

Pendal Group Limited and its Controlled Entities

Formerly known as BT Investment Management Limited
ABN 28 126 385 822

INTERIM PROFIT ANNOUNCEMENT

The Directors of Pental Group Limited (the Company) announce the results of the consolidated entity (Pental Group) for the half year ended 31 March 2018 (prior corresponding period: half year ended 31 March 2017), which have been subject to review by our auditors, PricewaterhouseCoopers. On 4 May 2018 BT Investment Management Limited changed its name to Pental Group Limited.

Results for the half year ended 31 March 2018

	% Change	31 Mar 2018
Total revenue and other income	25.0%	307,931,744
Net profit after income tax ¹	45.3%	114,760,543
Profit for the period attributable to members	45.3%	114,760,543
Interim 2018 Dividend - cents per security (15% franked ²)		22.0
Record date for determining entitlements to interim dividend		25 May 2018
Payment date for interim dividend		2 July 2018

Explanation of results:

1. Net profit after tax (NPAT) includes accounting adjustments required under International Financial Reporting Standards (IFRS) for amortisation of employees' equity grants, amortisation of employee deferred share of performance fees, and amortisation and impairment of intangible assets. These non-cash charges are not considered by the Directors to be part of the underlying earnings of the Group and therefore the Directors believe that Cash NPAT is a more suitable measure of profitability. The adjustments made to NPAT to arrive at Cash NPAT to eliminate the impact of these IFRS adjustments are categorised as follows:

- amortisation of equity grants less the after-tax cash costs of equity grants in respect of the current period;
- amortisation of employee deferred share of performance fees less the after-tax cash cost of current period employee deferred share of performance fees; and
- after-tax amortisation and impairment of intangible assets.

Cash NPAT for the half year ended 31 March 2018 was \$114,530,354 (2017: \$88,428,526) which is an increase of 29.5% on the prior half year.

2. The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the Income Tax Assessment Act 1997.

Dividend Reinvestment Plan

The Board has determined that the Dividend Reinvestment Plan (DRP) will remain active for the 2018 interim dividend. Shares issued under the DRP will be a zero discount to the allocation price as determined by the DRP Rules.

Shareholders who have not previously registered to participate in the DRP or who wish to alter their participation in the DRP for the 2018 interim dividend, must complete a DRP Instruction Form and return it to the Company's share registry, Link Market Services, by no later than 5.00pm on 28 May 2018. The DRP Instruction Form can be obtained at www.linkmarketservices.com.au.

Other information

	31 Mar 2018	31 Mar 2017
Net tangible asset backing (cents per ordinary security)	104.1	73.3
Basic EPS (cents)	41.2	30.0
Diluted EPS (cents)	41.2	30.0
Final 2017 dividend paid during the period	\$78,190,580	

The final 2017 dividend was paid on 20 December 2017.

Please refer to the attached 31 March 2018 Interim Financial Report and Market Presentation for commentary and further information with respect to the results.

Further information regarding the Pental Group and its business activities can be obtained by visiting the website at www.pentalgroup.com.

Pendal Group Limited

Interim Financial Report

For the half year ended 31 March 2018

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The interim financial report was authorised for issue by the Company's Directors on 10 May 2018 who have the power to amend and reissue the interim financial report.

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2017 and any public announcements made by Pendal Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Pendal Group Limited

Directors' Report

For the half year ended 31 March 2018

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The Directors present their report on the Pendal Group consisting of Pendal Group Limited (the Company) and the entities it controlled at the end of, or during, the half year ended 31 March 2018. On 4 May 2018 BT Investment Management Limited changed its name to Pendal Group Limited.

Directors

The following persons were Directors of the Company during the half year and up to the date of this report:

James Evans (Chairman)
Emilio Gonzalez (Managing Director)
Meredith Brooks (resigned 30 April 2018)
Andrew Fay
Kathryn Matthews
Deborah Page AM

Principal activities

The principal activity of the Pendal Group during the half year was the provision of investment management services. There has been no significant change in the nature of this activity during the half year ended 31 March 2018.

Review of operations

The Pendal Group continued to operate under two operating segments comprising the investment management business in Australia (Pendal Australia) and outside of Australia (Pendal International). The statutory net profit after tax (NPAT)¹ of the Pendal Group for the half year ended 31 March 2018 was \$114,760,543 (2017: \$78,978,142) an increase of 45.3% on the comparative period. The Pendal Group's Cash net profit after tax (Cash NPAT) for the half year was \$114,530,354 (2017: \$88,428,526). The profit growth has resulted from:

- Higher average funds under management (FUM), up 14.3% to \$98.6 billion;
- Higher base management fee revenue, up 17.5% to \$247.9 million;
- Higher performance fee revenue, up 70.2% to \$47.6 million;
- Higher non-operating income of \$11.5 million; and
- Favourable currency movements which saw the average level of the Australian Dollar 5.9% lower relative to the British Pound.

FUM as at 31 March 2018 was \$99.0 billion, an increase of 3.3 percent from \$95.8 billion at 30 September 2017. The \$3.2 billion increase in FUM for the half year ended 31 March 2018 has been driven by a positive market and investment performance of \$2.2 billion, favourable currency movements of \$3.1 billion offset by net outflows of \$2.1 billion.

During the half year, the average levels of the S&P/ASX 300 Price Index and the MSCI All Countries World Index in local currency terms were both higher by 6.7% and 16.4% respectively when compared to the same period last year.

The \$2.1 billion in net outflows for the half year were split evenly between outflows from J O Hambro Capital Management (JOHCM) funds (-\$1.1 billion) and outflows from Pendal Australia funds (-\$1.0 billion). The JOHCM

¹ NPAT includes accounting adjustments required under International Financial Reporting Standards for amortisation of employee equity grants, amortisation of employee deferred share of performance fees, and the amortisation and impairment of intangible assets. These non-cash charges are not considered by the Directors to be part of the underlying earnings for the period and therefore the Directors believe that Cash NPAT is a more suitable measure of profitability. Cash NPAT comprises NPAT before amortisation of employee equity grants and employee deferred share of performance fees less the after-tax cash cost of ongoing equity grants and employee deferred share of performance fees in respect of the current period, together with the after-tax amortisation and impairment of intangible assets.

Pendal Group Limited

Directors' Report

For the half year ended 31 March 2018

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outflows emanated via the OEIC funds (-\$1.0 billion) and the segregated mandates (-\$0.9 billion), which were offset by ongoing inflows into the US pooled funds (+\$0.8bn). Pendal Australia was impacted by Westpac related outflows (-\$2.1 billion) arising from Westpac MySuper redemptions and the legacy book, while positive flows came via the institutional (+\$0.7 billion) and wholesale (+\$0.5 billion) channels.

Total fee revenue of \$296.4 million was 21.8% higher than the prior half year, led by strong growth in base management fee revenue (+17.7%) and higher performance fees (+70.2%).

Total expenses were \$157.7 million and 11.0% higher than the prior half year, largely driven by higher variable employee costs linked to increased fee revenue and ongoing investment in group operations supporting recent and future growth of the business.

The implementation of new UK regulatory requirements and considerations relating to variable compensation paid to JOHCM fund managers from performance fees has resulted in amended remuneration arrangements with employees. As a result of these changes, from 1 October 2017 variable compensation relating to performance fees will be recognised over time in accordance with the employment arrangements (typically 3 years).

	Half year ended 31 Mar 2018 \$'000	Half year ended 31 Mar 2017 \$'000
Reconciliation of Statutory NPAT to Cash NPAT		
Statutory NPAT	114,761	78,978
Add back:		
Amortisation of employee equity grants	21,646	19,937
Amortisation of employee deferred share of performance fees	7,462	-
Amortisation and impairment of intangibles ²	3,215	2,789
Deduct:		
Cash cost of ongoing equity grants in respect of the current period	(19,390)	(15,235)
Cash cost of employee deferred share of performance fees in respect of the current period	(17,070)	-
Add back/(deduct): tax effect	3,906	1,960
Cash NPAT	114,530	88,429

Fund Linked Equity (FLE)

During the half year, the Company issued 1,494,915 ordinary shares to satisfy an exercise of equity rights by fund managers under the FLE scheme. The shares were issued on 23 November 2017 and are subject to vesting conditions of up to 5 years.

Post the November 2017 conversion, investment strategies that remain in the FLE Scheme represent FUM of \$7.2 billion as at 31 March 2018. Based on the FUM at 31 March 2018, the value of PDL equity that would be granted to remaining participants in the FLE Scheme is approximately \$44.7 million. The value of PDL equity to be granted under the FLE Scheme will vary from year to year based on market movements, FUM growth, management fee margins, foreign currency, and new teams participating in the FLE Scheme.

If shares are issued to meet the delivery of the \$44.7 million in PDL equity, this would equate to 4.3 million of newly issued shares based on a theoretical PDL share price of \$10.47³ as at 31 March 2018 in accordance with the FLE Scheme rules. The 4.3 million newly issued shares would increase the fully diluted share count by 1.4%.

The Company has received notice of a partial conversion of FLE rights effective 30 June 2018. New PDL shares will be issued to satisfy the conversion and as at 31 March 2018, this represents approximately 0.7 million issued shares. The exact number of shares to be issued are not yet known and will be subject to a number of variables at the effective date including market movements, fund flows, currency movements and the PDL share price.

Assuming other remaining FLE rights are converted into PDL restricted shares on their final conversion dates, the estimated number of PDL shares to be issued over the coming years using 31 March 2018 FUM levels, allocation price, fee margins and tax rates can be seen in Table 1:

² Amortisation and impairment of intangibles relates to fund and investment management contracts.

³ The PDL share price in the FLE Scheme Rules is the 30 day VWAP on conversion date.

Pendal Group Limited Directors' Report

For the half year ended 31 March 2018

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Table 1: Timing of shares required to meet future FLE Conversions

Financial years	2H18	FY19	FY20	FY21-22
Estimated number of shares to be issued (millions)	0.7	2.7	-	0.8

As a consequence of issuing of newly issued PDL shares under the FLE scheme, the shareholders' portion of revenue increases such that Cash EPS should be broadly neutral, provided FUM is maintained post issuance.

It is expected that as new investment teams and strategies are added into the Pendal Group and improve our growth prospects, the program will expand. For every \$1 billion in FUM raised in investment strategies operating within the FLE Scheme, this would equate to approximately 1.2 million newly issued shares based on the 31 March 2018 PDL share price, effective tax rates, and average management fee margins.

Dividends

The Directors have resolved to pay a partly franked interim dividend of 22.0 cents (15% franked⁴) per share (2017: 19.0 cents per share - 30% franked) on ordinary shares. The amount of dividend which has not been recognised as a liability at 31 March 2018 is \$69.7 million (2017: \$59.5 million).

Events subsequent to reporting date

On 26 April 2018, the Company was advised that BT Financial Group intended to redeem an additional \$2 billion from its MySuper portfolio currently being managed by Pendal Australia. This is expected to occur in the second half of the 2018 financial year.

On 8 May 2018, a new 10 year lease was entered into as part of a London premises move to accommodate growth in the business. The commitment over the 10 year term of the lease including an estimate of associated outgoings and an agreed rent free period is approximately £26.4 million (\$48.7 million).

No other matter or circumstance which is not otherwise reflected in this Financial Report has arisen subsequent to the end of the interim period, which has significantly affected or may significantly affect the operations of the Pendal Group, the results of those operations or the state of affairs of the Pendal Group in subsequent financial periods.

Rounding of amounts

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of Directors.



James Evans

Chairman
10 May 2018



Emilio Gonzalez

Managing Director
10 May 2018

⁴ The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the *Income Tax Assessment Act 1997*.



Auditor's Independence Declaration

As lead auditor for the review of Pendal Group Limited for the half-year ended 31 March 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Pendal Group Limited and the entities it controlled during the period.

A handwritten signature in blue ink, reading 'V. Papageorgiou'.

Voula Papageorgiou
Partner
PricewaterhouseCoopers

Sydney
10 May 2018

Pendal Group Limited

Consolidated Statement of Comprehensive Income

For the half year ended 31 March 2018

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	NOTES	31 Mar 2018 \$'000	31 Mar 2017 \$'000
Revenue from continuing operations			
Investment management fees		248,608	211,567
Performance fees		47,616	27,982
Transaction fees		218	3,849
Total revenue from continuing operations	3	296,442	243,398
Other income	3	11,490	2,955
Expenses			
Employee expenses			
Salaries and related expenses		85,242	87,984
Amortisation of employee equity grants		21,646	19,937
Amortisation of employee deferred share of performance fees		7,462	-
Information and technology		10,329	7,409
Fund administration		8,694	7,014
Business development and promotion		6,000	5,635
Professional services		4,702	2,987
Depreciation, amortisation and impairment		4,121	3,588
Occupancy		3,149	2,822
Investment management		2,741	957
General office and administration		2,408	3,050
Distribution		1,128	576
Finance costs		57	117
Total expenses		157,679	142,076
Profit before income tax		150,253	104,277
Income tax expense	4	35,492	25,299
Profit attributable to owners of Pendal Group Limited		114,761	78,978
Other comprehensive income for the financial period			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations	11	32,218	(18,046)
Net unrealised gain on available-for-sale assets	11	2,506	9,385
Net realised gain on available-for-sale assets reclassified to profit or loss	11	(8,042)	-
Loss on derivative hedging instruments	11	(3,633)	(89)
Income tax relating to components of other comprehensive income	4, 11	893	(1,796)
Other comprehensive income, net of tax		23,942	(10,546)
Total comprehensive income for the financial period attributable to owners of Pendal Group Limited		138,703	68,432
Earnings per share for profit attributable to ordinary equity holders of Pendal Group Limited		Cents	Cents
Basic earnings per share	12	41.2	30.0
Diluted earnings per share	12	41.2	30.0

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Consolidated Statement of Financial Position

For the half year ended 31 March 2018

	Notes	31 Mar 2018 \$'000	30 Sep 2017 \$'000
Current assets			
Cash and cash equivalents	6	126,499	194,199
Trade and other receivables		73,948	65,919
Prepayments		4,870	4,813
Total current assets		205,317	264,931
Non-current assets			
Property, plant and equipment		3,832	3,566
Available-for-sale financial assets	7	195,076	133,136
Deferred tax assets		31,851	45,671
Intangible assets	8	555,450	535,278
Total non-current assets		786,209	717,651
Total assets		991,526	982,582
Current liabilities			
Trade and other payables		42,590	37,837
Employee benefits		61,172	105,865
Derivatives	7	3,274	2,577
Lease incentive		90	83
Current tax liabilities		13,296	16,200
Total current liabilities		120,422	162,562
Non-current liabilities			
Employee benefits		5,207	5,630
Lease incentive		1,094	1,006
Deferred tax liabilities		17,357	17,652
Total non-current liabilities		23,658	24,288
Total liabilities		144,080	186,850
Net assets		847,446	795,732
Equity			
Contributed equity	9	421,438	426,577
Reserves	11	241,660	221,377
Retained earnings		184,348	147,778
Total equity		847,446	795,732

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Consolidated Statement of Changes in Equity

For the half year ended 31 March 2018

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	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 October 2017		426,577	221,377	147,778	795,732
Profit for the financial period		-	-	114,761	114,761
Other comprehensive income for the financial period		-	23,942	-	23,942
Total comprehensive income for the financial period		-	23,942	114,761	138,703
Transactions with owners in their capacity as owners:					
Treasury shares acquired		(32,297)	-	-	(32,297)
Treasury shares released	9, 11	24,693	(24,693)	-	-
Share-based payments		-	21,034	-	21,034
Dividend reinvestment plan		2,465	-	-	2,465
Dividends paid	5	-	-	(78,191)	(78,191)
Balance at 31 March 2018		421,438	241,660	184,348	847,446
Balance at 1 October 2016		441,059	176,439	126,341	743,839
Profit for the financial period		-	-	78,978	78,978
Other comprehensive income for the financial period		-	(10,546)	-	(10,546)
Total comprehensive income for the financial period		-	(10,546)	78,978	68,432
Transactions with owners in their capacity as owners:					
Converting notes converted into ordinary shares		121	-	-	121
Treasury shares acquired		(41,046)	-	-	(41,046)
Treasury shares released	9, 11	20,217	(20,217)	-	-
Share-based payments		-	22,047	-	22,047
Dividend reinvestment plan		2,779	-	-	2,779
Dividends paid	5	-	-	(71,365)	(71,365)
Balance at 31 March 2017		423,130	167,723	133,954	724,807

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Consolidated Statement of Cash Flows

For the half year ended 31 March 2018

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	Notes	31 Mar 2018 \$'000	31 Mar 2017 \$'000
Cash flows from operating activities			
Fees and other income received		297,213	249,186
Interest received		171	44
Distributions from unit trusts		3,760	1,078
Expenses paid		(181,075)	(163,831)
Income tax paid		(25,481)	(40,876)
Net cash inflows from operating activities		94,588	45,601
Cash flows from investing activities			
Payments for property, plant and equipment		(816)	(452)
Payments for derivative hedging instruments		(2,937)	312
Payments for IT development		(500)	(457)
Payment for available-for-sale financial assets		(76,141)	-
Proceeds from sales of available-for-sale financial assets		22,753	2,740
Net cash (outflows)/inflows from investing activities		(57,641)	2,143
Cash flows from financing activities			
Payments for purchase of treasury shares		(32,297)	(41,046)
Interest and other financing costs		(57)	(117)
Dividends		(75,726)	(68,587)
Net cash outflows from financing activities		(108,080)	(109,750)
Net decrease in cash and cash equivalents		(71,132)	(62,006)
Cash and cash equivalents at the beginning of the financial period		194,199	174,231
Effects of exchange rate changes on cash and cash equivalents		3,432	13,874
Cash and cash equivalents at the end of the financial period	6	126,499	126,099

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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1. Basis of preparation of the report for the half year ended 31 March 2018

This interim financial report is for Pendal Group Limited (the Company) and its controlled entities (the Pendal Group) for the half year ended 31 March 2018. It has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

On 4 May 2018 BT Investment Management Limited changed its name to Pendal Group Limited.

Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

New accounting standards and interpretations

The Pendal Group has adopted all of the mandatory new and amended standards and interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period. The mandatory new and amended standards adopted by the Pendal Group for the half year ended 31 March 2018 have not had a significant impact on the current period or any prior period and are not likely to have a significant impact in future periods.

New and revised standards not mandatory and not adopted

Certain new and revised accounting standards have been published that are not mandatory for the 31 March 2018 reporting period. They are available for early adoption but have not been applied in preparing this Financial Report. The Pendal Group's assessment of the impact of these new standards is set out below:

AASB 9 Financial Instruments and IFRS 9 Financial Instruments (2014) (effective for annual reporting periods beginning on or after 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces revised rules around hedge accounting and impairment.

The directors anticipate that certain financial instruments currently classified as available-for-sale financial assets held at fair value through other comprehensive income will be classified as financial assets held at fair value through profit or loss. This includes the Pendal Group's corporate seed investments, excluding fund manager deferral remuneration, which total \$177.7m as at 31 March 2018 and includes unrealised gains of \$18.5m as at 31 March 2018.

The directors do not expect the new standard to impact the current hedge accounting applied by the Pendal Group.

The Pendal Group has decided not to adopt the standard before its mandatory effective date.

AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

The AASB has issued a new standard for recognition of revenue. This will replace *AASB 118 Revenue* which covers contracts for goods and services and *AASB 111 Construction Contracts*. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer replacing the existing notion of risks and rewards. The Pendal Group has performed an assessment on existing investment management agreements for clients and funds and does not expect any material impact on the financial statements.

The Pendal Group will continue to assess new and existing investment management agreements and their impact on the financial statements.

The Pendal Group has decided not to adopt the standard before its mandatory effective date.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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AASB 16 Leases (effective from 1 January 2019)

AASB 16 provides a new lessee accounting model which requires lessees to recognise right-of-use assets and liabilities to pay rentals for all leases with a term of more than 12 months, unless the underlying asset is of low value. The new standard is expected to impact leases which are currently classified by the Pendal Group as operating leases which are primarily leases for office space.

On 8 May 2018, a new 10 year lease was entered into as part of a London premises move to accommodate growth in the business. The commitment over the 10 year term of the lease including an estimate of associated outgoings and an agreed rent free period is approximately £26.4 million (\$48.7 million).

The new lease terms are in the process of being assessed and any material impact on the adoption of this standard for financial year 2020 will be quantified in the 2018 Financial Report.

An assessment has been made on other existing leases across the group and the adoption of this standard is not expected to have a material impact on the financial statements, however will result in additional disclosure.

The Pendal Group will continue to assess new leases and their impact on the financial statements as they are entered into.

The Pendal Group has decided not to adopt the standard before its mandatory effective date.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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2. Segment Information

Description of segments

Operating segments have been reported in a manner consistent with internal management reporting provided to the chief operating decision-maker (CODM) for assessing performance and in determining the allocation of resources. CODM consists of the Group Chief Executive Officer and other members of the Global Executive Committee. As a result, the Pendal Group has determined it has two operating segments, being the Pendal Group's investment management business in Australia (Pendal Australia) and the Pendal Group's investment management business outside of Australia (Pendal International). Pendal International comprises the J O Hambro Capital Management group of companies.

The CODM assesses the performance of the operating segments based on a combined measure of Cash net profit after tax (Cash NPAT) and Operating Profit Before Tax which excludes non-operating items such as gains and losses on seed investments, interest income and expense, foreign exchange gains and losses and tax.

Cash NPAT excludes the amortisation of equity-settled share-based payments and amortisation of employee deferred share of performance fees, and includes the after-tax cash costs of equity grants made and the employee deferred share of performance fees in respect of the current period. Cash NPAT also excludes the after-tax amortisation and impairment of intangibles relating to fund and investment management contracts.

Segment information provided to the chief operating decision-maker:

	Pendal Australia		Pendal International		Pendal Group	
	31 Mar 2018 \$'000	31 Mar 2017 \$'000	31 Mar 2018 \$'000	31 Mar 2017 \$'000	31 Mar 2018 \$'000	31 Mar 2017 \$'000
Revenue	72,980	76,387	223,462	167,011	296,442	243,398
Inter-segment revenue	3,211	2,601	1,855	1,344	5,066	3,945
Total segment revenue	76,191	78,988	225,317	168,355	301,508	247,343
Other operating expenses	(56,929)	(53,274)	(104,830)	(81,194)	(161,759)	(134,468)
Inter-segment expense	(1,855)	(1,344)	(3,211)	(2,601)	(5,066)	(3,945)
Total segment expenses	(58,784)	(54,618)	(108,041)	(83,795)	(166,825)	(138,413)
Operating profit before income tax	17,407	24,371	117,276	84,559	134,683	108,930
Non-operating items	991	3,636	10,441	(798)	11,432	2,838
Income tax expense	(5,629)	(8,285)	(25,956)	(15,054)	(31,585)	(23,339)
Cash NPAT	12,769	19,722	101,761	68,707	114,530	88,429
Deduct:						
Amortisation of employee equity grants	(9,478)	(11,031)	(12,168)	(8,906)	(21,646)	(19,937)
Amortisation of employee deferred share of performance fees	-	-	(7,462)	-	(7,462)	-
Amortisation and impairment of intangibles	-	-	(3,215)	(2,789)	(3,215)	(2,789)
Add back:						
Cash cost of ongoing equity grants	7,296	8,067	12,094	7,168	19,390	15,235
Cash cost of employee deferred share of performance fees	-	-	17,070	-	17,070	-
Add/(deduct): tax effect	567	509	(4,473)	(2,469)	(3,906)	(1,960)
Statutory NPAT	11,154	17,267	103,607	61,711	114,761	78,978
Segment assets	383,701	346,250	607,824	496,112	991,525	842,362
Segment liabilities	(25,882)	(22,937)	(118,197)	(94,618)	(144,079)	(117,555)
Net assets	357,819	323,313	489,627	401,494	847,446	724,807

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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3. Revenue and other income

	31 Mar 2018 \$'000	31 Mar 2017 \$'000
Management, fund and trustee fees	247,631	210,427
Performance fees	47,616	27,982
Transaction fees	218	3,849
Other revenue	977	1,140
Total revenue from continuing operations	296,442	243,398
Net gain on sale of available-for-sale financial assets	8,042	-
Distributions from unit trusts	3,668	935
Interest income	171	44
Net foreign exchange (loss)/gain	(391)	1,976
Total other income	11,490	2,955
Total revenue and other income	307,932	246,353

4. Taxation

(a) Income tax expense

	31 Mar 2018 \$'000	31 Mar 2017 \$'000
Current tax	20,959	13,282
Deferred tax	14,549	11,887
Adjustments for current tax of prior periods	(17)	130
Total income tax expense	35,492	25,299
<i>Deferred income tax expense/(benefit) included in income tax expense comprises:</i>		
Decrease in deferred tax assets	15,160	13,502
Decrease in deferred tax liabilities	(611)	(1,615)

(b) Tax (benefit)/expense relating to items of other comprehensive income

	31 Mar 2018 \$'000	31 Mar 2017 \$'000
Available-for-sale financial assets	(893)	1,796
Total	(893)	1,796

Income tax expense for the period is the tax payable on the current period's taxable income based on the applicable tax rate for each jurisdiction, adjusted for temporary differences and tax relating to prior periods. The main corporate tax rates applicable for the current period are 30% (2017: 30%) on Australian taxable income, 19.0% (2017: 19.5%) on UK taxable income, 24.5% (2017: 35%) on US taxable income and 17% (2017: 17%) on Singapore taxable income.

5. Dividends

	31 Mar 2018 \$'000	31 Mar 2017 \$'000
Equity dividends on ordinary shares		
Dividends declared and paid during the Half Year	78,191	71,365
Dividends proposed to be paid subsequent to the end of the Half Year and not recognised as a liability	69,679	59,525

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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6. Cash and cash equivalents

	31 Mar 2018 \$'000	30 Sep 2017 \$'000
Cash at bank and in hand	101,139	94,667
Restricted cash in escrow	4,326	16,718
Deposits at call	21,034	82,814
Total cash and cash equivalents	126,499	194,199

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

Restricted cash in escrow relates to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.

Deposits at call are invested in cash management trusts managed within the Pendal Group.

7. Fair value estimation

The Pendal Group's financial assets are made up of available-for-sale financial assets which are non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets through profit or loss or loans and receivables. Management determines the classification of the Pendal Group's investments at initial recognition depending on the purpose for which the investments and other financial assets were acquired.

The Pendal Group's financial liabilities are categorised as derivatives and borrowings:

- Derivatives are made up of foreign exchange forward contracts that are designated as hedging instruments and are initially recognised and measured at fair value, with changes in fair value on the effective portion of the hedge being recognised in the foreign currency translation reserve and any hedge ineffectiveness being recognised directly in profit or loss;
- Borrowings are recognised in the Consolidated Statement of Financial Position when the Pendal Group becomes party to the contractual provision of an instrument which is initially recognised at fair value plus transaction costs. Borrowings are recognised when an obligation arises and derecognised when it is discharged, cancelled or expires.

(i) Fair value hierarchy

The Pendal Group classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Changes in level 2 and 3 fair values are analysed at each reporting date and there were no transfers between levels 2 and 3 during the financial period.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 March 2018				
Financial assets				
Available-for-sale assets:				
Units held in pooled funds ¹	-	177,659	-	177,659
Escrow units held in pooled funds ²	-	17,103	-	17,103
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan)	-	-	100	100
Shares in James Hambro & Partners LLP ³	-	-	214	214
Total financial assets	-	194,762	314	195,076
Financial liabilities				
Derivatives	-	3,274	-	3,274
Total financial liabilities	-	3,274	-	3,274
30 September 2017				
Financial assets				
Available-for-sale assets:				
Units held in pooled funds ¹	-	129,542	-	129,542
Escrow units held in pooled funds ²	-	3,295	-	3,295
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan)	-	-	100	100
Shares in James Hambro & Partners LLP ³	-	-	199	199
Total financial assets	-	132,837	299	133,136
Financial liabilities				
Derivatives	-	2,577	-	2,577
Total financial liabilities	-	2,577	-	2,577

¹These securities represent shares held in unlisted pooled funds managed by the Pendal Group and are measured at fair value. The fair value is measured with reference to the underlying net asset values of the pooled funds.

²Escrow units held in pooled funds relate to employees' deferred share of performance fee entitlements which are held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability over the period in which the employee satisfies these service conditions is recognised on the Consolidated Statement of Financial Position.

³James Hambro & Partners LLP is an independent private asset management partnership business.

(ii) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and do not rely on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3, as is the case for unlisted equity securities.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Pendal Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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Specific valuation techniques used to value financial instruments include:

Pooled funds

JOHCM has two open-ended investment companies (OEICs), domiciled in the United Kingdom and Ireland, an open-ended registered investment company responsible for the JOHCM mutual fund range and Delaware Statutory Trusts, both domiciled in the United States of America. Each investment vehicle is an umbrella scheme with various sub-funds, each with their own investment strategy. Each sub fund has a single price directly linked to the fair value of its underlying investments.

Shares

The shares in Regnan and in James Hambro & Partners LLP are considered level 3 as the inputs to the asset valuation are not based on observable market prices and are measured at cost, which approximates the fair value of the shares held based on the net assets of the company at balance date. The Pendal Group performs the valuations for level 3 fair values for financial reporting purposes. The valuations are carried out half-yearly in line with the Pendal Group's reporting dates.

Derivatives

The fair value of derivative foreign exchange forward contracts that are designated as hedging instruments was determined using forward exchange rates as at 31 March 2018.

(iii) Unobservable inputs

The following table represents the movement in level 3 financial instruments:

31 March 2018	Shares in Regnan \$'000	Shares in James Hambro & Partners LLP \$'000	Total fair value - level 3 \$'000	Carrying amount \$'000
Balance at the beginning of the financial period	100	199	299	299
Effects of foreign exchange movements	-	15	15	15
Balance at the end of the financial period	100	214	314	314

(iv) Fair value of other instruments

The Pendal Group also has a number of financial instruments which are not measured at fair value in the balance sheet. Due to the short-term nature of the current receivables, current payables and current borrowings, the carrying amount is assumed to approximate their fair value.

Pendal Group Limited

Notes to the Consolidated Financial Statements

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8. Intangible assets

	Goodwill \$'000	Fund and investment management contracts \$'000	Other intangibles \$'000	Total \$'000
31 March 2018				
Net book value as at 1 October 2017	463,341	69,997	1,940	535,278
Additions	-	-	500	500
Foreign exchange gain	17,947	5,295	-	23,242
Amortisation expense	-	(2,847)	(355)	(3,202)
Impairment loss ¹	-	(368)	-	(368)
Net book value as at 31 March 2018	481,288	72,077	2,085	555,450
<i>Represented by:</i>				
<i>Cost</i>	<i>481,288</i>	<i>137,404</i>	<i>4,743</i>	<i>623,435</i>
<i>Accumulated amortisation and impairment</i>	<i>-</i>	<i>(65,327)</i>	<i>(2,658)</i>	<i>(67,985)</i>
30 September 2017				
Net book value as at 1 April 2017	452,789	71,708	1,961	526,458
Additions	-	-	298	298
Foreign exchange gain	10,552	3,339	-	13,891
Amortisation expense	-	(2,850)	(319)	(3,169)
Impairment loss ¹	-	(2,200)	-	(2,200)
Net book value as at 30 September 2017	463,341	69,997	1,940	535,278
<i>Represented by:</i>				
<i>Cost</i>	<i>463,341</i>	<i>127,459</i>	<i>4,242</i>	<i>595,042</i>
<i>Accumulated amortisation and impairment</i>	<i>-</i>	<i>(57,462)</i>	<i>(2,302)</i>	<i>(59,764)</i>

¹ Impairment losses are due to the remeasurement of fund and investment management contracts to the lower of their carrying value or their recoverable amount and are included in the depreciation, amortisation and impairment expense in the Statement of Comprehensive Income. Reversal of impairment losses are made in certain circumstances if there has been a change in forecasts and market conditions used in determining the recoverable and carrying amounts.

Fund and investment management contracts:

Fund management contracts relate to contractual relationships to manage open-ended funds (OEICs).

Investment management contracts comprise contractual relationships with individual clients. They were acquired via the business combination with JOHCM and are made up as follows:

	31 Mar 2018 \$'000	30 Sep 2017 \$'000
Fund management contracts - OEICs	64,445	61,995
Investment management contracts - Segregated mandates	7,632	8,002
Total fund and investment contracts	72,077	69,997

The recoverable amount of each fund and management contract has been measured using the present value of future cash flows expected to be derived for each asset. The discount rate used to discount the cash flow projections is 12% (2017:12%), based on the cost of capital.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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Goodwill:

Goodwill has been derived from the following business combinations:

	31 Mar 2018 \$'000	30 Sep 2017 \$'000
Purchase of the investment management business from Westpac effective 19 October 2007	233,300	233,300
Acquisition of JOHCM effective 1 October 2011	247,988	230,041
Total	481,288	463,341

Goodwill is allocated to cash-generating units (CGUs) according to operating segments. Goodwill attributable to the purchase of the Australian business from Westpac is \$233.3 million and goodwill attributable from the acquisition of JOHCM is \$248.0 million.

The recoverable amount of each CGU is determined using a 'Fair value less cost to sell' methodology that utilises cash flow projections (post tax) based on management's best estimates over a 5 year period and then applying a terminal value in perpetuity of 3%. The discount rate used to discount the cash flow projections is 11% (2017: 11%) for the Australian business and 12% (2017: 12%) for the JOHCM business based on the cost of capital (post tax) for each of these CGU's.

Management is of the view that reasonably possible changes in the key assumptions, such as an increase to the discount rate of 2% or a reduction in cash flow of 10%, would not cause the recoverable amount for each CGU to fall short of the carrying amounts as at 31 March 2018.

There has been no impairment of goodwill during the period ended 31 March 2018. The amount of goodwill relating to the JOHCM acquisition has been translated from the British pound to Australian dollar using the spot rate at 31 March 2018.

9. Contributed equity

	31 Mar 2018 \$'000	30 Sep 2017 \$'000
Ordinary shares 316,724,277 (2017: 314,998,763) each fully paid	613,078	610,613
Treasury shares 36,189,724 (2017: 43,456,344)	(191,640)	(184,036)
Total contributed equity 280,534,553 (2017: 271,542,479)	421,438	426,577

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends as declared and in the event of a winding up of the Company, to participate in the proceeds in proportion to the number of and amounts paid on the shares held. Ordinary shares entitle the holder to one vote per share, either in person or by proxy, at a meeting of the Company's shareholders. All ordinary shares issued have no par value.

Movements in ordinary shares during the period:

	31 Mar 2018 Shares '000	31 Mar 2018 \$'000	30 Sep 2017 Shares '000	30 Sep 2017 \$'000
Balance at the beginning of the financial period	314,999	610,613	313,289	607,492
FLE share issuance ¹	1,495	-	1,431	-
Dividend reinvestment plan	231	2,465	279	3,121
Balance at the end of the period	316,725	613,078	314,999	610,613

¹ The shares were issued to fund managers who operate under the FLE program.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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(b) Treasury shares

Treasury shares are those shares issued through the Company's 2007 Initial Public Offer and the Fund Linked Equity (FLE) scheme together with those shares purchased as necessary, in order to meet the obligations of the Pendal Group under its employee share plans. These represent shares either held by the employee benefit trusts for future allocation or shares held by employees within Pendal Group share plans, subject to restrictions. These are recorded at cost and when restrictions on employee shares are lifted, the cost of such shares is appropriately adjusted to the share-based payment reserve. Details of the balance of treasury shares at the end of the financial period were as follows:

	31 Mar 2018 Shares '000	31 Mar 2018 \$'000	30 Sep 2017 Shares '000	30 Sep 2017 \$'000
Balance at the beginning of the period	(43,456)	(184,036)	(42,844)	(184,362)
Treasury shares acquired	(3,071)	(32,297)	(130)	(1,561)
FLE share issuance ²	(1,495)	-	(1,431)	-
Treasury shares released	11,832	24,693	949	1,887
Balance at the end of the period	(36,190)	(191,640)	(43,456)	(184,036)

² The shares were issued to fund managers who operate under the FLE program.

Details of treasury shares at the end of the period were as follows:

	31 Mar 2018 Shares '000	31 Mar 2018 \$'000	30 Sep 2017 Shares '000	30 Sep 2017 \$'000
Unallocated shares held by trustees	18,031	128,168	18,603	126,840
Shares allocated to employees	18,159	63,472	24,853	57,196
Balance at the end of the period	36,190	191,640	43,456	184,036

10. Capital management

The Pendal Group's objectives when managing capital are to maintain a strong capital base in excess of regulatory requirements throughout all business cycles that supports the execution of its strategic goals, in order to optimise returns to its shareholders, while ensuring compliance with the Pendal Group's Risk Appetite Statement.

The Company's current dividend policy is to pay out 80% - 90% of Cash NPAT each year. Capital retained in the business to grow the Pendal Group is largely used to provide seed capital for new funds and investment strategies. The seed capital portfolio has been growing as investments are made in new strategies and further capital support is provided to scale up funds as they achieve an established investment performance track record. During this financial period \$58.7m was funded into the Pendal Group's corporate seed portfolio which totals \$177.7m as at 31 March 2018. The current level of seed capital within the Pendal Group sits within the Board risk appetite.

Cash profits generated from off-shore business units, beyond working capital and regulatory requirements, are repatriated back to the Company through dividends whereby a hedging program is in place to mitigate foreign exchange risk. In accordance with the Company's capital management plan, and to the extent possible, retention of franking credits is minimised.

The Board regularly reviews Pendal Group's free cash flow generation, cash and cash equivalents, borrowings, seed investments, tax and other financial factors in order to maintain an optimal capital structure. Debt may also be used at times to provide capital to the Group. In order to maintain an optimal capital structure, the Board may:

- adjust the amount of dividends paid to shareholders;
- utilise the dividend reinvestment plan;
- return capital to shareholders;
- increase or decrease borrowings;
- contribute to or redeem seed investments; or
- issue new shares.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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The Pendal Group operates legal entities in a number of countries that are subject to various regulatory and capital requirements. These include:

- In Australia, Pendal Fund Services Limited (formerly BT Investment Management (Fund Services) Limited) acts as a responsible entity of the Australian registered and unregistered trusts, and Pendal Institutional Limited (formerly BT Investment Management (Institutional) Limited) provides investment management services to institutional clients and Australian registered and unregistered trusts. Both regulated companies are required to maintain minimum capital requirements as part of the Australian Securities and Investments Commission's Australian financial services licencing conditions. The level of regulatory capital required as at 31 March 2018 is \$6.3 million.
- In the UK, J O Hambro Capital Management Limited (JOHCM) provides investment management services to JOHCM's UK and Irish Open Ended Investment Companies (OEIC's), US Mutual Funds, institutional clients and other JOHCM entities. JOHCM has established an Internal Capital Adequacy Assessment Process (ICAAP) that is used to determine the amount of regulatory capital required to meet its licencing requirements with the Financial Conduct Authority (FCA). The level of regulatory capital required as at 31 March 2018 in accordance with the ICAAP is \$61.8 million (£33.5 million). During 2016, JOHCM was awarded an investment firm waiver by the FCA. The waiver expires on 30 September 2021 with the impact eliminating the need to hold additional capital as a result of intangibles generated via the Company's acquisition of JOHCM in 2011.
- In Singapore, JOHCM (Singapore) Pte Limited provides investment management services to other JOHCM entities and a JOHCM Cayman fund. It is required to maintain minimum capital requirements as part of its licencing requirements with the Monetary Authority of Singapore. The level of regulatory capital required as at 31 March 2018 is \$0.3 million (S\$0.3 million).
- In the USA, JOHCM (USA) Inc. provides investment management services to a number of JOHCM's Delaware Statutory Trusts and other JOHCM entities. It is registered as an investment adviser with the Securities and Exchange Commission. It does not have any minimum capital requirements as part of its licence.

All entities complied with regulatory capital requirements at all times throughout the period.

11. Reserves

Share-based payment reserve

The share-based payment reserve relates to the amortised portion of the fair value of equity instruments granted to employees for no consideration, recognised as an expense. Deferred tax in relation to amounts not recognised in the Statement of Comprehensive Income is also recognised in the share-based payment reserve. The balance of the share-based payment reserve is reduced by the payment of certain dividends not paid from retained earnings, where the requirements of the *Corporations Act* are met.

Foreign currency translation reserve

Exchange differences arising on the translation of foreign controlled entities in addition to gains and losses on derivatives that are designated and qualify as net investment hedges are recognised in other comprehensive income and accumulated in the foreign currency translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is partially disposed of or sold.

Available-for-sale financial assets reserve

The available-for-sale financial assets reserve represents changes in the fair value and exchange differences arising on translation of investments, classified as available-for-sale financial assets. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Common control reserve

The common control reserve relates to the Company's purchase of the investment management business from a number of wholly owned subsidiaries of Westpac Banking Corporation effective 19 October 2007. Any difference between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are recorded, has been recognised directly in equity as part of a business combination under the common control reserve.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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	Share-based payment reserve \$'000	Foreign currency translation reserve \$'000	Available-for- sale-financial asset reserve \$'000	Common control reserve \$'000	Total reserves \$'000
Balance at 1 October 2017	201,575	22,125	23,149	(25,472)	221,377
Share-based payment expense	21,646	-	-	-	21,646
Deferred tax	(612)	-	893	-	281
Treasury shares released	(24,693)	-	-	-	(24,693)
Currency translation difference	-	32,218	-	-	32,218
Revaluation	-	-	2,506	-	2,506
Reclassification to profit or loss	-	-	(8,042)	-	(8,042)
Net investment hedge	-	(3,633)	-	-	(3,633)
Balance at 31 March 2018	197,916	50,710	18,506	(25,472)	241,660
Balance at 1 April 2017	165,710	5,303	22,182	(25,472)	167,723
Share-based payment expense	33,735	-	-	-	33,735
Deferred tax	4,017	-	(378)	-	3,639
Treasury shares released	(1,887)	-	-	-	(1,887)
Currency translation difference	-	19,801	-	-	19,801
Revaluation	-	-	5,098	-	5,098
Reclassification to profit or loss	-	-	(3,753)	-	(3,753)
Net investment hedge	-	(2,979)	-	-	(2,979)
Balance at 30 Sep 2017	201,575	22,125	23,149	(25,472)	221,377

12. Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial period, that is, ordinary shares less treasury shares.

	31 Mar 2018	31 Mar 2017
Profit attributable to ordinary equity holders of the Company (\$'000)	114,761	78,978
Weighted average number of ordinary shares on issue ('000)	316,203	311,022
Weighted average number of treasury shares ('000)	(37,489)	(47,758)
Weighted average number of ordinary shares ('000)	278,714	263,264
Basic earnings per share (cents per share)	41.2	30.0

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares, plus converting notes issued which were considered potential ordinary shares.

The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price over the financial period.

Pendal Group Limited

Notes to the Consolidated Financial Statements

For the half year ended 31 March 2018

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	31 Mar 2018	31 Mar 2017
Profit attributable to ordinary equity holders of the Company (\$'000)	114,761	78,978
Weighted average number of ordinary shares on issue ('000)	316,203	311,022
Weighted average number of treasury shares ('000)	(37,489)	(47,758)
Weighted average converting notes ¹	-	-
Weighted average number of ordinary shares and potential ordinary shares ('000)	278,714	263,264
Diluted earnings per share (cents per share)	41.2	30.0

¹ Converting notes issued as part of the JOHCM acquisition were considered potential ordinary shares and had been included in the determination of diluted earnings per share from their issue date. The last converting notes converted on 26 October 2016.

Options totalling 13,191,568 and performance share rights totalling 1,968,738 issued to staff of the Pendal Group have not been included in the calculation of diluted EPS for the half year ended 31 March 2018. This is because ordinary shares have historically been and are anticipated to be acquired on-market over time to settle the exercise of the options and the conversion of the performance share rights.

13. Contingent assets and liabilities

Performance fees

The Pendal Group manages the investments of certain funds and clients for which it may be entitled to receive fees contingent upon performance of the portfolio managed, on an annual basis or longer. Performance fees which are contingent upon performance to be determined at future dates have not been recognised as income or as a receivable at 31 March 2018 as they are not able to be estimated or measured reliably and may change significantly. All fees are exposed to significant risk associated with the funds' performance, including market risks (such as price risk, interest rate risk and foreign exchange risk) and liquidity risk.

Capital guarantee

The Company has guaranteed the obligations of Pendal Institutional Limited to its institutional clients. The effect of the guarantee which is capped at \$5 million will provide recourse to capital exceeding the minimum regulatory capital required to be maintained by Pendal Institutional Limited.

Regulatory authority

J O Hambro Capital Management Limited (JOHCM) is the subject of an investigation by its UK regulator relating to the eligibility of certain services approximating £5.0m (\$9.2m) paid for out of dealing commissions between 2006 and 2016. It is possible that, as part of the investigation, the eligibility of other services may also be assessed. This is a continuation of the dialogue arising out of a thematic industry review referenced in the Company's prior financial reports in 2016 and 2017. The UK regulator has stated that, although an investigation has been commenced, this does not mean that any determination has been made that rule breaches and/or other contraventions have occurred. The likely outcome or consequence of this matter (including any sanctions or penalties) is unable to be reliably estimated at this time.

To the extent that the Pendal Group, in the normal course of business, has incurred various contingent obligations at 31 March 2018, none of those contingent obligations are anticipated to result in any material loss.

14. Subsequent events

On 26 April 2018, the Company was advised that BT Financial Group intends to redeem an additional \$2 billion from its MySuper portfolio currently being managed by Pendal Australia. This is expected to occur in the second half of the 2018 financial year.

On 8 May 2018, a new 10 year lease was entered into as part of a London premises move to accommodate growth in the business. The commitment over the 10 year term of the lease including an estimate of associated outgoings and an agreed rent free period is approximately £26.4 million (\$48.7 million).

No other matter or circumstance which is not otherwise reflected in this Financial Report has arisen subsequent to the end of the interim period, which has significantly affected or may significantly affect the operations of the Pendal Group, the results of those operations or the state of affairs of the Pendal Group in subsequent financial periods.

Pendal Group Limited Directors' Declaration

For the half year ended 31 March 2018

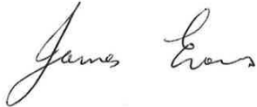
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In the Directors' opinion:

- a) the financial statements and notes set out on pages 8 to 24 are in accordance with the Corporations Act, including:
 - i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements
 - ii) giving a true and fair view of the Pendal Group's financial position as at 31 March 2018 and of its performance for the half year ended on that date; and
- b) there are reasonable grounds to believe that Pendal Group Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board.



James Evans

Chairman



Emilio Gonzalez

Managing Director

Sydney, 10 May 2018



Independent auditor's review report to the members of Pental Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pental Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 March 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Pental Group Limited (the Group). The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the group's financial position as at 31 March 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pental Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pendal Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the group's financial position as at 31 March 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in blue ink that reads "V. Papageorgiou".

Voula Papageorgiou
Partner

Sydney
10 May 2018