for FY2018 and FY2017 and the FY2018 prospectus forecast.

| | Consolidated Group for year ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 | FY2018/FY2017 Variance $'000 | FY2018/FY2017 Variance % | Prospectus FY2018 $'000 | Prospectus Variance $'000 | Prospectus Variance % |
| EBITDA | 42,290 | 24,925 | 17,365 | 69.7% | 39,940 | 2,350 | 5.9% |
| Non-cash items in EBITDA | (69) | 166 | (235) | (141.6%) | 100 | (169) | (169.0%) |
| Changes in working capital | (2,193) | 830 | (3,023) | (364.2%) | (372) | (1,821) | (489.5%) |
| Capital expenditure | (912) | (1,032) | 120 | 11.6% | (1,000) | 88 | 8.8% |
| Net (purchases)/sale proceeds on investments | 268 | (27) | 295 | 1,092.6% | – | 268 | 100.0% |
| Operating net cash flows before taxation | 39,384 | 24,862 | 14,522 | 58.4% | 38,668 | 716 | 1.9% |

## Key platform statistics

The below table is a summary of Netwealth's key operating and financial metrics for FY2018 and FY2017.

| | Consolidated Group for year ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 | FY2018/FY2017 Variance $'000 | FY2018/FY2017 Variance % | Prospectus FY2018 $'000 | Prospectus Variance $'000 | Prospectus Variance % |
| FUA (EOP*) ($ million) | 17,960 | 12,747 | 5,213 | 40.9% | 15,247 | 2,713 | 17.8% |
| FUM (EOP*) ($ million) | 2,846 | 1,563 | 1,283 | 82.1% | 2,473 | 373 | 15.1% |
| FUA net inflows ($ million) | 4,166 | 3,880 | 286 | 7.4% | 2,500 | 1,666 | 66.6% |
| FUM net inflows ($ million) | 983 | 557 | 426 | 76.5% | 910 | 73 | 8.0% |
| Platform revenue/average | | | | | | | |
| FUA (bps) | 53.4 bps | 60.9 bps | (7.5 bps) | (12.3%) | 57.3 bps | (3.9 bps) | (6.8%) |
| Platform revenue/average number of accounts ($) | 1,405 | 1,288 | 117 | 9.1% | 1,404 | 1 | 0.1% |

* EOP=End of Period

# Board of Directors

The Directors bring to the Board a breadth of expertise and skills, including industry and business knowledge, financial management skills and corporate governance experience.

| | Name and title | Profile |
|---|---|---|
|  | **Jane Tongs**<br>Independent Non-Executive Chairman | • Jane has served as the independent Chairman of Netwealth (and its related entities) since April 2000.<br>• Prior to 2000, Jane was a partner at PricewaterhouseCoopers, specialising in the financial services sector. She has experience with insurance, funds management and superannuation entities.<br>• Jane has over 20 years' experience as non-executive director and superannuation fund trustee and is currently a director of Cromwell Property Group, Warakirri Group, CCI Insurance Ltd and Brighton Grammar.<br>• Jane holds a Bachelor of Business and a Master of Business Administration. Jane is a Fellow of the Institute of Chartered Accountants and a member of the Institute of Company Directors.<br>• Jane is a member of the Company Audit Committee, Compliance and Risk Management Committee, Remuneration Committee and is Chair of the Nomination Committee. |
|  | **Michael Heine**<br>Joint Managing Director | • Michael has been a Director of Netwealth since its establishment in 1999.<br>• Michael was instrumental in the establishment of Netwealth in 1999. Michael acted as sole Managing Director from 1999 to 2014, and has acted as Joint Managing Director together with his son Matthew since January 2015. In his executive capacity, Michael has the Finance, IT, Legal Risk and Compliance, Operations and Human Resources teams reporting to him.<br>• Michael has experience in Australian and European financial markets, including commodity trading, international financing, mortgage lending and property development. Michael was instrumental in the establishment of the Heine Brothers funds management business in 1982, and was its Managing Director from 1982 to 1999 when the company was acquired by ING (then Mercantile Mutual).<br>• Michael is a member of the Nomination Committee. |
|  | **Matthew Heine**<br>Joint Managing Director | • Matthew joined Netwealth in July 2001 and was appointed a Director in March 2004. He was appointed Joint Managing Director in January 2015.<br>• Matthew has been instrumental in the development of the distribution, branding and marketing of the Group and distribution of its products. Matthew's role and experience in the sales, marketing and strategy field brings a first-hand understanding of the industry and client base. In his executive capacity, Matthew has the Product, Technical, Sales and Marketing teams reporting to him.<br>• Matthew holds a Diploma of Financial Services and an Advanced Diploma of Management.<br>• Matthew is a member of the Nomination Committee. |

| | Name and title | Profile |
|---|---|---|
|  | **Davyd Lewis**<br>Independent Non-Executive Director | • Davyd has been a Director of Netwealth since July 2009.<br>• Davyd was a partner of Mallesons Stephen Jaques for 20 years until his retirement in 2008. Davyd's role included Partner in Charge of the Melbourne Centre, Managing Partner Practice of Mergers & Acquisitions, Property and Construction, Dispute Resolution and Intellectual Property, National Practice Team Leader of the Mergers & Acquisitions Group and responsibility for supervising the relationship with 50 of the firm's biggest clients.<br>• Davyd holds a Bachelor of Economics, a Bachelor of Laws and a Master of Laws (majoring in securities markets and takeovers).<br>• Davyd is a member of the Company Audit Committee and Nomination Committee. Davyd is the Chair of the Compliance and Risk Management Committee and the Remuneration Committee. |
|  | **Timothy Antonie**<br>Independent Non-Executive Director | • Timothy has been a Director of Netwealth since November 2015.<br>• Timothy commenced his career at Price Waterhouse (now PricewaterhouseCoopers) and qualified as a chartered accountant. He subsequently worked at several investment banks, including UBS Investment Bank as a Managing Director, where he advised major Australian companies in large scale mergers, takeovers, acquisitions, sales and restructures and equity transactions, as well as day-to-day equity market facing matters.<br>• Timothy is currently also a director of Breville Group Limited, Premier Investments Limited, Village Roadshow Limited and a principal of Stratford Advisory Group.<br>• Timothy is a member of the Compliance and Risk Management Committee, Remuneration Committee and Nomination Committee. Timothy is the Chair of the Company Audit Committee. |

# Directors' report

The directors present their report on Netwealth Group Limited and its controlled entities for the year ended 30 June 2018 (FY2018). The consolidated entity is referred to as "the Group". In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

## Directors

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

- Jane Tongs (Chairman)
- Michael Heine
- Matthew Heine
- Davyd Lewis
- Timothy Antonie

Directors have been in office since the start of the financial year to the date of this report.

## Company overview

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

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

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

Netwealth's award-winning platform is currently rated Australia's Number 1 Platform for overall functionality and overall satisfaction providing wealth professionals with the technology required to efficiently manage and add value to their clients[9].

9 Investment Trends – December 2017 Platform Competitive Analysis and Benchmarking Report & Investment Trends – May 2018 Planner technology report

## Directors meetings

During the financial year, 20 Group meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

| | Board of Directors' Meetings | | Audit Committee | | Remuneration Committee | | Nomination Committee[1] | |
|---|---|---|---|---|---|---|---|---|
| | (A) | (B) | (A) | (B) | (A) | (B) | (A) | (B) |
| Directors | | | | | | | | |
| Jane Tongs | 20 | 20 | 8 | 8 | 6 | 6 | 1 | 1 |
| Davyd Lewis | 20 | 20 | 8 | 8 | 6 | 6 | 1 | 1 |
| Timothy Antonie | 20 | 20 | 8 | 8 | 6 | 6 | 1 | 1 |
| Michael Heine | 20 | 13 | – | | – | – | – | – |
| Matthew Heine | 20 | 13 | – | | – | – | – | – |

(A) Number of meetings held during the time the Director held office and was eligible to attend as a member

(B) Number of meetings attended

1 Meetings called on an as needed basis

The qualifications and experience of Directors are detailed on page 23 to 24 of the Annual Report.

## Corporate governance

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

## Diversity strategy

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

Netwealth has identified gender equality as a key area of focus, whilst indirectly working on a number of other initiatives to support overall inclusion and diversity.

## Executive leadership team

Profiles of the Company's senior management team are set out below.

| Name and title | Profile |
|---|---|
| <br>**Michael Heine**<br>Joint Managing Director | • Refer to Board of Directors section |
| <br>**Matthew Heine**<br>Joint Managing Director | • Refer to Board of Directors section |
| <br>**Grant Boyle,** Chief Financial Officer and Joint Company Secretary | • Grant joined Netwealth in May 2017.<br>• Grant has more than 30 years' experience in financial services and the accounting profession. Most recently the Chief Financial Officer of EMR Capital, Grant has held several Chief Financial Officer and Chief Operating Officer roles within financial services, including at BlackRock, Powerwrap and Phillip Capital, prior to entering the funds/platform space.<br>• Grant was a finance manager with ANZ Group Finance and a manager in the Corporate Recovery and Insolvency division of Ernst & Young. |
| <br>**Rachel Axton** General Manager, Legal, Risk and Compliance and Joint Company Secretary | • Rachel joined Netwealth in February 2016.<br>• Rachel has 20 years of experience in financial services working across a range of wealth management providers, specialising in superannuation and investment services. Prior to joining Netwealth, Rachel managed the Colonial First State Custom Solutions Risk and Compliance team and contributed to the company's strategic direction as part of the executive team.<br>• Rachel is a Fellow of the Association of Super Funds of Australia and has memberships with Governance Risk and Compliance and Risk Management Australia. Rachel holds a Graduate Diploma in Superannuation Management and is completing a Bachelor of Business (Economics). |

| Name and title | Profile |
| --- | --- |
| <br>**Philip Coldwell**<br>General Manager, Product | • Philip was employed by Netwealth in November 2011.<br>• Philip has over 30 years of experience in the financial services industry including positions in the management of financial planning operations, technical services, product development and marketing. From 2000 to 2011 Philip was an owner and director of Integrity Financial Planners Pty Ltd.<br>• Philip holds a Bachelor of Business from Swinburne and a Diploma of Financial Planning. |
| <br>**Alistair Densley**<br>General Manager, Operations | • Alistair joined Netwealth in May 2002.<br>• Having previously held a leadership role within Netwealth's IT Development Team, he has been Netwealth's General Manager, Operations, since September 2010.<br>• Alistair has over 15 years' experience in the financial services industry and has played an important role in establishing and achieving scalability for many administrative processes across Netwealth's Platform.<br>• Alistair holds a Bachelor of Commerce. |
| <br>**John Hanrahan**<br>Chief Information Officer | • John joined Netwealth in May 2012.<br>• John has responsibility for application development, technology infrastructure, business analysis, project management and technology vendor management. John has more than 20 years of experience in financial services technology. Prior to joining Netwealth, John led the Australian technology team for BlackRock.<br>• John holds a Bachelor of Business (Banking and Finance) from Monash University. |

## Indemnification of Officers

The Company has paid premiums to insure each director and officer under a Directors and Officers Insurance policy. Further disclosure of information relation to this policy is not permitted under the contract of insurance.

## Significant changes in the state of affairs

Netwealth Group Limited, a newly incorporated company on 30 June 2017, was superimposed as the holding company of Netwealth Holdings Limited (previously Netwealth Group Limited) on 20 November 2017, becoming the ultimate holding company of the Group. Netwealth was listed on the ASX on 20 November 2017.

On 20 October 2017, the Group divested Australian Planning Services Pty Ltd to Heine Brothers Pty Ltd, a related party, for a total consideration of $1, which represented its carrying value being the fair value of the entity.

On 1 March 2018, the Group sold the Bridgeport Financial Services business for a total consideration of $12.4 million. The payment for the sale is staged over a period of 2 years, where the first payment of $4.8 million has been received to date. The remaining payments[10] for the sale are subject to change as the total consideration payable is dependent on the performance of the business sold. The remaining assets and liabilities are in the process of being wound down.

On 1 April 2018, the Group sold the Pathway Licensee Services for a total consideration of $320,000. The remaining assets and liabilities are in the process of being wound down.

There were no other significant changes in the state of affairs for Netwealth Group Limited during the year.

10 The deferred consideration has been recognised as a financial asset with a fair value of $7.1M as at 30 June 2018.

## Dividends

During the year, the Group declared on 12 October 2017 and paid on 16 October 2017 a fully franked pre-completion dividend of 3.77 cents per share[11], representing a total dividend of $8,300,000. There is no Dividend Reinvestment Plan (DRP).

## Options and shares

40,000 options were exercised at $1 per share during the year. There are no remaining options.

During the period, eligible employees were issued shares valued at $1,000 per employee as a gift for no consideration. As a result, 63,990 new ordinary shares were issued at $3.70 per share during the listing.

## Events subsequent to the end of the reporting period

On the 27th of August the Directors declared a fully franked final dividend for FY2018 of 5.38 cents per share (total dividends of $12,790,000) bringing the total fully franked dividends to 9.15[12] cents per share for the twelve months. In addition to the fully franked final dividend, a special dividend of 5.18 cents per share (total dividends of $12,300,000) was also declared. The final and special dividends are payable on 27 September 2018.

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

## Environmental regulation

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

## Proceedings on behalf of Company

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

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is set out on page 40.

## Rounding of amounts

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

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

Director

**Jane Tongs**
Chairman

27 August 2018

11 Interim dividend was 26.39 cents per share at time of payment, however, has been expressed in comparative terms following a one in seven share split for the IPO

12 Total dividend has been expressed in comparative terms following a one in seven share split for the IPO

# Remuneration report (audited)

**Davyd Lewis**
Chairman of the Remuneration Committee

**Dear Shareholders,**

**Letter from the Remuneration Committee Chair**

On behalf of the Board, I am pleased to present Netwealth's FY2018 Remuneration Report. Netwealth was listed on the Australian Stock Exchange on 20 November 2017 and this is therefore its first Remuneration Report to shareholders.

## Netwealth's performance in FY2018[13]

FY2018 was an extremely successful year for Netwealth with EBITDA growth of 69.7%, NPAT growth of 72.7% and EPS of 11.9 cents, each exceeding the IPO prospectus forecasts. This performance was driven principally by growth in FUA of 40.9% and FUM of 82.1%.

## Short term incentives (STIs)

Netwealth's primary focus is on long term performance and accordingly, our remuneration is structured on this basis. As disclosed in the Netweatlh Prospectus, the contracts of employment with each of the JMDs provided for a cash bonus in respect of FY2018 if certain performance hurdles were met, which they were. Generally, other than the sales and distribution team and the JMDs, Netwealth only pays a cash bonus to an employee if the employee has made an exceptional contribution. These bonuses are entirely discretionary. Further detail of STIs is provided in the Remuneration Report

## Long term incentives (LTIs)

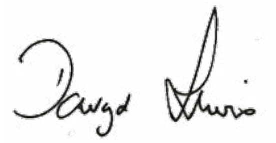
Prior to listing, Netwealth established an LTI scheme, details of which were set out in the Netwealth Prospectus. A number of directors and senior employees currently hold performance shares under that scheme which, subject to meeting personal and company-related performance conditions and loan repayment, will convert to ordinary shares after 31 December 2020. Details of shareholdings for directors and KMPs are set out in the Remuneration Report.

The Board recognises the importance of suitably incentivising senior executives and key staff. Our objective for any LTI structure is to encourage appropriate behaviours amongst staff so as to meet our compliance, governance and growth targets and to retain our talent. The Board has put in place a new LTI scheme which is designed to provide the maximum flexibility to incentivise and retain staff in the future. A summary of the new LTI scheme is set out in the Remuneration Report.

In conjunction with the IPO, Netwealth made a free shares offer to all permanent full and part time employees of 270 shares per employee at no cost. Under the terms of the offer, the shares are subject to a trading restriction for 3 years or until the employee ceases employment.

The Remuneration Committee believes the Remuneration Report will assist both our shareholders and other stakeholders to understand our remuneration policy, objectives and practices. We are committed to engaging with our shareholders and other stakeholders and we welcome your feedback.

Yours faithfully



**Davyd Lewis**
Chairman of the Remuneration Committee

27 August 2018

13 Pro forma EBITDA, NPAT and EPS have been prepared consistently with the IPO Prospectus, adjusted to exclude the impact of the IPO transactions cost and the Company's discontinued operations. EPS has been calculated based on the ordinary and performance shares held post completion of the IPO.

## Contents



## A. Introduction

This FY2018 Remuneration Report for Netwealth is prepared in accordance with the requirements of s300A of the *Corporations Act 2001* and its regulations. The report outlines the remuneration arrangements in place for the Key Management Personnel (KMP) of the Company. KMP are the individuals who have authority and responsibility for planning, directing and controlling the activities of Netwealth, as defined under AASB 124 *Related Party Disclosure*. The following table lists Netwealth's KMPs for FY2018.

| Name | Position |
|---|---|
| Non-Executive Directors | |
| Jane Tongs | Independent Non-Executive Chairman |
| Davyd Lewis | Independent Non-Executive Director |
| Timothy Antonie | Independent Non-Executive Director |
| Executive Directors | |
| Michael Heine | Joint Managing Director |
| Matthew Heine | Joint Managing Director |
| Senior executive | |
| Grant Boyle | Chief Financial Officer (CFO) & Joint Company Secretary |

All KMPs held office for the whole of FY2018. No KMP retired during FY2018.

## B. Remuneration objectives

The Board is committed to a remuneration framework targeted on driving excellent customer service, integrity and a performance culture. Netwealth's objectives for remuneration include:

- to promote achievement of the Company's strategic objective of building long-term shareholder and enterprise value;
- while remuneration arrangements are designed to promote and reward performance, they must also promote conduct consistent with the Board's risk appetite and protection of the interests of Netwealth's stakeholders;
- the structure for remuneration must be consistent with and promote adherence to Netwealth's ethics, values, policies and procedures;
- employees are to be fairly remunerated for work undertaken, having regard to the remuneration of employees in comparable positions in comparable organisations;
- remuneration levels should encourage an appropriate level of staff retention; and

- when setting the levels of remuneration, Netwealth's long term financial soundness and its prospective financial position and performance are to be considered.

These remuneration objectives apply to all employees, including KMPs.

## C. Remuneration governance

The Board is ultimately responsible for establishing Netwealth's remuneration policy (the Remuneration Policy) and determining non-executive director remuneration, senior executive remuneration and the Company's incentive structures. The Board is assisted by the Remuneration Committee (the Committee). The Committee is comprised of the Group's three independent non-executive directors. The Committee's responsibilities include:

- reviewing and making recommendations to the Board on the Remuneration Policy;
- annually reviewing and recommending remuneration arrangements for the Joint Managing Directors (JMDs), the JMDs' direct reports, other persons determined by APRA to be 'responsible persons' and the non-executive directors;
- approving remuneration packages over a threshold amount;
- approving major chances in remuneration-related policies;
- reviewing and recommending changes and developments in relation to Netwealth's LTI schemes;
- overseeing the operation of Netwealth's LTI schemes and recommending whether offers are to be made under the schemes;
- recommending bonuses;
- reviewing and making recommendations on remuneration by gender and addressing any pay gap;
- reviewing and recommending changes to board remuneration;
- reviewing and recommending the Remuneration Report; and
- where applicable, approving the appointment of remuneration advisers for the purposes of the Corporations Act.

## D. Remuneration framework

### Fixed remuneration

Netwealth's employees' fixed remuneration is determined on an annual basis in accordance with the Company's remuneration objectives. At the time of the IPO, a separate assessment was made for the remuneration of the non-executive directors, the JMDs and the CFO. In each case, their remuneration was set having regard to their individual roles and responsibilities, their skills and experience and a comparison with remuneration paid to officers and employees of comparable companies. Regard was also had to the financial performance of the Company during the period of their tenure with the Company. The Board will conduct a similar review in FY2019.

### Short Term Incentive Schemes

Netwealth only pays STIs in the form of cash bonuses where, in the opinion of the Board, an employee has made an exceptional contribution. In November 2017, the Board determined that the KMP Grant Boyle, had made an exceptional contribution in assisting with the Company's IPO and was given an allocation of 13,513 shares at the issue price of $3.70 per share with a value of $50,000 and an interest free loan to acquire the shares. The interest free loan is repayable in November 2019 and the shares acquired with the loan are subject to a trading restriction until the loan is repaid.

The contracts of employment with each of the JMDs provided for a cash bonus in respect of FY2018 if certain performance hurdles were met, which they were. Details of these are set out below. Under JMD Michael Heine's employment agreement, he was entitled an STI of up to $150,000 for FY2018. Under JMD Matthew Heine's employment agreement, he was entitled an STI of up to $150,000 for FY2018. Each JMD's STI was subject to achieving or exceeding KPIs and achieving a minimum standard of behaviour, as detailed in their performance plan. The STIs were also subject to the Company achieving the FY2018 NPAT forecast in the IPO prospectus. These conditions were chosen by the Board having regard to Netwealth's remuneration objectives and the importance of achieving the financial performance forecast in the IPO prospectus. All of the conditions were fulfilled. Michael Heine has informed the Board that, given his substantial holdings in Netwealth through a majority shareholding, he has chosen to waive his STI payment for FY2018. Matthew Heine has been paid his full STI for FY2018.

The Board has approved the FY2019 performance plan with STIs included for Matthew Heine of up to a maximum of $250,000 and for Michael Heine of up to a maximum of $150,000, subject in each case to them meeting all behavioural requirements and exceeding their KPIs and on Netwealth achieving a specified level of NPAT.

### Long Term Incentive Schemes

Prior to listing on the Australian Stock Exchange, Netwealth established an LTI scheme (Pre-listing LTI Scheme) under which senior employees and directors could be issued performance shares (Performance Shares), financed by a non-recourse loan from the Company. Participating employees and directors were issued Performance Shares in previous years and all of the outstanding Performance Shares are still subject to restriction under the Pre-listing LTI Scheme. In each case, if certain personal and Company performance milestones are satisfied and the loan is repaid, the Performance Shares will be converted to ordinary shares between 31 December 2020 and 31 October 2022 and will cease to be subject to restriction under the Pre-listing LTI Scheme. The personal milestones require each individual to meet performance and behavioural standards and Company performance conditions are based on the EPS of the Company in FY2020.

If the personal milestones are not reached, the Performance Shares of the person concerned will be forfeited. Some or all of each person's Performance Shares will be forfeited if the EPS milestone is not achieved. Details of the Pre-listing LTI Scheme and the shares issued under it were set out in the Netwealth Prospectus. Further details of the Pre-listing LTI scheme and the performance share holdings by KMPs are set out below.

The Board has adopted a new LTI scheme (the New LTI Scheme) which will apply from FY2019 onwards. Under the New LTI Scheme, the Board may make offers of 'incentive securities' to eligible employees. The New LTI Scheme will not apply to non-executive Directors. 'Incentive securities' can be rights to receive fully paid ordinary shares, options over ordinary shares, fully paid ordinary shares subject to dealing restrictions or a combination of these. The Board will use whichever form of incentive security it considers appropriate to incentivise employees in the prevailing market and regulatory conditions. No offers have yet been made under the New LTI Scheme. When offers are made, they will be subject to vesting conditions and vesting or exercise periods that the Board considers appropriate in the particular circumstances and consistent with Netwealth's remuneration objectives. The Board intends that the vesting conditions will include personal milestones that require the employee to meet individual performance and behavioural standards and Company performance conditions relating to growth in the profitability. The Board intends that the vesting will generally be no less than 3 years.

## E. Overview of group performance

The following table sets out information about the Group's key financial performance for FY2017 and FY2018:

| Financial Period Ended 30 June | 2018 | 2017 |
|---|---|---|
| NPAT ($ million) | 20,818 | 13,554 |
| Dividends paid ($ million) | 8,300 | 4,555 |
| NPAT earnings per share (cents) | 8.96 | 6.20 |
| Share Price* | $8.22 | $3.70 |

* 2017 Share Price is the IPO offer price. 2018 Share Price is the closing price on 29 June 2018, the last day of trading in FY2018.

The Company's remuneration framework largely ties remuneration to company performance through LTIs, cash bonuses and other STIs. Except for Matthew Heine's FY2018 STI, there is no direct link between company earnings and KMP remuneration. The KMPs, other than Michael Heine, all hold performance shares in Netwealth through the Pre-listing LTI Scheme. The vesting of shares under the Pre-listing LTI Scheme is conditional on the Company achieving EPS growth and their remuneration is therefore indirectly linked to Netwealth's performance through those shareholdings.

## F. Executive remuneration

The table below sets out details of the remuneration of the JMDs and the CFO (the three KMPs who are employee executives) for FY2018.

| | Joint Managing Directors | | CFO | |
|---|---|---|---|---|
| | Michael Heine | Matthew Heine | Grant Boyle | Total |
| **Short Term Benefits** | | | | |
| Cash Salary | 228,311 | 479,952 | 325,000 | 1,033,263 |
| STI[1] | – | 150,000 | – | 150,000 |
| Other[2] | – | 2,855 | – | 2,855 |
| **Long Term Benefits** | | | | |
| Leave[3] | 7,333 | 3,500 | 4,900 | 15,733 |
| **Post-Employment Benefits** | | | | |
| Superannuation[4] | 21,689 | 20,048 | 25,000 | 66,737 |
| **Share-Based Payments** | | | | |
| Pre-listing LTI Scheme[5] | – | 14,299 | 2,447 | 16,746 |
| New LTI Scheme[6] | – | – | – | – |
| **Termination Benefits** | | | | |
| Termination Payments | – | – | – | – |
| **Total** | **257,333** | **670,654** | **357,347** | **1,285,334** |
| **% Performance Related[7]** | **0%** | **24%** | **1%** | **13%** |

1. Full STI payment for FY2018 was awarded to Matthew Heine as he met the conditions as detailed in his performance plan and the Company achieved the required level of EPS. Michael Heine opted to waive his STI payment for FY2018.
2. The Company paid a short-term benefit of club membership fees on behalf of Matthew Heine.
3. Long term benefits related to long service leave entitlements accrued for the year, net of leave taken.
4. Superannuation payments are made in accordance with the relevant statutory requirements.
5. Performance shares held under the Pre-listing LTI Scheme did not convert to ordinary shares during FY2018 as they remain subject to vesting conditions.
6. There have been were no issues under the New LTI Scheme.
7. All STIs and LTIs are related to the performance of the Group.

### Service Agreements

The remuneration and other terms of employment for the senior executive KMP are formalised in employment contracts, which are reviewed annually. The JMDs and CFO are entitled to receive pay in lieu of notice of resignation, in addition to any leave entitlements upon cessation of employment. All services agreements are for unlimited duration but may be terminated immediately in the event of serious misconduct, in which case the executive is not entitled to any payment in lieu of notice. The following table outlines the key contractual arrangements for the JMDs and senior executive KMP.

| Position | Contractual Term | Employer Notice Period | Employee Notice Period | Post-Employment Restraints |
|---|---|---|---|---|
| JMDs | Ongoing | Six months | Six months | 12-month non-competition period |
| CFO | Ongoing | Six months | Six months | Six-month non-competition period |

## G. Non-Executive Director remuneration

The table below sets out details of the remuneration of the three Non-Executive Directors for FY2018.

| Fees/Benefits | Description | FY2018 |
|---|---|---|
| Board fees | **Board** | |
| | Chair – Jane Tongs | $120,000 |
| | Members – other Non-Executive Directors | $100,000 |
| Committee fees | **Audit Committee** | |
| | Chair – Timothy Antonie | $5,000 |
| | Members – Jane Tongs, Davyd Lewis | – |
| | **Remuneration Committee** | |
| | Chair – Davyd Lewis | $5,000 |
| | Members – Jane Tongs, Timothy Antonie | – |
| | **Compliance and Risk Management Committee** | |
| | Chair – Davyd Lewis | $5,000 |
| | Members – Jane Tongs, Timothy Antonie | – |
| | **Due Diligence Committee** | |
| | Chair – Davyd Lewis | $5,000 |
| | Members – No other Directors are members | – |
| | **Nomination Committee** | |
| | Chair – Jane Tongs | $5,000 |
| | Members – Davyd Lewis, Timothy Antonie | – |
| Superannuation | The fees set out above include superannuation payment in accordance with the relevant statutory requirements. Superannuation is paid up to the relevant concessional contributions cap, with the remainder paid in cash. | |
| Other benefits | Non-Executive Directors are entitled to reimbursements for business-related expenses, including travel expenses and all receive the benefit of coverage under a Director and Officers insurance policy. The Company has paid premiums to insure each Director and Officer under a Directors and Officers Insurance policy. Further disclosure of information relating to this policy is not permitted under the contract of insurance. | |

The table below sets out the total Non-Executive Director fees paid for FY2018.

| | Jane Tongs | Davyd Lewis | Timothy Antonie | Total |
|---|---|---|---|---|
| **Fees and allowances** | | | | |
| Board and Committee Fees | 114,155 | 105,023 | 95,890 | 315,068 |
| **Post-Employment Benefits** | | | | |
| Superannuation | 10,845 | 9,977 | 9,110 | 29,932 |
| **Share-Based Payments** | | | | |
| Pre-listing LTI Scheme[1] | 1,787 | 1,787 | 1,787 | 5,361 |
| **Total** | **126,787** | **116,787** | **106,787** | **350,361** |

1. Performance shares held under the Pre-listing LTI Scheme did not convert to ordinary shares during FY2018 as they remain subject to vesting conditions.

The total amount paid to all Non-Executive Directors for their services as directors must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. At the time of the IPO, this amount was fixed by the Board at $800,000 per annum.

## H. Other information

### KMP Share Movements

The table below sets out the shareholdings of ordinary shares of each KMP for FY2018.

| | Ordinary Shares | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Financial Period[1] | Purchases of Shares | Sale of Shares | Other Changes During the Year | Balance at End of Financial Period |
| FY2018 | Number | Number | Number | Number | Number |
| **Non-executive Directors** | | | | | |
| Jane Tongs | 2,412,060 | – | (482,000) | – | 1,930,060 |
| Davyd Lewis | 200,333 | – | – | – | 200,333 |
| Timothy Antonie | – | – | – | – | – |
| **Executive Directors** | | | | | |
| Michael Heine | 135,704,990 | – | (9,800,000) | – | 125,904,990 |
| Matthew Heine | 3,184,405 | 27,000 | – | – | 3,211,405 |
| **Senior Executive** | | | | | |
| Grant Boyle[2] | – | 20,269 | – | – | 20,269 |

1 In conjunction with the IPO, there was a restructure (the Restructure) which involved ordinary shares in the Company being issued in exchange for performance shares in a subsidiary company and a seven for one share split. The adjusted balance in this column shows the ordinary shareholdings adjusted for the Restructure. The adjusted opening balance also includes 3,000,000 partly paid ordinary shares held by Michael Heine. A total amount of $2,496,545 remained unpaid on these shares at the commencement of FY2018. In conjunction with the IPO, a call was made on these shares and the unpaid balance was paid by Michael Heine.

2 The shares purchased by Grant Boyle were through an allocation made to him in the IPO. 13,513 shares were funded by a 2-year interest free full recourse loan from the Company.

## KMP Shareholdings under the Pre-listing LTI Scheme

The table below set out the shareholdings of performance shares issued under the Pre-listing LTI Scheme to each KMP. The employee loans are interest-free non-recourse loans that must be repaid if the vesting conditions are met for the Performance Shares to convert to ordinary shares. The loans must be repaid within 10 years of grant date.

| | Performance Shares | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Financial Period[1] | Granted during the Year | Vested | Forfeited | Balance at End of Financial Period |
| **FY2018** | **Number** | **Number** | **Number** | **Number** | **Number** |
| **Non-executive Directors** | | | | | |
| Jane Tongs | 175,000 | – | – | – | 175,000 |
| Davyd Lewis | 175,000 | – | – | – | 175,000 |
| Timothy Antonie | 175,000 | – | – | – | 175,000 |
| **Executive Directors** | | | | | |
| Michael Heine | – | – | – | – | |
| Matthew Heine | 1,400,000 | – | – | – | 1,400,000 |
| **Senior Executive** | | | | | |
| Grant Boyle | 175,000 | – | – | – | 175,000 |

1 As part of the Restructure, during FY2018 each performance share was split into seven. The number of shares in this column is adjusted for that share split.

Performance Shares were originally issued to the KMPs in FY2016 and FY2017 and were funded by interest-free non-recourse loans. At the time of the IPO, the Pre-listing LTI Scheme was revised to provide Performance Shares on the same terms as those previously held but in the new parent company of the Group. The Performance Shares do not confer the right to attend and vote at meetings and do not confer the right to participate in dividends. The Performance Shares remain subject to 'vesting' conditions.

Under the Pre-listing LTI Scheme, the proportion of shares vesting on expiry of the three-year performance period (ending FY2020) will be as set out in the table below.

| Earnings Per Share (EPS)[1] | Proportion of Performance Shares that vest |
|---|---|
| $0.1571 or more | 100% |
| $0.1414 or more but less than $0.1571 | 90% |
| $0.1271 or more but less than $0.1414 | 80% |
| $0.1143 or more but less than $0.1271 | 70% |
| less than $0.1143 | Nil |

1 As part of the Restructure, during FY2018 each performance share was split into seven. The EPS is reflective of the share split.

The following vesting conditions apply to the Performance Shares:

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

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

## Non-Recourse Loans to KMPs

There were non-recourse loans made during the year or remaining unsettled at 30 June 2018 between the Group and its KMPs. The table below summarises the movement in non-recourse loans during the year:

| | Non-recourse Loans | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Financial Period[1] | Increase in Loan | Repayment of Loan | Other Changes During the Year | Balance at End of Financial Period |
| **FY2018** | $ | $ | $ | $ | $ |
| **Non-Executive Directors** | | | | | |
| Jane Tongs | 82,500 | – | – | – | 82,500 |
| Davyd Lewis | 82,500 | – | – | – | 82,500 |
| Timothy Antonie | 82,500 | – | – | – | 82,500 |
| **Executive Directors** | | | | | |
| Michael Heine | – | – | – | – | – |
| Matthew Heine | 660,000 | – | – | – | 660,000 |
| Senior Executive | | | | | |
| Grant Boyle | 107,500 | – | – | – | 107,500 |

1 As part of the Restructure, an equivalent non-recourse loan was raised for each Performance Share issued under the Restructure.

### Full Recourse Loans to KMPs

There were full-recourse loans made during the year or remaining unsettled at 30 June 2018 between the Group and its KMPs. The table below summarises the movement in full recourse loans during the year:

| | Full-recourse Loans | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Financial Period | Increase in Loan | Repayment of Loan | Other Changes During the Year | Balance at End of Financial Period |
| **FY2018** | **$** | **$** | **$** | **$** | **$** |
| **Non-executive Directors** | | | | | |
| Jane Tongs | – | – | – | – | – |
| Davyd Lewis | – | – | – | – | – |
| Timothy Antonie | – | – | – | – | – |
| **Executive Directors** | | | | | |
| Michael Heine | – | – | – | – | – |
| Matthew Heine | 229,752 | – | (27,358) | – | 202,394 |
| **Senior Executive** | | | | | |
| Grant Boyle[1] | – | 50,000 | – | – | 50,000 |

1 The imputed interest on the full-recourse loan for the year ending 30 June 2018 is $1,465.

## Previous comments or resolutions in relation to Remuneration Reports

The Company has not previously issued a Remuneration Report and therefore there have been no previous comments or resolutions in relation to its Remuneration Reports.

# Auditor’s independence declaration

Deloitte.

Deloitte Touche Tohmatsu
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27 August 2018

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

Dear Directors

**Auditors independence declaration to Netwealth Group Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Netwealth Group Limited.

As lead audit partner for the audit of the financial statements of Netwealth Group Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2018.

| | Note | Consolidated group for year ended 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Income | | | |
| Revenue | 5 | 81,460 | 60,637 |
| Other income | 5 | 1,800 | 614 |
| **Total income** | 5 | **83,260** | **61,251** |
| Expenses | | | |
| Employee benefits expenses | 6 | (28,739) | (24,799) |
| Other operating expenses | 6 | (20,637) | (8,862) |
| Occupancy expenses | 6 | (1,687) | (1,530) |
| IT and communication expenses | | (2,330) | (1,848) |
| Depreciation | | (614) | (541) |
| Amortisation | | (64) | (79) |
| **Total expenses** | | **(54,071)** | **(37,659)** |
| **Profit before income tax** | | **29,189** | **23,592** |
| **Income tax expense** | 7 | **(9,572)** | **(7,266)** |
| **Profit for the period from continuing operations** | | **19,617** | **16,326** |
| Discontinued operations | | | |
| **Profit/(Loss) for the period from discontinued operations** | 22 | **1,201** | **(2,772)** |
| **Profit for the period** | | **20,818** | **13,554** |
| **Total comprehensive income for the period** | | **20,818** | **13,554** |
| Total comprehensive income attributable to: | | | |
| Members of the parent entity | | 20,818 | 13,554 |
| Earnings per share | | | |
| From continuing and discontinued operations: | | | |
| Basic (cents per share) | 10 | 8.96 | 6.20 |
| Diluted (cents per share) | 10 | 8.96 | 6.16 |
| From continuing operations: | | | |
| Basic (cents per share) | 10 | 8.44 | 7.47 |
| Diluted (cents per share) | 10 | 8.44 | 7.42 |

The accompanying notes form part of these financial statements

# Consolidated statement of financial position

As at 30 June 2018.

| | | Consolidated Group as at | |
|---|---|---|---|
| | Note | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 11 | 52,669 | 34,340 |
| Trade and other receivables | 12 | 5,959 | 5,398 |
| Other current assets | 13 | 2,510 | 1,242 |
| Financial assets | 14 | 5,606 | 912 |
| Assets classified as held for sale | 22 | 52 | 14,757 |
| **Total current assets** | | **66,796** | **56,649** |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 2,859 | 2,613 |
| Intangible assets | 16 | 343 | 107 |
| Financial assets | 14 | 2,227 | – |
| Deferred tax assets | 7 | 6,526 | 4,126 |
| **Total non-current assets** | | **11,955** | **6,846** |
| **Total assets** | | **78,751** | **63,495** |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 4,290 | 5,225 |
| Provisions | 18 | 3,490 | 3,494 |
| Current tax liabilities | | 2,916 | 710 |
| Liabilities directly associated with assets classified as held for sale | 22 | 60 | 2,242 |
| **Total current liabilities** | | **10,756** | **11,671** |
| **Non-current liabilities** | | | |
| Provisions | 18 | 583 | 429 |
| **Total non-current liabilities** | | **583** | **429** |
| **Total liabilities** | | **11,339** | **12,100** |
| **Net assets** | | **67,412** | **51,395** |
| Equity | | | |
| Issued capital | 19 | 23,259 | 20,205 |
| Reserves | 20 | 778 | 712 |
| Retained earnings | | 43,375 | 30,478 |
| **Total equity** | | **67,412** | **51,395** |

The accompanying notes form part of these financial statements.

# Consolidated statement of changes in equity

For the year ended 30 June 2018.

| Consolidated Group | Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2016** | 21,086 | 571 | 21,479 | 43,136 |
| Shares issued during the period | (881) | – | – | (881) |
| Total comprehensive income for the period | – | – | 13,554 | 13,554 |
| Amounts recognised on issue of employee shares | – | 141 | – | 141 |
| Dividend paid or provided for | – | – | (4,555) | (4,555) |
| **Balance at 30 June 2017** | **20,205** | **712** | **30,478** | **51,395** |
| Balance at 1 July 2017 | 20,205 | 712 | 30,478 | 51,395 |
| Shares fully paid during the period | 2,817 | – | – | 2,817 |
| Total comprehensive income for the period | – | – | 20,818 | 20,818 |
| Amounts recognised on issue of employee shares | 237 | 66 | – | 303 |
| Return of Capital | – | – | 379 | 379 |
| Dividend paid or provided for | – | – | (8,300) | (8,300) |
| **Balance at 30 June 2018** | **23,259** | **778** | **43,375** | **67,412** |

The accompanying notes form part of these financial statements.

# Consolidated statement of cash flows

For the year ended 30 June 2018.

| | Note | Consolidated Group for year ended | |
|---|---|---|---|
| | | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 95,908 | 77,005 |
| Payments to suppliers and employees | | (68,124) | (56,634) |
| Dividends received | | 29 | 33 |
| Interest received | | 624 | 434 |
| Income tax paid | | (10,382) | (8,011) |
| **Net cash generated by operating activities** | 26 | **18,055** | **12,827** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (911) | (1,126) |
| Proceeds from sale of Investments | | 1,939 | 115 |
| Purchase of Investments | | (1,672) | – |
| Purchase of intangibles | | (300) | – |
| Sale of intangibles – discontinued operations | | 5,813 | – |
| **Net cash generated/(used) used in investing activities** | | **4,869** | **(1,011)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 3,056 | – |
| Dividends paid | | (8,300) | (4,479) |
| **Net cash used in financing activities** | | **(5,244)** | **(4,479)** |
| **Net increase in cash held** | | **17,680** | **7,337** |
| **Cash and cash equivalents at beginning of year** | | **34,989** | **27,652** |
| **Cash and cash equivalents at end of year** | 11 | **52,669** | **34,989** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

## 1. General information

The Financial Report of Netwealth Group Limited covers 'the Company' as an individual entity (disclosed in Note 28) and its controlled entities (together referred to as the Group) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 27 August 2018 and covers the company as an individual entity as well as the consolidated entity consisting of the company and its subsidiaries as required by the *Corporations Act 2001*. The Company is limited by shares and incorporated and domiciled in Australia.

The addresses of its registered office and principle place of business are as follows:

Registered office of the company:
Netwealth Group Limited
Level 8, 52 Collins Street
MELBOURNE VIC 3000

Principle place of business:
Netwealth Group Limited
Level 8, 52 Collins Street
MELBOURNE VIC 3000

The principal activities of the Group are to provide Financial Intermediaries and investors with financial services including managed funds, an investor directed portfolio service, a superannuation master fund, separately managed accounts, a self managed superannuation administration service, financial planning services, financial planning dealership services, compliance consulting, and licensee services.

## 2. Significant accounting policies

### Basis of preparation

This consolidated financial report for the year reporting period:

- is for the consolidated entity consisting of Netwealth Group Limited and its controlled entities (trading on the ASX under the symbol 'NWL');
- is presented in Australian dollars, with all values rounded to the nearest thousand dollars, or in certain cases, the nearest dollar, in accordance with the Australian Securities and Investment Commission Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191;
- have been prepared as a going concern basis using historical costs in accordance with Australian Accounting Standards (AASBs) and Interpretations issued by the Australian Accounting Standards Board, and the *Corporations Act 2001*;
- comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- has accounting policies and methods of computation which are consistent to all periods presented, unless stated.

### Principles of Consolidation

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

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

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

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

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

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

## Changes in the Group's ownership interests in existing subsidiaries

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

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

## Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

## Critical accounting estimates and key sources of estimation uncertainty

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

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

### Key judgements – Deferred receivables from sale of BFS

The fair value of the deferred receivables from the sale of BFS business at 30 June 2018 has incorporated assumptions regarding:

- Recurring revenue;
- Risk free rate;
- Credit Risk; and
- Commercial and Market Risk.

This involves the exercise of judgement regarding the likelihood and magnitude of future outcome of events.

## Comparative figures

Comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## New and revised Australian Accounting Standards and Interpretation on issue but not yet effective

New and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) which are not mandatory for the 30 June 2018 reporting period have not yet been applied in these financial statements. The Group's assessment of the impact of these new Standards and Interpretations are as below:

### AASB 9 – *Financial Instruments (applicable to annual reporting periods beginning on or after 1 January 2018)*

AASB 9 applies to annual periods beginning on or after 1 January 2018 and introduces an expected credit loss model to assess impairment of financial instruments and a new Business Model test to combine with Solely Payments of Principal and Interest (SPPI) test in classifying financial instruments. The Group will adopt AASB 9 from 1 July 2018 retrospectively and does not intend to restate comparatives for prior periods. Based on the initial risk assessment of the Group's financial instruments under AASB 9, the directors of the Group anticipate that there are no material changes in classification and measurement of its financial assets and the financial impact to the Group is expected to be immaterial.

### AASB 15 – *Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018)*

Under AASB 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group recognises the following two major sources of revenue on the platform to be assessed:

- Services provided to investors which include administration of their investments
- Services provided to fund managers which include listing of the products issued by fund managers on the platform.

As part of AASB 15 assessment, the Group will apply the following 5-step approach to revenue recognition:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract(s);
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation in the contract(s); and
5. Recognise revenue when (or as) the performance obligations are satisfied.

The Group has reviewed a representative sample of contracts on all its businesses to identify potential changes in:

- Timing of revenue recognition;
- Measurement of the amounts of revenue; and
- The note disclosure between the old revenue standard (AASB 118) and the new revenue standard (AASB 15).

The Group services investors on Netwealth's Platform. This means that the Group is responsible for providing continuing services for as long as the investor's funds remain on Netwealth's Platform. Under AASB 118, the Group recognises revenue daily once each service has been provided to the investor. Under AASB 15, Platform Administration services is held to being completed on an ongoing daily basis. Therefore, the revenue recognition is the same. If the standard was applied now, the impact is immaterial at 30 June 2018.

The Group also services fund managers and their products on Netwealth's Platform. This means that the Group is responsible for providing fixed period of service for the duration set out with the fund manager. Under AASB 118, the Group recognises revenue throughout the duration of the service. Whereas under AASB 15, Listing Fund/Models on the Platform and Product Access are required to be accounted for as separate performance obligation with revenue recognised over time as the service is rendered.

Under the contract held with investors, there is only one performance obligation. Under the contract held with Fund Managers, there is only one performance obligation.

The Group will adopt the full retrospective approach upon transition to AASB 15. As a result, the Group will apply all of the requirements of AASB 15 to each comparative period except for any completed contracts in the comparative period.

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

As at 30 June 2018, the Group has determined it has non-cancellable lease of $4.3 million and is not required to recognise the lease liability of future payments or measure the right of use of an asset, as it continues to account for its leases under AASB 117.

A preliminary assessment for the transition to AASB 16 has identified that the Group's only lease was premises leases, which is currently recognised as an operating lease expense. There are no other leases as all assets are purchased outright and there are no subleasing agreements with third parties.

These leases meet the definition of a 'lease' under AASB 16, and when transitioning to AASB 16 Netwealth will choose to adopt the modified retrospective approach and recognise a lease liability and right of use of an asset for these leases from the date of adoption.

NPAT is not expected to materially change, however, EBITDA will be impacted as the operating lease expense associated with these leases will no longer be recognised in the Income statement and will be replaced by a depreciation charge on the right of use of an asset and an interest expense charge on the lease liability.

As NPAT is used by Netwealth to measure profitability and reward financial performance, there will not be a materiel impact on KMP remuneration. The current lease agreements contain renewal options which the Group is reasonably certain will be exercised. These renewal options will be taken into consideration when the Group reports under the new lease standard.

The Group is intending to report under the new leasing standard for the full year ending 30 June 2020 (interim financial report 31 December 2019).

## 3. Segment information

The consolidated entity is organised into one reportable operating segment.

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

All the Group's operations are based in Australia.

## 4. Listing, restructure and capital reorganisation

Netwealth Group Limited, the ultimate holding company of the Group was listed on the ASX on 20 November 2017.

Prior to the listing, there was a restructure (the Restructure) and capital reorganisation (the Capital Reorganisation). Netwealth Holdings Limited (NHL) (previously known as Netwealth Group Limited) was previously the parent company of the Group. On 30 June 2017, Netwealth Group Limited (NGL) was newly incorporated. On 20 November 2017, the Restructure superimposed NGL as the holding company of NHL and NGL became ultimate holding company of the Group when the Restructure and Capital Reorganisation were completed.

The Capital Reorganisation comprised:

- a pre-completion dividend of $8.3 million paid to holders of shares in NHL on 16 October 2017;
- conversion of Foundation shares and A Class shares to ordinary shares in NHL;
- exercise of certain options held in respect of ordinary shares and issue of ordinary shares in NHL;
- payment for amounts outstanding on partly paid ordinary shares in NHL making them fully paid ordinary shares; and
- splitting each share in NHL into seven corresponding shares in NHL.

The comparative financial information presented in the financial statements was that of Netwealth Holdings Limited (previously known as Netwealth Group Limited). Refer to Note 19 for further information on the movement in Issued Capital because of the Restructure.

## 5. Revenue from continuing operations

### Revenue and Other Income

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Revenue** | | |
| Platform Revenue | 81,460 | 60,637 |
| **Total platform revenue** | **81,460** | **60,637** |
| **Other Income** | | |
| Net gain on disposal of investments | 171 | 106 |
| Unrealised investments gains | 3 | 36 |
| Dividends and distributions received | 29 | 33 |
| Interest received | 617 | 434 |
| Cost of capital recovery | 911 | – |
| Other Income | 69 | 5 |
| **Total other income** | **1,800** | **614** |
| **Total income** | **83,260** | **61,251** |

### Key Accounting Policies

Revenue is measured at the fair value of the consideration received or receivable. All revenue is stated net of the amount of goods and services tax (GST).

Revenue comprises of:

Platform Revenue

- Administration Fees is recognised when the underlying activity is completed;
- Management Fees is recognised when the underlying activity is completed;
- Transaction services is recognised when the underlying activity is completed; and
- Service Fees is received upfront but is only recognised as revenue over a fixed duration of time as the associated activities is completed.

Other Income

- Gain from disposal of investments is recognised when the asset has been disposed of;
- Unrealised gains from investments is recognised when the fair value of the underlying asset has increased but not been disposed of;
- Dividend revenue is recognised when the right to receive a dividend has been established;
- Cost of capital recovery is recognised when the right to receive the fee has been established; and
- Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that discounts the estimated future cash receipt thorough the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 6. Expenses from continuing operations

### 6.1 Employee benefits expense

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Salaries and wages (including payroll tax) | 24,804 | 20,182 |
| Contributed superannuation | 2,020 | 2,405 |
| Share-based payment expense | 66 | 141 |
| Other employee benefits expenses | 1,849 | 2,071 |
| **Total employee benefits expenses** | **28,739** | **24,799** |

## 6.2 Occupancy expenses

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Operating lease expense | 1,394 | 1,236 |
| Other occupancy expenses | 293 | 294 |
| **Occupancy expenses** | **1,687** | **1,530** |

## 6.3 Other operating expenses

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Operating expenses | 8,215 | 8,624 |
| Costs associated with the Group's Initial Public Offering | 12,422 | 238 |
| **Total other operating expenses** | **20,637** | **8,862** |

### Key Accounting Policies

Short-term employee benefits

Current liabilities for wages and salaries (other than termination benefits) that are expected to be settled wholly within 12 months after the end of the annual reporting period for the employees' services rendered. They are measured at the amounts expected to be paid when the obligation is settled.

Other Long-term employee benefits

Long service leave are long-term employee benefits, where they are not expected to be settled wholly within 12 months after the end of the annual reporting period for the employees' services rendered. It is measured at the present value of the probability on expected future payments to be made to employees and are discounted at rates determined by reference to Group of 100 (G100) discount rate.

They are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Retirement benefit obligations

All employees of the Group receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution to the employee's superannuation fund of choice.

Operating Lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 7. Income Taxes relating to continuing operations

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| a) The components of tax expense(income) comprise: | | |
| Current Tax | 13,269 | 7,603 |
| Deferred Tax | (3,681) | (266) |
| Under/(Over) provision from prior years | (16) | (71) |
| | **9,572** | **7,266** |
| b) The prima facie tax on profit before income tax is reconciled to income tax as follows:<br>Prima facie tax before income tax at 30% (2017:30%): | 8,756 | 7,077 |
| Impact from tax consolidation | 736 | – |
| Other non-allowable/assessable items | 80 | 189 |
| Non-deductible impairment | – | – |
| **Income tax expense attributable to entity** | **9,572** | **7,266** |
| c) The components of deferred tax assets comprise: | | |
| Tax Losses | 820 | – |
| Expenditure deductible over 5 years | 4,838 | 2,431 |
| Temporary differences | 1,727 | 1,737 |
| | **7,385** | **4,168** |
| d) The components of deferred tax liabilities comprise: | | |
| Property, Equipment and Intangible Assets | 623 | – |
| FVTPL Financial Assets | 203 | – |
| Temporary differences | 33 | 42 |
| | **859** | **42** |

| | Effective Tax Rate | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| Consolidated Group | 32.8% | 30.2% |

The effective tax rate for the year ended 30 June 2018 is higher than prior year due to the tax expense arising from the election to form a tax consolidated group. The effective tax rate excluding this for the year ended 30 June 2018 is 30.3%.

| | Opening Balance $'000 | Charged to Income $'000 | Charged Directly to Equity $'000 | Transferred to assets held for sale $'000 | Closing Balance $'000 |
|---|---|---|---|---|---|
| **Deferred Tax Assets/Liabilities** | | | | | |
| Expenditure deductible over 5 years | 1,109 | 1,322 | – | – | 2,431 |
| Provision | 3,300 | (1,792) | – | – | 1,508 |
| Tax Losses | 1 | 298 | – | (299) | – |
| Other temporary difference | (1,052) | 438 | – | 801 | 187 |
| **Balance at 30 June 2017** | **3,358** | **266** | **–** | **502** | **4,126** |
| Expenditure deductible over 5 years | 2,431 | 2,407 | – | – | 4,838 |
| Provision | 1,508 | (12) | – | – | 1,496 |
| Tax Losses | – | 820 | – | – | 820 |
| Property, Plant & Equipment and Intangible Assets | – | (623) | – | – | (623) |
| FVTPL Financial Assets | – | (203) | – | – | (203) |
| Other temporary differences | 187 | 11 | – | – | 198 |
| **Balance at 30 June 2018** | **4,126** | **2,400** | **–** | **–** | **6,526** |

### Key Accounting Policies

The income tax expense/(income) for the year comprises current income tax payable/receivable and deferred tax expense/(income).

#### Current tax

The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## Offsetting within tax consolidated group

Netwealth and its wholly-owned subsidiaries have applied the tax consolidation legislation which mean that these entities are taxed as a single entity. As a consequences, the deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

Key Accounting Policies

Netwealth Group Limited and its wholly-owned Australian subsidiaries formed an income tax consolidated group under the tax consolidation legislation with effect from 30 June 2018. Netwealth Group Limited is the head entity of the Group.

The tax consolidated group has entered a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. Amounts payable or receivable under the tax-funding arrangement between the company head entity and the entities in the tax consolidated group are determined using the 'standalone taxpayer method' approach for allocation of the tax contributions payable or receivable by each member of the tax-consolidated group.

This approach results in the tax effect of transactions being recognised in the legal entity where the transaction occurred and does not affect transactions that do not have tax consequences to the group.

Each entity in the Group recognises its own current and deferred tax assets and liabilities. Current tax liabilities/(assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity as under Australian taxation law, the head entity has the legal obligation (or right) to these amounts.

## 8. Key Management Personnel Compensation

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Short term employee benefits | 1,501 | 1,257 |
| Post-employment benefits | 112 | 90 |
| Share based payments | 22 | 17 |
| **Key Management Personnel compensation** | **1,635** | **1,364** |

The totals represent the remuneration paid to key management personnel (KMP) of the Group during the year, being paid by Netwealth Group Services Pty Ltd, a subsidiary of the company. Remuneration disclosures are provided in the 'Remuneration Report' on pages 30 to 39 of the Annual Report.

## 9. Dividends

Dividends paid or declared by the Company in the year ended 30 June 2018 were:

| | Cents Per Share | Total Amount $'000 | % Franked | Date of Payment |
|---|---|---|---|---|
| **2018** | | | | |
| Interim 2018 ordinary[1] | 3.77 | 8,300 | 100% | 16 Oct 2017 |
| **Total dividends** | **3.77** | **8,300** | | |
| **2017** | | | | |
| Final 2017 ordinary[2] | 2.17 | 4,555 | 100% | 25 Nov 2016 |
| | **2.17** | **4,555** | | |

1 Interim dividend was 26.39 cents per share at time of payment, however, has been expressed in comparative terms following a one to seven share split prior to the IPO.

2. Final dividend was 15.16 cents per share at time of payment, however, has been expressed in comparative terms following a one to seven share split prior to the IPO.

During the year, the Group declared on 12 October 2017 and paid on 16 October 2017 a fully franked pre-completion dividend of 26.39 cents per share (3.77 cents per share is the comparative payment following a one to seven share split prior to the IPO) representing a total dividend of $8,300,000. There is no DRP.

### Franking credits

Franking credits available to shareholders of the Company amount to $17,804,548 (2017: $16,104,446) at the 30 percent (2017: 30 percent) corporate tax rate.

### Subsequent Events

Since the end of the financial year, the Company declared the following dividends on 27 August 2018. The dividend has not been provided for as at 30 June 2018 and there are no tax consequences.

| | Cents Per Share | Total Amount $'000 | % Franked | Date of Payment |
|---|---|---|---|---|
| Final 2018 ordinary | 5.38 | 12,790 | 100% | 27 Sep 2018 |
| Special 2018 ordinary | 5.18 | 12,300 | 100% | 27 Sep 2018 |
| **Total dividends** | **10.56** | **25,090** | | |

## 10. Earnings per share

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 Cents per share[1] | 30 June 2017 Cents per share[1] |
| Basic earnings per share | | |
| From continuing operations | 8.44 | 7.47 |
| From discontinued operations | 0.52 | (1.27) |
| **Total basic earnings per share** | **8.96** | **6.20** |
| Diluted earnings per share | | |
| From continuing operations | 8.44 | 7.42 |
| From discontinued operations | 0.52 | (1.26) |
| **Total diluted earnings per share** | **8.96** | **6.16** |

1 Weighted average number of ordinary shares has been adjusted to reflect the splitting the ordinary shares has already occurred at the beginning of each period to allow for comparisons.

## 10.1 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:

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Profit for the year attributable to owners of the Company | 20,818 | 13,554 |
| Earnings used in the calculation of basic earnings per share | 20,818 | 13,554 |
| Loss/(Gain) for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations | (1,201) | 2,772 |
| **Earnings used in the calculation of basic earnings per share from continuing operations** | **19,617** | **16,326** |
| | 30 June 2018 Number | 30 June 2017 Number |
| Weighted average number for ordinary shares of the purpose of basic earnings per share[1] | 232,282,857 | 218,669,026 |

1 Weighted average number of ordinary shares has been adjusted to reflect the splitting the ordinary shares has already occurred at the beginning of each period to allow for comparisons.

## 10.2 Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Earnings used in the calculation of diluted earnings per share | 20,818 | 13,554 |
| Loss/(Gain) for the year from discontinued operations used in the calculation of diluted earnings per share from discontinued operations | (1,201) | 2,772 |
| **Earnings used in the calculation of basic earnings per share from continuing operations** | **19,617** | **16,326** |

The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows.

| | 30 June 2018 Number | 30 June 2017 Number |
|---|---|---|
| Weighted average number of ordinary shares of the purpose of basic earnings per share | 232,282,857 | 218,699,026 |
| *shares deemed to be issued for no consideration in respect of:* | | |
| Unvested A class shares | – | 1,178,800 |
| Employee options | – | 84,848 |
| **Weighted average number for ordinary shares used in the calculation of diluted earnings per share[1]** | **232,282,857** | **219,962,674** |

1 Weighted average number of ordinary shares has been adjusted to reflect the splitting the ordinary shares has already occurred at the beginning of each period to allow for comparisons.

The potential effect of the platinum performance shares are considered anti-dilutive and were not included in the computation of diluted EPS.

## 11. Cash and Cash Equivalents

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Cash at bank and on hand | 52,669 | 34,340 |
| Cash and bank balances included in assets held for sale# | – | 649 |
| **Cash and cash Equivalents*** | **52,669** | **34,989** |

* Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are reconciled to the consolidated statement of financial position.

\# Refer to Note 22.7 for discontinued operations cash movement

There are no restrictions with respect to access to the cash and cash equivalent balances shown.

## 12. Trade and Other Receivables

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Product Account Receivables | 5,733 | 4,668 |
| Trade and Sundry Receivables | 226 | 730 |
| **Total Current Receivables** | **5,959** | **5,398** |
| **Total Trade and Other Receivables** | **5,959** | **5,398** |
| **Trade and Other Receivables Classified as Financial Assets*** | **5,959** | **5,398** |

* Refer to Note 23 for further information about Financial Assets

## 13. Other Current Assets

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Accrued Income | 1,148 | 250 |
| Prepayments | 1,270 | 992 |
| Other Receivables | 92 | – |
| **Total Other Current Assets** | **2,510** | **1,242** |

## 14. Financial Assets

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| FVTPL* financial assets | 7,833 | 912 |
| **Total Financial Assets** | **7,833** | **912** |
| Current | 5,606 | 912 |
| Non-current | 2,227 | – |
| **Total Financial Assets** | **7,833** | **912** |

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| FVTPL* financial assets comprise at fair value: | | |
| Netwealth Managed funds | 16 | 16 |
| Netwealth Wrap and Super Accounts | 750 | 845 |
| Other Investments# | 7,067 | 51 |
| **Total FVTPL financial assets** | **7,833** | **912** |

* Fair Value through Profit or Loss (FVTPL)

\# On 1 March 2018, a binding, non-conditional agreement was entered for the disposal of the BFS business to an external third party (purchaser) resulting in two remaining deferred payments to be received from the purchaser with 24 months as disclosed in Note 22. These deferred payments receivable can vary as it was calculated based on the estimated recurring revenue. As part of the wind down of BFS, the remaining deferred payments rights were assigned to the parent entity at the equivalent fair value of $7.0 million.

## 15. Property and Equipment

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Carrying amount of: | | |
| Leasehold improvements | 2,077 | 1,988 |
| Equipment | 782 | 625 |
| **Total Property and Equipment** | **2,859** | **2,613** |

| | Leasehold Improvements $'000 | Equipment $'000 | Total $'000 |
|---|---|---|---|
| Cost | | | |
| Balance at 30 June 2016 | 2,505 | 1,800 | 4,305 |
| Additions | 790 | 333 | 1,123 |
| Disposals | (220) | (170) | (390) |
| **Balance at 30 June 2017** | **3,075** | **1,963** | **5,038** |
| Additions | 436 | 475 | 911 |
| Disposals | (138) | (101) | (239) |
| **Balance at 30 June 2018** | **3,373** | **2,337** | **5,710** |

| | Leasehold Improvements $'000 | Equipment $'000 | Total $'000 |
|---|---|---|---|
| Accumulated Depreciation | | | |
| Balance at 30 June 2016 | (954) | (1,151) | (2,105) |
| Disposals | 120 | 105 | 225 |
| Depreciation expense | (253) | (292) | (545) |
| **Balance at 30 June 2017** | **(1,087)** | **(1,338)** | **(2,425)** |
| Disposals | 89 | 99 | 188 |
| Depreciation expense | (298) | (316) | (614) |
| **Balance at 30 June 2018** | **(1,296)** | **(1,555)** | **(2,851)** |
| Net Carrying Amount | | | |
| At 30 June 2017 | 1,988 | 625 | 2,613 |
| **At 30 June 2018** | **2,077** | **782** | **2,859** |

## Key Accounting Policies

Each class of property and equipment is carried at cost less, any accumulated depreciation and impairment losses.

### Leasehold Improvements

Leasehold improvements are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses.

Repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

### Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Depreciation is recognised in profit or loss.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Leasehold improvements | 10% |
| Office equipment | 20% |
| Computer equipment | 25% to 33% |
| Laptop computers and software | 33.33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

### Gains or losses on disposal

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss in the period in which they arise.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

## 16. Intangible Assets

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Carrying amount of: | | |
| Non-contractual customer relationships | 300 | – |
| Software and website developments costs | 43 | 107 |
| **Total Intangibles** | **343** | **107** |

| | Goodwill $'000 | Customer Relationship $'000 | Trademarks $'000 | Software and website $'000 | Total $'000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 30 June 2016 | 9,837 | 12,120 | 293 | 5,293 | 27,543 |
| Additions | – | – | – | – | – |
| Transfer to assets held for sale | (9,837) | (12,120) | (293) | (17) | (22,267) |
| **Balance at 30 June 2017** | **–** | **–** | **–** | **5,276** | **5,276** |
| Additions | – | 300 | – | – | 300 |
| Disposals | – | – | – | – | – |
| **Balance at 30 June 2018** | **–** | **300** | **–** | **5,276** | **5,576** |

| | Goodwill $'000 | Customer Relationship $'000 | Trademarks $'000 | Software and website $'000 | Total $'000 |
|---|---|---|---|---|---|
| Accumulated Amortisation and Impairment | | | | | |
| Balance at 30 June 2016 | (2,178) | (4,920) | – | (5,090) | (12,188) |
| Amortisation | – | (997) | – | (79) | (1,076) |
| Impairment | – | (2,331) | – | – | (2,331) |
| Transfer to assets held for sale | 2,178 | 8,248 | – | – | 10,426 |
| **Balance at 30 June 2017** | **–** | **–** | **–** | **(5,169)** | **(5,169)** |
| Amortisation | – | – | – | (64) | (64) |
| Impairment | – | – | – | – | – |
| **Balance at 30 June 2018** | **–** | **–** | **–** | **(5,233)** | **(5,233)** |

## Acquisition of Customer Relationship

On 1 March 2018, a binding, non-conditional agreement was entered into for the acquisition of a book of potential platform clients, with the responsible entity of a managed account managed investment scheme which is based on the extent of customers' choosing to transition to Netwealth's Platform. The customer relationship is to be amortised over 5 years on a straight-line basis.

### Key Accounting Policies

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

#### Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss.

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Intangible assets with either indefinite useful lives or not yet available for use are tested for impairment at least annually.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### Amortisation

The amortisation amount of all intangibles is amortised on a straight-line basis over the intangible's useful life to the Group commencing from the time the asset is held ready for use. Amortisation is recognised in profit or loss.

The amortisation rates used for each class of amortisable assets are:

| Class of Intangibles | Amortisation Rate |
|---|---|
| Customer Relationships | 20% |
| Software and website | 20% |

## 17. Trade and Other Payables

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Financial Liabilities measured at Amortised Cost: | | |
| Trade Payables | 4,444 | 4,916 |
| GST Payables/(Receivables) | (161) | 268 |
| Other Payables | 7 | 41 |
| **Total Financial Liabilities Measured at Amortised Cost** | **4,290** | **5,225** |
| Financial Liabilities at amortised costs classified as trade and other payables | | |
| Total financial Liabilities at amortised cost | 4,290 | 5,225 |
| Less: | | |
| GST Payable/(Receivables) | (161) | 268 |
| **Total Financial Liabilities as Trade and Other Payables** | **4,451** | **4,957** |

### Key Accounting Policies

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included as part of trade and other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST component of operating cash flows is included in receipts from customers or payments to suppliers.

## 18. Provisions

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Employee benefits | 3,169 | 2,631 |
| Legal and other associated costs | 619 | 1,000 |
| Other provisions | 285 | 292 |
| **Total Provisions** | **4,073** | **3,923** |
| Current | 3,490 | 3,494 |
| Non-current | 583 | 429 |
| **Total Provisions** | **4,073** | **3,923** |

| | Employee Benefits $'000 | Legal and Other Associated Costs $'000 | Other Provisions $'000 | Total Provisions $'000 |
|---|---|---|---|---|
| Analysis of Provisions Consolidated Group | | | | |
| Balance at 30 June 2017 | 2,631 | 1,000 | 292 | 3,923 |
| Additional amounts raised during the year | 2,293 | – | (7) | 2,286 |
| Amount used or reversed during the year | (2,055) | (381) | – | (2,436) |
| Transferred to assets held for sale | 300 | – | – | 300 |
| **Balance at 30 June 2018** | **3,169** | **619** | **285** | **4,073** |

## 18.1 Provision for employee benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave. The current portion for this provision includes the total amount accrued for annual leave entitlements and amounts accrued for long service leave is pro-rata amount accrued based on current years of service, adjusted for an assumed rate of salary increase and discounted to allow for when the leave is expected to be taken. Based on past experience the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months.

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Current | | |
| Annual leave | 1,548 | 1,207 |
| Long service leave | 1,038 | 995 |
| **Total Current Employee Provisions** | **2,586** | **2,202** |
| Non-current | | |
| Long service leave | 583 | 429 |
| **Total Non-current Employee Provisions** | **583** | **429** |
| **Total Employee Provisions** | **3,169** | **2,631** |

### 18.2 Provisions for Legal and other Associated Costs

As part of the sale of APS, the Group has agreed to indemnify APS in respect of claims, up to an amount of $1.0 million. As at 30 June 2018, a provision of $619,008 remains to cover probable outflows in relation to claims in the previous financial year, which had been disclosed in the 2017 annual financial report. No further indemnities or warranties in relation to the liabilities of APS or litigation against APS were provided to the purchaser.

### Other Provisions

A provision of $0.3 million has been recognised for the cost to make good premises that the company has an obligation under existing lease commitments.

#### Key Accounting Policies

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of the time value of money is material, provision is discounted using the current pre-tax rate that reflects the risks specific to the liability.

## 19. Issued capital

Issued capital comprised:

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| 237,679,816 Fully Paid Ordinary shares (June 2017: 29,662,249) | 879,415 | 19,824 |
| Nil Partly Paid Ordinary shares (June 2017: 3,000,000) | – | 506 |
| Nil Class 'A' shares (June 2017: 352,869) | – | 550 |
| Nil Foundation shares (June 2017: 890,000) | – | 255 |
| 6,457,500 Performance shares (June 2017: 937,500) | 3,095 | 3,095 |
| **Total share capital** | **882,510** | **24,230** |
| Restricted shares | (3,743) | (4,025) |
| Reorganisation reserve | (855,508) | – |
| **Issued capital** | **23,259** | **20,205** |

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

| | Consolidated group | |
|---|---|---|
| | 30 June 2018 Number | 30 June 2017 Number |
| **Fully Paid Ordinary shares** | | |
| At the beginning of the reporting period | 29,662,249 | 29,623,787 |
| shares issued during the year | – | 38,462 |
| Converted from Partly Paid Ordinary shares | 3,000,000 | – |
| Converted from Class 'A' shares | 352,869 | – |
| Converted from Foundation shares | 890,000 | – |
| Exercised option to convert | 40,000 | – |
| **At the end of the reporting period prior to IPO** | **33,945,118** | **29,662,249** |
| Splitting of shares (seven shares for every one share) | 203,670,708 | – |
| Employee share gift issued at IPO | 63,990 | – |
| **At the end of the reporting period post IPO** | **237,679,816** | **29,662,249** |
| Shares with value | 233,930,359 | 29,155,794 |
| **Restricted shares** | **3,749,457** | **506,455** |
| **Performance shares** | | |
| At the beginning of the reporting period | 937,500 | – |
| shares issued during the year | – | 937,500 |
| shares cancelled during the year | (15,000) | – |
| **At the end of the reporting period prior to IPO** | **922,500** | **937,500** |
| Splitting of shares (seven shares for every one share) | 5,535,000 | – |
| **At the end of the reporting period post IPO** | **6,457,500** | **937,500** |
| **Restricted shares** | **6,457,500** | **937,500** |

The company has issued share capital amounting to 237,679,816 Ordinary shares (2017: 29,662,249 shares) of no par value and 6,457,500 Performance shares (2017: 937,500 shares) of no par value. As part of the capital reorganisation, each share on issue was split into seven shares. An additional new 63,990 ($236,763) Fully Paid Ordinary shares were issued as part of the Employee Gift Offer.

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

During the year, all remaining Partly Paid Ordinary shares were paid up and converted into Fully Paid Ordinary shares. Class 'A' shares and Foundation shares were also converted into Fully Paid Ordinary on a 1:1 basis.

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018<br>Number | 30 June 2017<br>Number |
| **Partly Paid Ordinary shares** | | |
| At the beginning of the reporting period | 3,000,000 | 3,000,000 |
| Converted to Fully Paid Ordinary shares | (3,000,000) | – |
| **At the end of the reporting period** | **–** | **3,000,000** |
| **Class 'A' shares** | | |
| At the beginning of the reporting period | 352,869 | 352,869 |
| Converted to Fully Paid Ordinary shares | (352,869) | – |
| At the end of the reporting period | – | 352,869 |
| **Restricted shares** | **–** | **352,869** |
| **Foundation shares** | | |
| At the beginning of the reporting period | 890,000 | 890,000 |
| Converted to Fully Paid Ordinary shares | (890,000) | – |
| **At the end of the reporting period** | **–** | **890,000** |

Key Accounting Policies
Ordinary shares are classified as equity. The incremental costs directly attributable to the issue of new equity instruments are expensed, net of GST, in the consolidated statement of profit or loss and other comprehensive income

## 20. Reserves

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
| Share reserve | 778 | 712 |

The Share Reserve records the fair value of shares granted via Share-based Payment transactions.

## 21. Controlled Entities

| | Country of Incorporation | Percentage Owned 30 June 2018 % | Percentage Owned 30 June 2017 % |
|---|---|---|---|
| **Subsidiaries of Netwealth Group Limited** | | | |
| Netwealth Holdings Limited | Australia | 100 | 100 |
| **Subsidiaries of Netwealth Holdings Limited** | | | |
| Netwealth Investment Limited | Australia | 100 | 100 |
| Netwealth Group Services Pty Ltd | Australia | 100 | 100 |
| Bridgeport Financial Service Pty Ltd | Australia | 100 | 100 |
| Netwealth Advice Group Pty Ltd | Australia | 100 | 100 |
| **Subsidiaries of Netwealth Investment Limited** | | | |
| Australian Planning Services Pty Ltd | Australia | – | 100 |
| **Subsidiaries of Netwealth Advice Group Limited** | | | |
| Pathway Licensee Service Pty Ltd | Australia | 100 | 100 |

Netwealth Group Limited, a newly incorporated company on 30 June 2017, was superimposed as the holding company of Netwealth Holdings Limited (previously Netwealth Group Limited) on 20 November 2017, becoming the ultimate holding company of the Group. Netwealth was listed on the ASX on 20 November 2017. Refer to Note 4 for further information.

Subsidiary financial statements of Netwealth Investment Limited used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements. Refer to page 45 on the 'Principles of Consolidation'.

## 22. Divestments and discontinued operations

### 22.1 Disposal of non-core businesses

The Group has divested its interests held in non-core businesses BFS, PLS, Netwealth Advice Group Pty Ltd (NAG) and APS. Collectively, they were recognised as the Group's Discontinued Operations as at 30 June 2018. The Group recognised an additional impairment loss of $627,000 in respect of the Pathway business which represents the reduction in the sale proceeds.

### 22.2 Analysis of divestment of APS

On 19 September 2017, a binding, non-conditional agreement was entered disposing of all the issued share capital in APS to an entity associated with Michael Heine, the JMD. The consideration was $1, which represented APS's carrying value, being the fair value of the entity. Completion occurred on 20 October 2017. As part of the sale, the Group has agreed to indemnify APS in respect of claims, up to an amount of $1.0 million which has been disclosed in the 2017 annual financial report. As at 30 June 2018, $380,992 of the $1.0 million has been utilised. No further indemnities or warranties in relation to the liabilities of APS or litigation against APS were provided to the purchaser.

The (loss)/profit for the year from the discontinued operation is analysed as follows:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| (Loss)/Profit from dealer services operations | (193) | 352 |

The following were the results of the operations for the year:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| **Profit for the year from discontinued operations** | | |
| Revenue | 45 | 264 |
| Other income | 159 | 800 |
| **Total income** | **204** | **1,064** |
| **Total expenses** | **(98)** | **(561)** |
| (Loss)/Profit before tax | 106 | 503 |
| Attributable income tax expense* | (299) | (151) |
| **(Loss)/Profit after tax** | **(193)** | **352** |

* $0.3 million of DTA has been reversed as prior year tax losses cannot be utilised by the Group from APS exiting the Group

## 22.3 Analysis of divestment of BFS business

On 1 March 2018, a binding, non-conditional agreement was entered into for the disposal of the business to an external third party (purchaser). The estimated total consideration was $12.4 million, of which $4.8 million has been received. The remaining payments[14] for the sale is subject to change as it is dependent on the performance of the business sold. Completion also occurred on 1 March 2018. As part of the sale, the Group has transitioned the Canberra office lease and the agreed upon employees across to the purchaser with their prospective entitlements. The transferring employee entitlements were adjusted against the purchase price.

The profit/(loss) for the year from the discontinued operation is analysed as follows:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Profit/(Loss) from financial planning advice | 1,654 | (222) |

The following were the results of the operations for the year:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| **Profit for the year from discontinued operations** | | |
| Revenue | 2,876 | 4,637 |
| Other income | 1,125 | 2 |
| **Total income** | **4,001** | **4,639** |
| **Total expenses** | **(2,447)** | **(4,868)** |
| Profit/(loss) before tax | 1,554 | (229) |
| Attributable income tax expense | 100 | 7 |
| **Profit/(Loss) after tax** | **1,654** | **(222)** |

14 The deferred consideration has been recognised as a financial asset with a fair value of $7.1M as at 30 June 2018.

## 22.4 Analysis of divestment of PLS

On 1 April 2018, a binding, non-conditional agreement was entered disposing of the business to an external third party (purchaser). The consideration was $0.3 million, which represented PLS's carrying value, being the fair value of the intangibles. Completion occurred on 1 April 2018. As part of the sale, the Group has agreed to transition the agreed upon employees across to the purchaser with their prospective entitlements. No consideration was paid for the transfer of employee entitlements.

The profit/(loss) for the year from the discontinued operation is analysed as follows:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Profit/(Loss) from financial planning software support & professional development services | 367 | 133 |

The following were the results of the operations for the year:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| **Profit for the year from discontinued operations** | | |
| Revenue | 3,454 | 4,818 |
| Other income | 359 | 645 |
| **Total income** | **3,813** | **5,463** |
| **Total expenses** | **(3,289)** | **(5,260)** |
| Profit/(loss) before tax | 524 | 203 |
| Attributable income tax expense | (157) | (70) |
| **Profit/(Loss) after tax** | **367** | **133** |

## 22.5 Analysis of divestment of NAG

NAG is the holding company of PLS and does not have its own operations. It only received distribution of dividends from PLS during the financial year.

The profit/(loss) for the year from the discontinued operation is analysed as follows:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Profit/(Loss) from distributions from PLS | 245 | – |

The following were the results of distributions received from PLS for the year:

| | 30 June 2018 $'000 | 30 June 2017 $'000 |
|---|---|---|
| **Profit for the year from discontinued operations** | | |
| Revenue | – | – |
| Other income | 245 | – |
| **Total income** | **245** | **–** |
| **Total expenses** | **–** | **–** |
| Profit/(loss) before tax | 245 | – |
| Attributable income tax expense | – | – |
| **Profit/(Loss) after tax** | **245** | **–** |

## 22.6 Analysis of profit for the year from discontinued operations

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Profit for the year from discontinued operations** | | |
| Revenue | 6,375 | 9,382 |
| Other income | 201 | 846 |
| Gain on sale of business | 815 | – |
| Total income | 7,391 | 10,228 |
| Other expenses | (5,834) | (13,309) |
| Profit/(loss) before tax | 1,557 | (3,081) |
| Attributable income tax expense | (356) | 309 |
| Profit/(Loss) after tax | 1,201 | (2,772) |
| **Profit/(Loss) for the year from discontinued operations (attributable to owners of the Company)** | **1,201** | **(2,772)** |

## 22.7 Analysis of Asset and liabilities associated with discontinued operations operation held for sale

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Intangible assets | – | 11,840 |
| Deferred tax assets | – | 877 |
| Other current assets | – | 320 |
| Trade and other receivables | 52 | 1,070 |
| Cash and cash equivalent | – | 650 |
| **Assets held for sale** | **52** | **14,757** |
| Trade payables | – | 447 |
| Provisions | – | 300 |
| Current tax liabilities | 60 | 117 |
| Deferred tax liabilities | – | 1,378 |
| **Liabilities associated with assets held for sale** | **60** | **2,242** |
| **Net Liabilities of Businesses Classified as Held for Sale*** | **(8)** | **12,515** |

* There is $38,985 of intercompany loans which are owed to discontinued operations which have been eliminated on consolidation

## 22.8 Analysis of cash flows associated with discontinued operations held for sale

| | Consolidated Group | |
|---|---|---|
| **Cash flows for the year from discontinued operations** | 30 June 2018 $'000 | 30 June 2017 $'000 |
| Net cash outflows from operating activities | (9,919) | (6,070) |
| Net cash inflows from investing activities | 12,188 | – |
| Net cash outflows from financing activities | (2,918) | – |
| **Net cash outflows** | **(649)** | **(6,070)** |

### Key Accounting Policies

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

# 23. Financial Instruments

## 23.1 Capital management

Management controls the capital of the Group to ensure that the Group can fund its operations and continue as a going concern while maintaining an appropriate debt to equity ratio.

The Group's capital and debt includes share capital, retained earnings, and financial liabilities, supported by financial assets. The Group's financial liabilities are Trade and Other Payables and Borrowings.

Management manages the Group's capital by assessing the Group's financial risks and commitments and adjusting its capital structure in response to these risks and the market.

There have been no changes in the strategy adopted by management to control the capital of the Group during the financial year.

Under the RSE Licenses granted by APRA, the parent entity is required to maintain sufficient level of capital known as Operational Risk Financial Requirements (ORFR) to cover operational risk. Combined with ASIC's RG166 capital requirements for Australian Financial Services Licensees, the parent entity was required to maintain a minimum of $28.3M in net tangible assets as at 30 June 2018. The Group satisfied these requirements at all time during the year.

## 23.2 Categories of financial instruments

The Group's financial instruments consist mainly of deposits with banks, local money markets investments, short term investments, accounts receivable and payable. For the year ended 30 June 2018, the Group does not utilise derivatives, holds no debt and has not traded in financial instruments including derivatives other than listed and unlisted securities. The carrying amount for each category of financial instruments, measured in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, as detailed in the accounting policies to these financial statements, are as follows:

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Financial Assets** | | |
| Cash and Cash Equivalents | 52,669 | 34,340 |
| Trade and Other Receivables | 5,959 | 5,398 |
| Financial Assets | 7,833 | 912 |
| **Total Financial Assets** | **66,461** | **40,650** |
| **Financial Liabilities** | | |
| Trade and Other Payables | 4,290 | 5,225 |
| **Total Financial Liabilities** | **4,290** | **5,225** |

## 23.3 Financial risk management objectives

The Board's overall risk management strategy seek to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board on a regular basis. These include the credit risk policies and future cash flow requirements.

Senior executives meet on a regular basis to analyse financial risk exposure in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

### Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk, relating to interest rate risk and other price risk.

There have been no substantive changes in the types of risks the company is exposed to, how these risks arise, or the Board of Director's objectives, policies and processes for managing or measuring the risks from the previous period.

## 23.4 Market risk

### i. Interest Rate Risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The Group also manages interest rate risk by ensuring that, whenever possible, payables are paid within pre-agreed credit terms.

### ii. Other Price Risk

Other price risks relate to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes on market prices largely due to demand and supply factors (other than those arising from interest rate risk) for securities. The Group's exposure to securities price risk arises mainly from FVTPL financial assets.

### Sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and equity prices. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a variable is independent of other variables.

| | Consolidated Group | |
|---|---|---|
| | Profit (before tax) $'000 | Equity $'000 |
| Year ended 30 June 2018 | | |
| +/– 1% interest rates (interest income) | +465/–465 | +325/–+325 |
| Year ended 30 June 2017 | | |
| +/– 1% interest rates (interest income) | +322/–322 | +226/–226 |

There have been no changes in any of the assumptions used to prepare the above sensitivity analysis from the prior year.

## 23.5 Credit risk management

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group. The Group's objective in managing credit risk is to minimise the credit losses incurred, mainly on trade and other receivables and loans. There is no significant credit risk exposure on fair value through profit and loss (FVTPL) financial assets and held to maturity investments.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from the date of invoice. For fees with longer settlements, terms are specified in the individual client contracts. In the case of loans advanced, the terms are specific to each loan.

### Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying value and classification of those financial assets as presented in the statement of financial position.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically mentioned within Note 12. The main source of credit risk to the Group is considered to relate to the class of assets described as "trade and other receivables" and "loans".

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as "past due" when the debt has not been settled within the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are of high credit quality.

| | Amount | Past due but not Impaired (days overdue) | | | Within Initial Trade Terms | Past due And Impaired |
|---|---|---|---|---|---|---|
| | $'000 | 31 – 60 $'000 | 61 – 90 $'000 | >90 $'000 | $'000 | $'000 |
| **2018** | | | | | | |
| Trade and term receivables | 226 | 9 | 2 | 3 | 212 | – |
| Other Receivables | 5,733 | – | – | – | 5,733 | – |
| **Total** | **5,959** | **9** | **2** | **3** | **5,945** | **–** |
| **2017** | | | | | | |
| Trade and term receivables | 730 | 243 | 181 | 122 | 184 | – |
| Other Receivables | 4,668 | – | – | – | 4,668 | – |
| **Total** | **5,398** | **243** | **181** | **122** | **4,852** | **–** |

Cash and cash equivalents are held with large reputable financial institutions within Australia and therefore credit risk is considered very low; or in the cash account within the Netwealth Wrap service. The cash holdings within the Netwealth Wrap service are also held with large reputable financial institutions within Australia.

## 23.6 Liquidity risk management

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operational, investing and financing activities;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed.

| | Within 1 Year $'000 | 1 to 5 Years $'000 | Over 5 Years $'000 | Total $'000 |
|---|---|---|---|---|
| **2018** | | | | |
| Trade & Other Payables | 4,451 | – | – | 4,451 |
| Total Expected Outflows | 4,451 | – | – | 4,451 |
| Cash and Cash Equivalents | 52,669 | – | – | 52,669 |
| Trade and Other Receivables | 5,959 | – | – | 5,959 |
| Financial Assets | 5,606 | 2,227 | – | 7,833 |
| Total anticipated inflows | 64,234 | 2,227 | – | 66,461 |
| **Net (outflow)/inflow of financial instruments** | **59,783** | **2,227** | **–** | **62,010** |

| | Within 1 Year $'000 | 1 to 5 Years $'000 | Over 5 Years $'000 | Total $'000 |
|---|---|---|---|---|
| 2017 | | | | |
| Trade & Other Payables | 4,957 | – | – | 4,957 |
| Total Expected Outflows | 4,957 | – | – | 4,957 |
| Cash and Cash Equivalents | 34,340 | – | – | 34,340 |
| Trade and Other Receivables | 5,398 | – | – | 5,398 |
| Financial Assets | 912 | – | – | 912 |
| Total anticipated inflows | 40,650 | – | – | 40,650 |
| **Net (outflow)/inflow of financial instruments** | **35,693** | **–** | **–** | **35,693** |

## 23.7 Fair value of financial instruments

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair value for listed securities is obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques used by market participants.

| | Net Carrying Value | | Net Fair Value | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Financial Assets** | | | | |
| Cash & Cash Equivalent | 52,669 | 34,340 | 52,669 | 34,340 |
| Trade & Other Receivables | 5,959 | 5,398 | 5,959 | 5,398 |
| FVTPL Financial Assets | 7,833 | 912 | 7,833 | 912 |
| Loans & Receivables | – | – | – | – |
| **Total Financial Assets** | **66,461** | **40,650** | **66,461** | **40,650** |
| **Financial Liabilities** | | | | |
| Trade & Other Payables | 4,451 | 4,957 | 4,451 | 4,957 |
| **Total Financial Liabilities** | **4,451** | **4,957** | **4,451** | **4,957** |

The fair values disclosed in the above table have been determined based on the following methodologies:

i. Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts relating to the provision of annual leave and deferred revenue which is outside the scope of *AASB 139*.

ii. For listed FVTPL, closing quoted bid prices at the end of the reporting period are used.

iii. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market and approximate their fair value.

## Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **2018** | | | | |
| **Financial Assets** | | | | |
| *FVTPL Financial Assets:* | | | | |
| Listed Investments | 661 | – | – | 661 |
| Unlisted Investments | – | – | 7,172 | 7,172 |
| **Total FVTPL Financial Assets** | **661** | **–** | **7,172** | **7,833** |
| **2017** | | | | |
| **Financial Assets** | | | | |
| *FVTPL Financial Assets:* | | | | |
| Listed Investments | 663 | – | – | 663 |
| Unlisted Investments | – | – | 249 | 249 |
| **Total FVTPL Financial Assets** | **663** | **–** | **249** | **912** |

The listed investments are valued by reference to the quoted prices in active markets for identical securities and are deemed to be Level 1 securities in accordance with AASB 13 fair value hierarchy of measurement. In this regard, there is no subjectivity in relation to their value as listed investments.

In valuing investments that maybe included in Level 2 of the hierarchy, valuation techniques, such as comparison to similar investments for which market observable prices are available, are adopted to determine the fair value of these investments.

Level 3 inputs are unobservable inputs for the asset or liability. The deferred payment in the below reconciliation relates to the deferred payments from the sale of BFS.

### Reconciliation of Level 3 fair value measurements

| | Unlisted shares $'000 | Deferred Payments $'000 | Total $'000 |
|---|---|---|---|
| **2018** | | | |
| Opening Balance | 249 | – | 249 |
| Total gains or losses | 2 | – | 2 |
| Purchases | 85 | 7,016 | 7,101 |
| Disposal | (180) | – | (180) |
| **Closing Balance** | **156** | **7,016** | **7,172** |

| | Unlisted shares $'000 | Deferred Payments $'000 | Total $'000 |
|---|---|---|---|
| **2017** | | | |
| Opening Balance | 247 | – | 247 |
| Total gains or losses | 2 | – | 2 |
| Purchases | – | – | – |
| Disposal | – | – | – |
| **Closing Balance** | **249** | **–** | **249** |

## Key Accounting Policies

### Initial recognition and measurement

Financial Instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations in the specified in the contract expire, discharge or cancelled.

Financial instruments are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments are adjusted against the fair value of the financial assets or financial liabilities, on initial recognition.

### Financial assets

Financial assets are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is:

- contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies
- held for trading; or
- it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

*Non-derivative financial instruments*

Investments in equity, trade and other receivables, cash and cash equivalents and trade and other payables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

### Key Accounting Policies (cont.)

Trade receivables are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collection, aging of the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

*Derecognition of financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

## 24. Share Based Payments

### 24.1 Details of the employee share plans of the Company

**Netwealth Employee share loan plan**

The company currently has the Netwealth Employee share loan plan as its share-based payment scheme. This would apply to Performance shares (previously known as Platinum shares), A Class shares and ordinary shares. This plan has been effective since 2013.

As part of the Restructure, all A Class shares were converted to ordinary shares whilst all Platinum shares were converted to Performance shares. When the Platinum share were converted to Performance shares, it was issued with revised vesting conditions which reflective of the one to seven shares split.

The company, from time to time grants shares as compensation to nominated personnel of the company and its subsidiaries under a limited recourse loan arrangement between employee and the company.

It is at the discretion of the directors which employees will be issued invitations to apply for shares pursuant to the Scheme and the number of shares subject to the invitation.

#### Performance shares

Performance shares are subject to vesting conditions set by the Board of Director's prior to the date of the grant in respect of tenure, individual performance and behaviour ratings and the Group's EPS performance and are issued at an exercise price which the Board of Director's determined to be their value as at the Grant Date. Under the current plan, the number of shares vesting on expiry of a three-year performance period (ending FY2020) shall be determined by the following EPS target. All shares currently on issue as Performance shares were granted under this Board of Directors policy.

| Earnings Per Share[1] | Proportion of Performance shares that vest |
|---|---|
| $0.1571 or more | 100% |
| $0.1414 or more but less than $0.1571 | 90% |
| $0.1271 or more but less than $0.1414 | 80% |
| $0.1143 or more but less than $0.1271 | 70% |
| less than $0.1143 | Nil |

1 As part of the Restructure, during FY2018 each Performance share was split into seven. The EPS is reflective of the share split.

The following vesting conditions apply to the Performance shares:

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

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

All held Platinum shares were converted to Performance shares on a 1:1 basis with identical rights, terms and conditions as part of the Restructure.

As part of the Restructure, all Performance shares on issue was split into seven shares.

### Class A shares

No new options were issued to employees in the current year (2017: nil). All Class 'A' shares were converted to Fully Paid Ordinary shares (Ordinary shares) on a 1:1 basis as part of the Restructure and are closed to further issue of options and shares.

### Ordinary shares

All existing options were converted to fully paid ordinary shares with no new options issued in the current year (2017: 38,462 shares).

As part of the Restructure, all Ordinary shares on issue was split into seven shares.

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

| Series | Grant date | Number | Plan | Expiry date | Exercise price | Fair value at grant date |
|---|---|---|---|---|---|---|
| Series 10 | 11 August 2016 | 887,500 | Platinum shares | 8 November 2026 | $3.30 | $0.31 |
| Series 12 | 26 April 2017 | 25,000 | Platinum shares | 8 November 2026 | $4.30 | $0.39 |
| Series 13 | 19 May 2017 | 25,000 | Platinum shares | 8 November 2026 | $4.30 | $0.36 |

## 24.2 Fair value of share options granted during the year

The weighted average fair value of the share options granted during the financial year is nil (2017: $3.35) as all options has either been converted or exercised prior to the Restructure.

| Options series | Grant date share price | Vesting probability | Exercise price | Expected volatility | Vesting term | Dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|---|
| 2018 | | | | | | | |
| – | – | – | – | – | – | – | – |
| 2017 | | | | | | | |
| Series 10 | $3.30 | 100% | $3.30 | 42% | 4 years | 49% | 1.51% |
| Series 11 | $1.25 | 100% | $1.30 | 36% | 2 years | n/a | 3.60% |
| Series 12 | $4.30 | 100% | $4.30 | 30% | 3.5 years | 69% | 1.96% |
| Series 13 | $4.30 | 100% | $4.30 | 28% | 3.5 years | 65% | 1.82% |

### 24.3 Movements in shares and options granted during the year

The following reconciles the shares and options outstanding at the beginning and end of the year:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Balance at beginning of the year | 1,885,549 | $2.48 | 924,587 | $1.58 |
| Granted during the year | – | – | 975,962 | $3.35 |
| Vested during the year | (923,049) | $1.73 | – | – |
| Forfeited during the year | – | – | (15,000) | $3.30 |
| Exercised during the year | (40,000) | $1.00 | – | – |
| **Balance at end of the year[1]** | **922,500** | **$3.27** | **1,885,549** | **$2.48** |
| Exercisable at the end of the year | – | – | 764,794 | $2.42 |

1 Only Performance Shares remain as at 30 June 2018.

### 24.4 Share options exercised during the year

There were $40,000 of ordinary share options exercised during the year (2017: nil).

### 24.5 Share options outstanding at the end of the year

There are no outstanding share options at the end of the year (2017: $2.42).

#### Key Accounting Policies

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

## 25. Related Party Transactions

The Group's main related parties are as follows:

### 25.1 Entities exercising control over the Group

Netwealth Group Limited, a newly incorporated company on 30 June 2017, was superimposed as the holding company of Netwealth Holdings Limited (previously Netwealth Group Limited) on 20 November 2017, becoming the parent entity, which exercises control over the Group.

### 25.2 Key management personnel

For details of disclosures relating to key management personnel, refer to the Remuneration Report on pages 30 to 39 and Note 8.

### 25.3 Other related parties

Other related parties include immediate family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidations and are not disclosed in this note.

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $ | 30 June 2017 $ |
| **Director Related Entities** | | |
| Netwealth Investment Limited has incurred costs for services provided by director related entities in relation to the provision of air travel during the year as follows: | | |
| *Air Travel:* | | |
| Netjets Pty Ltd | – | 13,570 |
| Netwealth Group Services has generated revenue by providing administration services to director related entities during the year are as follows: | | |
| *Other Entities:* | | |
| Australian Planning Services Pty Ltd | 56,647 | – |
| Heine Brothers Pty Ltd | 12,000 | – |

**Related Parties**

Netwealth Investments Limited is the Responsible Entity and receives management fees for managing the operations of managed investment schemes. The 15 managed investment schemes that Netwealth Investments Limited is the Responsible Entity for:

- Netwealth Index Opportunities Conservative Fund
- Netwealth Index Opportunities Balanced Fund
- Netwealth Index Opportunities Growth Fund
- Netwealth Active Conservative Fund
- Netwealth Active Balanced Fund
- Netwealth Active Growth Fund
- Netwealth Active High Growth Fund
- Netwealth Australian Bond Index Fund
- Netwealth Australian Property Index Fund
- Netwealth Australian Equities Index Fund
- Netwealth Unhedged International Equities Index Fund
- Netwealth Global Bond Index Fund
- Netwealth Hedged International Equities Index Fund
- Netwealth Managed Account
- Netcash

Netwealth Investments Limited also holds units in some of these Schemes through which distributions are paid of the above Schemes.

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018<br>$ | 30 June 2017<br>$ |
| Management Fees: | | |
| Management Fee Revenue | 3,368,364 | 2,157,080 |
| Distributions: | | |
| Distribution Income | 861 | 1,084 |

Netwealth Investments Ltd holds units in the Netwealth Managed Investment Schemes in its capacity as custodian of the Netwealth Wrap Service and trustee of the Netwealth Superannuation Master Fund. It does not exercise control over these Managed Investment Schemes and therefore they are not considered subsidiaries of the Group.

Netwealth Investments Limited holds investments in Netwealth products as follows:

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018<br>$ | 30 June 2017<br>$ |
| FVTPL Financial Assets | | |
| Netwealth Managed Funds | 16,280 | 14,804 |
| Netwealth Wrap and Super Accounts | 864,988 | 960,592 |

## 26. Cash flow note

**Reconciliation of cash flow from operations with profit after income tax**

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018<br>$'000 | 30 June 2017<br>$'000 |
| Profit for the year | 20,818 | 13,554 |
| Income tax expense recognised in profit or loss | 9,628 | 6,957 |
| Depreciation & amortisation | 741 | 1,621 |
| Impairment of Goodwill | 627 | 2,332 |
| Share based payment expense | 66 | 141 |
| Unrealised (gain)/loss on investments | (3) | (36) |
| Adjustments on make good provision | (7) | 7 |
| Loss/(gain) on disposal of assets | (171) | 161 |
| Gain on disposal of investments | (1,249) | (106) |
| | **30,450** | **24,631** |

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Movements in working capital** | | |
| (Increase)/decrease in trade & other receivables | 71 | 450 |
| (Increase)/decrease in other assets | (945) | (109) |
| Increase/(decrease) in trade & other payables | (996) | 2,342 |
| Increase/(decrease) in provisions | (143) | (6,476) |
| Cash generated from operations | 28,437 | 20,838 |
| Income tax paid | (10,382) | (8,011) |
| **Net Cash Provided by Operating Activities** | **18,055** | **12,827** |

**Reconciliation of liabilities arising from financing activities**

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| | 30 June 2017 $'000 | Cash flows | Acquisitions | New leases | 30 June 2018 $'000 |
| Lease liabilities[1] | – | – | – | – | – |
| **Total liabilities from financial activities** | **–** | **–** | **–** | **–** | **–** |

1 The Group does not have any leases arising from financing activities.

Key Accounting Policies

Cash and cash equivalents includes:

- cash on hand
- deposits held at-call with banks; and
- other short-term highly liquid investments with original maturities of three months or less, (including products managed via the netwealth platform).

## 27. Capital and Leasing Commitments

**Operating Lease Commitments**

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Payables – minimum lease payments:** | | |
| Not later than 12 months | 1,635 | 1,234 |
| Between 12 months and 5 years | 2,639 | 4,217 |
| **Total Operating Lease Payables** | **4,274** | **5,451** |

The consolidated property leases are non-cancellable leases with terms of up to five years. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by either the Consumer Price Index (CPI) or defined per annum. Options exist over various leases to renew the lease at the end of the five-year term for an additional term of five years. Various leases also allow for subletting of lease areas. The operating lease payments for FY2018 is $1,291,099 (FY2017: $738,233).

**Capital Commitments**

The group had no capital commitments as at 30 June 2018.

## 28. Parent entity disclosures

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 2 for a summary of the significant accounting policies relating to the Group.

| Statement of Financial Position | Parent Entity | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Assets** | | |
| Cash and cash equivalents | – | – |
| Current assets | 4,789 | – |
| Non-current assets | 6,039 | – |
| Investment in subsidiaries | 43,576 | – |
| **Total assets** | **54,404** | **–** |
| **Liabilities** | | |
| Current liabilities | 19,420 | – |
| **Total liabilities** | **19,420** | **–** |
| **Net assets** | **34,984** | **–** |
| **Equity** | | |
| Issued Capital | 878,767 | – |
| Reserves | (834,889) | – |
| Retained Earnings | (8,894) | – |
| **Total Equity** | **34,984** | **–** |
| **Statement of profit or loss and comprehensive income** | | |
| **Total Profit/(Loss) for the year** | **(8,894)** | **–** |
| **Total Comprehensive Profit/(Loss) for the year** | **(8,894)** | **–** |

**Change of Parent Entity:** On 30 June 2017, NGL was incorporated and is now superimposed over NHL as part of the Restructure prior to the listing of Netwealth on the stock exchange.

**Common Control Transaction Management:** As part of the Restructure described above, the assets are transferred at book value and the difference between the cost paid and the book value of the net assets was recognised in equity.

**Guarantees:** The parent entity has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

**Contractual commitments:** At 30 June 2018, the parent entity had not entered into any contractual commitments for the acquisition of property and equipment or any operating leases (2017: nil).

**Contingent liabilities:** At 30 June 2018, the parent entity does not have any contingent liabilities (2017: nil).

## 29. Auditor's Remuneration

| | Consolidated Group | |
|---|---|---|
| | 30 June 2018 $'000 | 30 June 2017 $'000 |
| **Fees payable for audit and review of financial reports** | | |
| Current auditors | 248 | 225 |
| **Fees payable for other services** | | |
| *Taxation* | | |
| Current auditor | – | – |
| Previous auditor | 266 | 283 |
| *Other* | | |
| Current auditor | 416 | 20 |
| Previous auditor | – | 94 |
| **Total fees paid to Group Auditor** | **930** | **622** |

## 30. Events occurring after reporting date

On the 27th of August the Directors declared a fully franked final divided for FY2018 of 5.38 cents per share. In addition to the fully franked final dividend, a special dividend of 5.18 cents per share (total dividends of $12,300,000) was also declared. The final and special dividends are payable on 27 September 2018.

In the opinion of the Directors, there are no other matters or circumstances which have arisen between 30 June 2018 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs for the Group in subsequent financial periods.

# Directors' declaration

The directors declare that:

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

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

On behalf of the Directors

Director

**Jane Tongs**
Chairman

Dated 27 August 2018

# Independent Auditor's Report

Deloitte.

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

### Report on the Audit of the Financial Report

*Opinion*

We have audited the financial report of Netwealth Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Discontinued Operations**<br><br>In the year ending 30 June 2017, the Group undertook a restructure to dispose of its non-core operations including:<br>• Australian Planning Services Pty Ltd (APS)<br>• Bridgeport Financial Services (BFS)<br>• Netwealth Advice Group Pty Ltd (NAG)<br>• Pathway Licensee Services Pty Ltd (PLS)<br><br>Consequently, in the 30 June 2017 financial statements, the amounts relating to these discontinued operations were disclosed separately in accordance with the relevant accounting standards.<br><br>In the current year the Group has either, disposed of these entities, or the businesses within these entities and began wind up of any remaining entities. As such amounts are recorded in discontinued operations again in the 30 June 2018 financial statements. | Our procedures included, but were not limited to:<br>• Updating our understanding of the disposal process and timing;<br>• Reviewing the disposal agreements and ensuring calculations of the profit / loss on disposals are accounted for appropriately; and<br>• Reviewing any expenses allocated to discontinued operations to ensure they are appropriately classified and accounted for correctly.<br><br>We have also assessed the appropriateness of the disclosures in Note 22 to the financial statements. |
| **Revenue Recognition – Platform Revenue**<br><br>As at 30 June 2018, $81million of Platform Revenue has been recognised as disclosed in Note 5.<br><br>The majority of Platform Revenue is calculated in a highly automated system. There are multiple agreements in place and data feeds, which if set up incorrectly would impact the accuracy of the revenue recorded. | Our procedures included, but were not limited to:<br>• Updating our understanding of the system, procedures and controls in place for the Platform Revenue;<br>• Assessing that the controls over Platform Revenue are operating effectively, including the setup of a sample of agreements in the system;<br>• Performing general IT controls testing over the systems that support the Platform revenue; and<br>• Performing substantive procedures, including analytical review of revenue items based on fee rates within agreements and funds under administration and test of detail by checking the calculation of a sample invoices to source data.<br><br>We have also assessed the appropriateness of the disclosures in Note 5 to the financial statements. |

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*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

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based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 31 to 39 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Netwealth Group Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 27th August 2018

# Shareholder Information

## Ordinary shares (ASX Listed)

The shareholder information set out below was applicable at 31 July 2018.

### Distribution of shareholdings

| Range | Ordinary Shares | Number of shareholders |
|---|---|---|
| 1-1,000 | 458,972 | 1,107 |
| 1,001-5,000 | 2,984,226 | 1,115 |
| 5,001-10,000 | 2,515,493 | 348 |
| 10,001-100,000 | 4,511,060 | 196 |
| 100,001 and over | 227,210,066 | 30 |

There were no holders of less than a marketable parcel of ordinary shares.

### Top 20 Holders

| Rank | Name | Ordinary shares | % of Issued Capital |
|---|---|---|---|
| 1 | Heine Brothers Pty Ltd | 125,904,990 | 52.97% |
| 2 | HSBC Custody Nominees (Australia) Limited | 27,670,016 | 11.64% |
| 3 | Leslie Max Heine Pty Ltd <ATF The LMH Trust> | 22,109,465 | 9.30% |
| 4 | Netwealth Investments Limited <Wrap Services A/C> | 12,633,650 | 5.32% |
| 5 | J P Morgan Nominees Australia Limited | 11,438,328 | 4.81% |
| 6 | National Nominees Limited | 4,851,690 | 2.04% |
| 7 | Citicorp Nominees Pty Limited | 4,063,699 | 1.71% |
| 8 | BNP Paribas Noms Pty Ltd <DRP> | 3,732,969 | 1.57% |
| 9 | Netwealth Investments Limited <Super Services A/C> | 2,515,173 | 1.06% |
| 10 | BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 2,117,534 | 0.89% |
| 11 | Matthew Alexander Max Heine | 1,658,461 | 0.70% |
| 12 | Citycorp Nominees Pty Ltd <Colonial First State INV A/C> | 1,394,539 | 0.59% |
| 13 | Warbont Nominees Pty Ltd <Unpaid Entrepot A/C> | 1,257,693 | 0.53% |
| 14 | Woodross Nominees Pty Ltd | 625,174 | 0.26% |
| 15 | John Hanrahan | 608,468 | 0.26% |
| 16 | BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd DRP | 537,746 | 0.23% |
| 17 | Warbont Nominees Pty Ltd <Accumulation Entrepot A/C> | 523,922 | 0.22% |
| 18 | Asset Plus Pty Ltd | 467,642 | 0.20% |
| 19 | Truebell Capital Pty Ltd <Truebell Investment Fund> | 310,000 | 0.13% |
| 20 | Amanda Atkinson | 304,234 | 0.13% |
| | **Total** | **224,725,393** | **94.55%** |
| | **Balance of register** | **12,954,424** | **5.45%** |
| | **Grand total** | **237,679,817** | **100.00%** |

## Substantial Holdings (As at 31 July 2018)

| Substantial Holder | Number of Ordinary shares in which the holder (or their associates) have a relevant interest) |
|---|---|
| Heine Brothers Pty Ltd | 125,904,990 |
| HSBC Custody Nominees (Australia) Limited | 27,670,016 |
| Leslie Max Heine Pty Ltd <ATF The LMH Trust> | 22,109,465 |
| Netwealth Investments Limited <Wrap Services A/C> | 12,633,650 |

### Ordinary shares voting rights

At a general meeting of the company, every shareholder present in person or by proxy has on vote on a show of hands. Upon a poll, each share has one vote.

### On-Market Buy-back

Currently NWL does not have an on-market buy back scheme in operation.

## Unlisted Performance shares

As at 31 July 2018, there were a total of 6,352,500 unlisted performance shares on issue.

### Distribution of shareholdings

| Range | Ordinary Shares | Number of shareholders |
|---|---|---|
| 1-1,000 | – | – |
| 1,001-5,000 | – | – |
| 5,001-10,000 | – | – |
| 10,001-100,000 | 437,500 | 6 |
| 100,001 and over | 5,915,000 | 26 |

### Performance shares voting rights

Performance shareholders have no voting rights.

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