IRESS
Half Year Profit Announcement
2018

Incorporating APPENDIX 4D
For the six months ended 30 June 2018

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ASX Appendix 4D

Half year results for announcements to the market

Name of entity	ABN reference
IRESS Limited (IRE)	47 060 313 359

1. REPORTING PERIODS

Financial half year ended ('current period')	Financial half year ended ('previous corresponding period')
30 June 2018	30 June 2017

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Information	June 2018 $'000	June 2017 $'000	Change $'000	Change %
Revenue from ordinary activities	229,672	211,826	17,846	8.4%
Profit before income tax	41,751	37,141	4,610	12.4%
Net profit attributable to members of parent company	32,033	29,530	2,503	8.5%

3. DIVIDENDS

Dividend	Period	Payment date	Amount per security cents	Franked amount per security at 30% tax
Interim dividend*	30 June 2018	28 September 2018	16.0	60%
Final dividend	31 December 2017	22 March 2018	28.0	60%
Interim dividend	30 June 2017	29 September 2017	16.0	60%

* The record date for the interim dividend is 7 September 2018.

4. NTA BACKING

Net tangible asset backing per ordinary share	Current period cents	31 December 2017 cents	Previous corresponding period cents
Net tangible asset backing per ordinary share	(88.3)	(81.5)	(89.1)

NTA backing for the Group is negative reflecting the nature of a software company whereby the majority of the assets relate to recognised intangible assets and unrecognised human capital responsible for creating and maintaining IRESS.

This Half Year Report should be read in conjunction with the Annual Report of IRESS Limited as at 31 December 2017 together with any public announcements made by IRESS Limited and its controlled entities during the half year ended 30 June 2018 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

Directors' Report

The Directors present their report together with the consolidated financial statements of IRESS Limited ("Group"), comprising of the company and its controlled entities, for the half year ended 30 June 2018.

DIRECTORS

The Directors of IRESS Limited during the half year ended 30 June 2018 and up to the date of this report are set out below. All Directors held their position as a Director throughout the entire period up to the date of this report.

Name	Tenure
A D'Aloisio	Chairman since August 2014, Director since June 2012
A Walsh	Chief Executive Officer and Managing Director since October 2009
N Beattie	Director since February 2015
J Cameron	Director since March 2010
J Fahey	Director since October 2017
J Hayes	Director since June 2011
J Seabrook	Director since August 2008
G Tomlinson	Director since February 2015

PRINCIPAL ACTIVITIES

IRESS was founded in Australia and the continued strength of its Australian business remains an important component of its growth strategy. Over time, IRESS has diversified and grown by geography, and a material financial contribution is now from overseas operations.

IRESS' revenue is primarily recurring and subscription based.

Our unified technology capability

We partner with and support clients from small retail to large institutional firms across multiple segments of the financial services industry. Our solutions sit at the centre of our clients' businesses, supporting their core operations, providing end-to-end functionality and connectivity through back, middle and front office operations and to our clients' customers.

	Financial Markets	Wealth Management	Lending
Solutions	Global market data and trading software including: • Order and execution management services; • Smart order routing; • FIX services; • Portfolio management; • Securities lending; • Analytics tools; and • Connectivity.	Integrated wealth management platform: • Financial planning tools, scaled advice solution and research; • Portfolio management, integrated market data and order management; • Client management, business automation and digital client solutions; • Superannuation administration platform; and • Data analytics.	Multi-channel mortgage sales and origination platform including: • Automated workflow; and • Mortgage intermediary advice solution.
Clients	Sell-side and buy-side institutions, retail advisory and online brokers, platforms.	Institutional, retail and independent advisory, wealth managers, superannuation funds and administrators.	Lenders, mortgage intermediaries.

There were no significant changes in the state of affairs of the Group during the financial period other than those referred to in the financial statements or notes thereto.

REVIEW OF OPERATIONS AND OUTLOOK

AUD m		1H17	2H17	1H18	1H18 v 1H17	1H18 v 2H17
Operating Revenue	Reported	211.8	218.1	229.7	8%	5%
	Constant Currency Basis	211.5	218.1	223.8	6%	3%
Segment Profit	Reported	59.6	65.8	67.5	13%	3%
	Constant Currency Basis	59.3	65.8	65.8	11%	–
Segment Profit after Shared Based Payments		54.7	61.4	62.9	15%	2%
EBITDA		50.9	56.4	57.3	12%	2%
Reported NPAT		**29.5**	**30.2**	**32.0**	**8%**	**6%**
Basic EPS (c per Share)		17.7	17.8	18.9	7%	6%
Dividend (c per Share)		16.0	28.0	16.0	–	n/a

IRESS' financial performance is underpinned by a focus on client service and support, ongoing investment in products and technology, increasing product and geographical diversification and a recurring subscription revenue model.

Operating Revenue

On a reported basis, revenue from ordinary activities grew 8% from 1H17 to 1H18 and 5% from 2H17 to 1H18 reflecting underlying growth in ANZ Wealth Management, Lending, South Africa and the UK, which is discussed in more detail below.

In 1H18, favourable currency movements added approximately $6m to revenue in the half. On a constant currency basis, revenue grew 3% from 2H17 to 1H18.

Segment Profit

IRESS uses Segment Profit as a measure of underlying earnings to aid inter-period comparability of results, as disclosed in Note 2.

On a reported basis, Segment Profit increased 13% from 1H17 to 1H18, and 3% from 2H17 to 1H18 respectively reflecting revenue growth, increasing operating leverage and favourable foreign exchange movements.

On a constant currency basis, 1H18 Segment Profit was in line with 2H17 reflecting revenue growth offset by an increase in remuneration expense in 1H18. In 2H17 bonus costs were reduced to reflect trading performance, which has not been repeated in 1H18. Excluding bonus costs, Segment Profit increased 8% from 2H17 to 1H18.

REPORTED CURRENCY	OPERATING REVENUE					DIRECT CONTRIBUTION			MOVEMENT	
AUD m	1H17	2H17	1H18	1H18 v 1H17	1H18 v 2H17	1H17	2H17	1H18	1H18 v 1H17	1H18 v 2H17
APAC Financial Markets	57.5	57.5	56.9	(1%)	(1%)	42.0	41.8	40.8	(3%)	(2%)
ANZ Wealth Management	61.6	63.5	67.0	9%	6%	46.0	48.0	49.5	8%	3%
UK	51.6	53.9	57.7	12%	7%	32.8	34.5	36.9	13%	7%
Lending	10.7	13.0	15.0	40%	15%	8.2	10.4	12.1	47%	17%
South Africa	21.8	20.9	24.1	10%	15%	16.7	16.1	18.3	10%	14%
Canada	8.6	9.3	9.0	6%	(3%)	4.0	4.9	4.6	13%	(8%)
Total Group	**211.8**	**218.1**	**229.7**	**8%**	**5%**	**149.7**	**155.6**	**162.1**	**8%**	**4%**
Product and Technology						(53.8)	(54.5)	(57.6)	(7%)	(6%)
Operations						(18.8)	(19.9)	(20.3)	(8%)	(2%)
Corporate						(17.5)	(15.4)	(16.7)	5%	(8%)
Segment Profit						**59.6**	**65.8**	**67.5**	**13%**	**3%**

APAC Financial Markets

Financial Markets revenue declined 1% in 1H18 which reflects ongoing challenging market conditions in Australia and New Zealand. However, demand for IRESS' portfolio management solutions remains strong as clients focus on transparency and efficiency. There has also been strong interest from retail broking clients in an integrated solution across wealth and trading to assist meeting changing client demands.

Revenue in Asia grew in 1H18 reflecting the continuing roll-out of IRESS' trading solutions to retail clients.

ANZ Wealth Management

Revenue increased 9% from 1H17 to 1H18 and 6% from 2H17 to 1H18.

Momentum in ANZ Wealth Management continued in the first half of 2018, reflecting ongoing demand for IRESS' wealth and superannuation software, in addition to continuing delivery of IRESS' scaled advice solution.

Following a minority investment in 2H17, IRESS acquired the remaining equity in Lucsan, that provides a data analytics platform. This acquisition increases IRESS' data analytics capability to meet an increasing focus by clients on data to drive business growth and efficiency, manage risk and meet regulatory requirements.

Direct contribution was up 3% on 2H17, reflecting revenue growth, offset by additional people through acquisition of Lucsan and an increase in remuneration expenses from 2H17.

Demand for IRESS' superannuation software and services continued to drive revenue growth, and the digital advice solution attracted ongoing interest from industry superannuation funds in Australia.

UK

On a reported basis, revenue increased 12% from 1H17 to 1H18 and 7% from 2H17 to 1H18.

In local currency, revenue increased 6% from 1H17 to 1H18 and 2% from 2H17 to 1H18, reflecting ongoing work with key clients to deliver integrated wealth and trading solutions.

Also contributing to growth was an increase in the number of smaller and medium sized client implementations reflecting new wins and an increase in number of migrations from legacy products under a newly developed managed service implementation approach.

On a reported basis, direct contribution increased 13% from 1H17 to 1H18 and 7% from 2H17 to 1H18.

In local currency, direct contribution was up 6% from 1H17 to 1H18 and 2% from 2H17 to 1H18 reflecting revenue growth combined with a focus on team structures and work processes to improve operational leverage that positively impacted costs.

Lending

On a reported basis, revenue increased 40% from 1H17 to 1H18 and 15% from 2H17 to 1H18, while direct contribution increased 48% and 16% during the same periods.

In local currency, revenue and direct contribution increased 32% and 39% from 1H17 to 1H18 and 10% and 12% from 2H17 to 1H18 respectively, reflecting increased recurring licence fee revenue following successful delivery of IRESS' Mortgage Sourcing and Origination (MSO) product to two clients in the UK, coupled with increased client project activity in both Australia and the UK, where multiple deployments of MSO are progressing well. The deployment to a digital challenger bank in Australia is the first client deployment of MSO outside the UK.

The Lending business continues to make good progress transitioning to a subscription revenue model with recurring licence fees contributing approximately 20% of total revenue in 1H18, up from 15% in 2017.

South Africa

On a reported basis, revenue increased 10% from 1H17 to 1H18 and 15% from 2H17 to 1H18 respectively while direct contribution increased 10% and 14% during the same periods.

On a constant currency basis, revenue grew 5% and direct contribution increased 3% from 2H17 to 1H18 reflecting ongoing underlying demand for IRESS' suite of products across trading solutions, algorithms and automation, market data and SmartHub trading connectivity.

During the half, the South African business secured a significant contract to deploy a broad integrated solution to a tier one financial services business. This client implementation is expected to go live in 2019 and will involve the deployment of a solution that spans IRESS' broad product suite in the South African market.

Canada

On a reported basis, revenue increased 6% from 1H17 to 1H18 but declined 3% from 2H17 to 1H18, while direct contribution increased 13% and declined 6% during the same periods.

In local currency, revenue increased 3% and direct contribution increased 10% from 1H17 to 1H18, but declined 4% while direct contribution declined 9% from 2H17 to 1H18 which reflects lower one-off revenue coupled with an increase in remuneration expenses. There was a small increase in recurring licence fee revenue from 2H17 to 1H18 reflecting net new client wins and underlying retention.

The Canadian business continues to focus on establishing its presence in the wealth market and reported recurring licence fee revenue from wealth products in 1H18, reflecting a number of successful recent client deployments.

Product and Technology

The scale of investment in product and technology is at the heart of IRESS' success and market position, supporting client retention and future recurring revenue growth. Product and technology cost is primarily made up of people costs and reflects IRESS' ongoing investment in existing and new technology.

On a reported basis, costs increased 6% from $54.5m 2H17 to $57.6m in 1H18. On a constant currency basis, costs increased 3% over the same period which largely reflects an increase in remuneration expense. Excluding the impact of the bonus adjustments in the prior half, costs were flat on the prior half which reflects progress on the implementation of agile work practices to drive operational leverage which offset increases in occupancy and other operating costs during the half.

Directors' Report continued

Operations

Operational costs include core business infrastructure and people, such as internal and external communications technology, information security, operating hardware and software, and help desk.

On a reported basis, costs increased 2% from $19.9m in 2H17 to $20.3m in 1H18 which reflects the impact of foreign exchange movements, particularly the British Pound. On a constant currency basis, costs were flat on the prior half, with increased bonus and other operating costs offset by improvements in operational efficiency.

Corporate

Corporate costs include IRESS' central business functions including human resources, finance, communications and marketing, legal and other general corporate costs.

On a reported basis, costs increased 8% from $15.4m in 2H17 to $16.7m in 1H18. On a constant currency basis, costs increased 6% over the same period reflecting an increase in bonus costs. Excluding the impact of the increase in bonus, costs were flat on the prior half reflecting a strong focus on operational and process efficiency to offset increasing occupancy costs, higher licence fees associated with the new ERP and other corporate core systems and an increase in information security costs.

Net Profit after tax (NPAT)

AUD m	1H17	2H17	1H18	1H18 v 1H17	1H18 v 2H17
Segment Profit	**59.6**	**65.8**	**67.5**	**13%**	**3%**
Share Based Payments	(4.9)	(4.5)	(4.6)	5%	(3%)
Segment Profit after Share Based Payments	**54.7**	**61.4**	**62.9**	**15%**	**2%**
Other Non-operating Expenses	(3.8)	(5.1)	(5.6)	(48%)	(12%)
Profit before Interest and Income Tax Expense	**50.9**	**56.3**	**57.3**	**12%**	**2%**
Depreciation and Amortisation	(12.1)	(13.0)	(12.6)	(4%)	3%
EBIT	**38.8**	**43.3**	**44.7**	**15%**	**3%**
Net Interest and Financing Costs	(1.7)	(2.7)	(3.0)	(75%)	(8%)
Tax	(7.6)	(10.4)	(9.7)	(28%)	7%
Reported NPAT	**29.5**	**30.2**	**32.0**	**8%**	**6%**

IRESS' reported NPAT increased 8% from 1H17 to 1H18 and 6% from 2H17 to 1H18 which largely reflects the growth in Segment Profit.

Other non-operating expenses are primarily one-off costs in relation to:

- Business restructuring and changes to non-executive remuneration structure
- Refurbishment of the Melbourne and Brisbane offices
- Integration of businesses acquired in 2016 (Financial Synergy and INET)
- Implementation of new corporate core infrastructure and information security systems
- Costs associated with the migration of some server infrastructure to Amazon Web Services

Net interest and financing costs increased 11% from 2H17 to 1H18 which reflects higher average debt levels driven by investment in office refurbishments and interest rates associated with debt facilities refinanced in 2H17.

The Group's effective tax rate of 23.3% is a function of the tax rates in the jurisdictions in which the business operates and the various tax adjustments impacting the business in the period, including those relating to capital and funding structures previously put in place to fund IRESS' expansion in the UK, employee share plan deductions, R&D tax concessions and recognition of carry forward tax losses.

Balance sheet

The net debt increased by $24.0 million as a result of IRESS' investment in new office fit outs and associated workplace technology of $15 million and a tax prepayment of $7 million due to the phasing of tax installment payments. As a result, gearing increased marginally, but remains conservative at 1.4x Segment Profit at the end of the period. IRESS continues to actively manage cash holdings to reduce interest costs.

DIVIDENDS

IRESS' dividend policy is to maintain a payout ratio of not less than 80% of underlying earnings on an annualised basis, subject to accounting limitations. The dividend policy may be modified by the Board in the future, where it is felt appropriate. Dividends continue to be franked to the greatest extent possible, while reflecting the geographical context of the business and timing of tax payments.

In respect of 1H18 earnings, the Directors determined to pay an interim dividend of 16.0 cents per share franked to 60% at a 30% corporate tax rate.

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Other than the declaration of the interim dividend noted above, there has been no other matter nor circumstance which has arisen since the end of the financial period which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in the subsequent year.

Directors' Report continued

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)*, is set out on page 8.

ROUNDING OFF

The amounts shown in this report and in the half year financial statements have been rounded off, except where otherwise stated, to the nearest thousand dollars, the Company being in a class specified in the ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission.

Signed in accordance with a resolution of the Directors made pursuant to S. 306(3) of the *Corporations Act 2001 (Cth)*.

On behalf of the Directors

TONY D'ALOISIO
Chairman

ANDREW WALSH
Chief Executive Officer and Managing Director

Melbourne
22 August 2018

Auditor's Independence Declaration

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Deloitte.

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The Board of Directors
IRESS Limited
Level 16, 385 Bourke Street
MELBOURNE VIC 3000

22 August 2018

Dear Board Members,

IRESS 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 IRESS Limited.

As lead audit partner for the review of the financial statements of IRESS Limited for the half 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 review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi

Tom Imbesi
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Revenue	6	229,672	211,826
Customer data fees		(17,613)	(16,355)
Communication and other technology expenses		(14,556)	(12,429)
Employee benefit expenses		(119,493)	(115,822)
Other expenses	4	(20,274)	(16,294)
Profit before depreciation, amortisation, interest and income tax expense		**57,736**	**50,926**
Depreciation and amortisation expense		(12,555)	(12,085)
Profit before interest and income tax expense		**45,181**	**38,841**
Interest revenue		111	201
Financing costs		(3,082)	(1,901)
Net interest and financing costs		**(2,971)**	**(1,700)**
Share of loss of equity-accounted investments, net of tax		(459)	–
Profit before income tax expense		**41,751**	**37,141**
Income tax expense		(9,718)	(7,611)
Profit after income tax expense		**32,033**	**29,530**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		5,947	3,717
Tax related to exchange differences recognised directly in foreign currency translation reserve(1)		–	(90)
Total other comprehensive income for the period		5,947	3,627
Total comprehensive income for the period		**37,980**	**33,157**

	Cents per share	Cents per share
Earnings per share		
Basic earnings per share	18.9	17.7
Diluted earnings per share	18.7	17.4

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

(1) Relates to the tax effect on exchange differences arising from intercompany monetary items that are treated as part of a net investment in a foreign operation. Under accounting standards, the foreign exchange gain or loss on these monetary items is recognised directly in other comprehensive income rather than the profit or loss.

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 $'000	31 December 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		19,951	28,615
Trade and other receivables		59,075	56,234
Current taxation receivables		8,389	36
Derivative assets		–	306
Total current assets		**87,415**	**85,191**
Non-current assets			
Intangibles		556,414	547,285
Plant and equipment		29,816	19,773
Investment in associate		–	1,400
Deferred tax assets		16,280	18,337
Total non-current assets		**602,510**	**586,795**
Total assets		**689,925**	**671,986**
LIABILITIES			
Current liabilities			
Trade and other payables		45,476	38,555
Derivative liabilities		1,220	–
Provisions		12,153	13,079
Total current liabilities		**58,849**	**51,634**
Non-current liabilities			
Trade and other payables		2,667	4,205
Provisions		9,567	6,854
Borrowings		206,969	192,865
Deferred tax liabilities		8,410	8,881
Total non-current liabilities		**227,613**	**212,805**
Total liabilities		**286,462**	**264,439**
Net assets		**403,463**	**407,547**
EQUITY			
Issued capital		377,341	376,309
Share based payments reserve		18,545	24,213
Foreign currency translation reserve		(479)	(6,426)
Retained earnings		8,056	13,451
Total equity		**403,463**	**407,547**

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the Half Year Ended 30 June 2018

	Issued capital[1] $'000	Share based payments reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2017	375,287	23,006	(16,603)	19,136	400,826
Profit for the period	–	–	–	29,530	29,530
Other comprehensive income	–	–	3,627	–	3,627
Total comprehensive income	**–**	**–**	**3,627**	**29,530**	**33,157**
Transactions with owners in their capacity as owners:					
Dividends declared or paid	–	–	–	(47,588)	(47,588)
Share-based payment expense, net of tax[3]	–	5,984	–	–	5,984
Transfer of share-based payments reserve[4]	–	(8,834)	–	8,834	–
	–	**(2,850)**	**–**	**(38,754)**	**(41,604)**
Balance at 30 June 2017	**375,287**	**20,156**	**(12,976)**	**9,912**	**392,379**

	Issued capital[1] $'000	Share based payments reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2018	**376,309**	**24,213**	**(6,426)**	**13,451**	**407,547**
Profit for the period	–	–	–	32,033	32,033
Other comprehensive income	–	–	5,947	–	5,947
Total comprehensive income	**–**	**–**	**5,947**	**32,033**	**37,980**
Transactions with owners in their capacity as owners:					
Dividends declared[2]	1,032	–	–	(48,075)	(47,043)
Share-based payment expense, net of tax[3]	–	4,979	–	–	4,979
Transfer of share-based payments reserve[4]	–	(10,647)	–	10,647	–
	1,032	**(5,668)**	**–**	**(37,428)**	**(42,064)**
Balance at 30 June 2018	**377,341**	**18,545**	**(479)**	**8,056**	**403,463**

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

(1) During the period, the total number of ordinary shares in issue increased by 1,634,477 to 173,141,082, arising from the vesting of share rights and performance rights relating to the 2014 plans, as well as issue of 2017 deferred shares for nil consideration. This issue does not adjust the total value of Issued Capital as it relates to equity-settled share based payments.

The number of treasury shares outstanding as at 30 June 2018 is 2,240,511 (31 December 2017: 1,963,344). The movement is attributable to issue of shares to employees under the employee share plans.

(2) Shares issued under the Dividends Re-investment Plan.

(3) The share-based payment expense includes the tax impact of $0.374 million (2017: $1.0 million) on vesting of employee share-based payments.

(4) The movement from share-based payment reserves to retained earnings represents the fair value of share-based payments that have vested in May 2018 or lapsed during the half year. This amount has been recognised as a share-based payment expense over the vesting period which ranged from May 2014 to May 2018.

Consolidated Statement of Cash Flows

For the Half Year Ended 30 June 2018

	Notes	2018 $'000	2017 $'000
		HALF YEAR ENDED 30 JUNE	
Cash flows from operating activities			
Cash generated from operating activities		66,806	54,031
Interest received		111	201
Interest and borrowing costs paid		(2,565)	(1,970)
Income taxes paid		(16,773)	(12,517)
Net cash inflow from operating activities		**47,579**	**39,745**
Cash flows from investing activities			
Net payments for plant and equipment		(15,553)	(9,229)
Payments for intangibles		(284)	(547)
Payment of deferred consideration[1]		(1,905)	–
Payment for investments in associate		(170)	–
Net receipt/(payments) for acquisition of subsidiaries and businesses, net of cash acquired		83	(1,132)
Net cash outflow from investing activities		**(17,829)**	**(10,908)**
Cash flows from financing activities			
Proceeds from borrowings		65,000	59,059
Repayments of borrowings		(54,500)	(41,500)
Loans to related parties[2]		(1,308)	–
Dividends paid		(47,031)	(47,531)
Net cash outflow from financing activities		**(37,839)**	**(29,972)**
Net decrease in cash and cash equivalents		**(8,089)**	**(1,135)**
Cash and cash equivalents at the beginning of the financial year		28,615	22,951
Effects of exchange rate changes on cash and cash equivalents		(575)	(1,163)
Cash and cash equivalents at end of the half year		**19,951**	**20,653**

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

(1) This is a deferred consideration paid during the year in relation to the 2015 acquisition of Pulse Software Systems Limited.

(2) These were advances made to an equity accounted investment. This investment is now a wholly owned subsidiary of the Group. Refer Note 3.

Notes to the Consolidated Financial Statements

For the Half Year Ended 30 June 2018

1. BASIS OF PREPARATION

IRESS Limited (the 'Company') is a for profit company domiciled in Australia. The half year financial report is a general purpose financial report comprising the Company and its subsidiaries (collectively referred to as the 'Group' or 'IRESS') for the period ended 30 June 2018. The half year financial statements:

- were prepared in accordance with the *Corporations Act 2001 (Cth)*, Australian Accounting Standards and Interpretations, and International Financial Reporting Standards (IFRS) including AASB 134 *Interim Financial Reporting*;
- were authorised for issue by the Directors on 22 August 2018;
- were prepared on a historical cost basis, except for derivative financial instruments and investments in financial assets which have been measured at fair value;
- all amounts are presented in Australian dollars, unless otherwise stated; and
- the amounts in this report have been rounded off to the nearest thousand dollars, unless otherwise stated, as allowed under ASIC Corporations (Rounding in Financial /Directors Reports) Instrument 2016/191 dated 24 March 2016 (ASIC guidance).

The half year financial report does not include all notes of the type normally included within the annual financial report. Accordingly, it should be read in conjunction with the annual financial report of IRESS for the year ended 31 December 2017 and any public announcements made by IRESS during the half year ended 30 June 2018 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001 (Cth)*.

The accounting policies used are consistent with those applied in the 2017 annual report except as noted below.

(a) Adoption of new standards

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods commencing on or after 1 January 2018.

Refer to Note 6 for the impact of adoption of AASB 9 and AASB 15 on the Group.

The adoption of other revised standards and Interpretations has not resulted in changes to the Group's policies.

(b) Standards on issue but not yet effective

At the date of authorisation of the financial report, certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not yet been applied by IRESS within this financial report.

With the exception of AASB 16 Leases, IRESS does not believe these Accounting Standards and Interpretations in issue but not yet effective will have a material impact in future periods on the financial statements of the Group.

Management have commenced a detailed assessment of the impact of the adoption of AASB 16 on the financial statements of the Group in future periods as noted below.

AASB 16 *Leases*

AASB 16 is effective for years commencing 1 January 2019. AASB 16 eliminates the classification of leases as either operating leases or finance leases as required by AASB 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- amortisation of lease assets separately from interest on lease liabilities in the income statement.

IRESS' operating leases with terms of more than 12 months relate to office facilities leases.

The adoption of AASB 16 will result in revised accounting for any office facilities operating leases that have a lease end date of 31 December 2019 or later (as per the transition periods). Other finance arrangements previously accounted for as finance leases will no longer be accounted for as leases under AASB 16.

The estimated impact on the opening balance sheet as at 1 January 2019 and income statement impact for 2019 is expected to be as follows:

Balance sheet impact	$'000
Net increase in non-current asset (recognition of lease assets)	41,563
Increase in deferred tax asset	(889)
Net increase in liabilities from recognition of lease liabilities	(44,525)
Net increase in retained earnings (higher expense recognised under AASB 16)	3,851

Income statement impact	$'000
Net decrease in operating expense resulting in an increase in segment profit	8,126
Net increase in interest expense	(1,455)
Net increase in depreciation and amortisation expense	(7,494)
Decrease in net profit before tax	(823)

The above estimated impact may change to reflect any changes impacting leases up to the date of implementation.

2. SEGMENT INFORMATION

The Chief Operating Decision Maker measures the performance of the segments based on comparison to the previous half (in this case 2H17) and the previous corresponding half (1H17). As such, both the previous half (2H17) and the previous corresponding period (1H17) segment results have been presented.

IRESS segments comprise:

(a) Client segments

Client segments which include the revenue less the direct costs of customer facing teams that oversee this revenue generation, are:

APAC Financial Markets

Provides information, trading, compliance, order management, portfolio systems and related tools to financial markets participants in Australia, New Zealand and Asia.

ANZ Wealth Management

Provides financial planning systems and related tools to wealth management professionals located in Australia and New Zealand, and fund administration software to the superannuation and wealth management industries.

UK

Incorporates the financial markets business which provides information, trading, compliance, order management, portfolio systems and related tools to cash equity participants; and the wealth management business which provides financial planning systems and related tools to wealth management professionals located in the United Kingdom.

Lending

The Lending segment operates in the United Kingdom and Australia to provide mortgage origination software and associated consulting services to banks.

South Africa

Provides information, trading, compliance, order management, portfolio systems and related tools to financial markets participants and provides financial planning systems and related tools to wealth management professionals located in South Africa.

Canada

Provides information, trading, compliance, order management, portfolio systems and related tools to financial markets and wealth management participants in Canada.

(b) Cost segments

Product and Technology

All costs associated with product and technology will be reported under this segment giving a clear view of the quantum of investment made by IRESS in maintaining and enhancing its products.

Operations

Includes costs to run client facing and corporate operations activity, including hosting and networks, information security, client help desks and property infrastructure.

Corporate

All other corporate functions including legal, strategy, finance and administration, human resources, communications and marketing, board of directors and Chief Executive Officer.

Notes to the Consolidated Financial Statements continued

For the Half Year Ended 30 June 2018

2. SEGMENT INFORMATION CONTINUED

Any transactions directly between segments are charged on an arm's length basis.

		OPERATING REVENUE			DIRECT DISTRIBUTION		
		1H18 $'000	2H17 $'000	1H17 $'000	1H18 $'000	2H17 $'000	1H17 $'000
SEGMENT RESULTS	APAC Financial Markets	56,879	57,515	57,544	40,803	41,755	42,008
	ANZ Wealth Management	67,014	63,507	61,624	49,458	47,967	45,967
	Total APAC	**123,893**	**121,022**	**119,168**	**90,261**	**89,722**	**87,975**
	UK	57,719	53,901	51,625	36,931	34,480	32,808
	Lending	14,988	13,032	10,727	12,124	10,399	8,227
	Total UK	**72,707**	**66,933**	**62,352**	**49,055**	**44,879**	**41,035**
	South Africa	24,132	20,913	21,842	18,274	16,097	16,687
	Canada	8,940	9,258	8,464	4,552	4,944	4,043
	Total Group	**229,672**	**218,126**	**211,826**	**162,142**	**155,642**	**149,740**
COST SEGMENT	Product and Technology				(57,604)	(54,497)	(53,826)
	Operations				(20,337)	(19,899)	(18,808)
	Corporate				(16,720)	(15,430)	(17,540)
	Total indirect costs				**(94,661)**	**(89,826)**	**(90,174)**
GROUP RESULTS	**Group Segment Profit**				**67,481**	**65,816**	**59,566**
	Share-based payment expense				(4,605)	(4,460)	(4,867)
	Segment Profit after share-based payment expense				**62,876**	**61,356**	**54,699**
	Other non-operating expenses[1]				(5,140)	(4,896)	(3,773)
	Profit before interest and tax, depreciation and amortisation				**57,736**	**56,460**	**50,926**
	Depreciation and amortisation				(12,555)	(12,990)	(12,085)
	Profit before interest and tax				**45,181**	**43,470**	**38,841**
	Net interest and financing costs				(2,971)	(2,745)	(1,700)
	Share of loss of equity-accounted investments, net of tax				(459)	(100)	–
	Tax expense				(9,718)	(10,400)	(7,611)
	Net profit after tax				**32,033**	**30,225**	**29,530**

[1] Predominately relates to office move costs, business acquisition and integration expenses and unrealised foreign exchange gains and losses.

3. ACQUISITION OF SUBSIDIARY

During 2017, IRESS acquired a 15% interest in Lucsan. Lucsan is an established data analytics company providing leading technology solutions to a wide range of companies, including Australia's major banks.

On 1 March 2018, the Group increased its interest in Lucsan to 30%, and subsequently to 100% on 18 April 2018. The total cash purchase price (including that paid in 2017) was $1.5 million. The transaction was executed at market prices.

Identifiable assets acquired were the Lumen software recognised on acquisition at $4.7 million, and net operating liabilities (employee entitlements, intercompany payables, tax payments and other third party creditors) of $3.1 million. Goodwill has been provisionally calculated as $0.4 million subject to the finalisation of the tax acquisition accounting.

Notes to the Consolidated Financial Statements continued

For the Half Year Ended 30 June 2018

4. PROFIT BEFORE INCOME TAX INCLUDES THE FOLLOWING:

		HALF YEAR ENDED 30 JUNE	
	Notes	2018 $'000	2017 $'000
Other operating expenses			
General operating expenses		9,634	8,437
Increase/(reversal) of provision for doubtful debts		178	(447)
Rental expense relating to operating leases		5,217	4,341
Fees to auditors		105	190
		15,134	**12,521**
Other non-operating expenses			
Fair value gain on step acquisition[1]		(897)	–
Unrealised losses/(gains) on foreign balances		664	(96)
Business acquisition and restructure expenses		1,102	3,012
Other project related expenses		4,271	857
		5,140	**3,773**
Other expenses		**20,274**	**16,294**

[1] The fair value gain on step acquisition arose from the accounting requirements under AASB 3 Business Combinations, and relate to current period business combinations.

5. GOODWILL IMPAIRMENT TESTING

During the half year, and at the date of this report, no indicators were identified that would require a reassessment of the recoverable amount of goodwill for ANZ Wealth Management, UK, Lending and South Africa.

Canada

During the half year, the slower than expected introduction of wealth products to Canadian clients, and the notification of a client's intention to reduce services acquired from IRESS in future years, has required the Canada goodwill carrying amount of $8.7 million to be tested for impairment.

The recoverable amount has been calculated based on the value in use, using a discounted cash flow (DCF) approach. The DCF uses post-tax cashflow projections that are based on the most recent five year financial plan and is discounted at an appropriate after tax discount rate taking into account the Group's weighted average cost of capital adjusted for any risks specific to the CGU.

Post tax discount rates and terminal growth rates applied remained unchanged at 8.1% and 0.5%, respectively.

Significant estimate made

The continued profitability and growth of the Canada business is dependent on retained client revenue and future growth from IRESS' products deployed to Canadian clients and prospects. If either of these initiatives are delayed or unsuccessful, it will result in reduced headroom or impairment of the goodwill allocated to the Canada segment.

6. IMPACT OF NEW ACCOUNTING STANDARDS

(a) AASB 9 *Financial Instruments*

AASB 9 changes the classification of complex financial instruments, calculation of impairment losses in financial assets, and hedge accounting.

IRESS has no complex financial instruments and does not apply hedge accounting. As a result these changes have not impacted IRESS.

The calculation of impairment losses impacts the way IRESS calculates the bad debts provision, now termed the credit loss allowance. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

A provision matrix is determined based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customers' future credit risk. On that basis, the credit loss allowance as at 30 June 2018 was determined as follows:

Provision matrix	Australia	United Kingdom	South Africa	Canada
Current	0.1%	0.1%	0.1%	0.3%
1 to 30 days	0.4%	0.5%	0.3%	0.9%
30 to 60 days	1.0%	1.3%	0.9%	2.5%
60 to 90 days	1.8%	2.4%	1.6%	4.6%
Over 90 days	1.8%	2.5%	1.6%	4.8%
Contract assets	0.1%	0.1%	0.1%	0.3%

	Australia $'000	United Kingdom $'000	South Africa $'000	Canada $'000	Group $'000
Receivables					
1 to 30 days	13,004	8,345	2,029	1,447	24,825
30 to 60 days	2,308	3,416	928	154	6,806
60 to 90 days	961	38	504	157	1,660
Over 90 days	1,872	1,858	1,247	481	5,458
Total receivables	**18,145**	**13,657**	**4,707**	**2,239**	**38,748**
Contract assets	3,469	6,504	397	-	10,370
Allowance based on historic credit losses	119	145	42	47	353
Adjustment for expected changes in credit risk(1)	180	28	138	10	356
Credit loss allowance	**299**	**173**	**180**	**57**	**709**

(1) Adjustment to reflect the higher credit risk and probability of default relating to customers that are over 90 days past due.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has applied the exception under AASB 9 to not restate comparatives as the credit loss allowance under AASB 139 and AASB 9 did not result in material changes to the amounts previously reported.

(b) AASB 15 *Revenue from Contracts with Customers*

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018. The Group has applied AASB 15 retrospectively with the cumulative effect of initially applying the standard recognised in opening retained earnings. The cumulative effect of initially applying the standard was nil, as the timing of revenue recognition has not changed for the Group's contracts that were in progress at 1 January 2018.

IRESS designs, develops and delivers technology solutions for the financial services industry in Australia, New Zealand, the United Kingdom, South Africa, Canada, and Asia.

From these activities, IRESS generates the following streams of revenue:

- Software licence revenue
- Implementation and consulting revenue
- Royalties revenue from provision of financial market information
- Other ancillary fees such as hosting and support service fees

Each of the above services delivered to customers are considered separate performance obligations, even though for practical expedience may be governed by a single legal contract with the customer.

6. IMPACT OF NEW ACCOUNTING STANDARDS CONTINUED

(b) AASB 15 *Revenue from contracts with customers* continued

Under AASB 15, revenue recognition for each of the above is as follows:

Revenue stream	Performance obligation	Timing of recognition
Software licence revenue	Access to software.	Over time as the customer simultaneously receives and consumes the benefit of accessing the software. Revenue is calculated based on licences used.
Implementation and consulting revenue	As defined in the contract. For implementation revenue – typically, at completion of data conversions, completion of user acceptance testing, provision of functional environments.	Over time as services are delivered. Revenue is calculated based on time and materials.
Royalties revenue	Provision of financial market information.	Over time as the customer simultaneously receives and consumes the benefit of accessing the information.
Other ancillary fees	Provision of hosting services, cloud services, support and maintenance services.	Over time depending on circumstance.

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period. This is determined based on the actual labour hours spent.

Some contracts include multiple deliverables, such as the implementation services and software licences. However, because the implementation services do not include material customisation of software that are specific to the client and could be performed by another party, the implementation service and software licences are accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin.

If contracts include the installation of hardware, revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed, and the customer has accepted the hardware.

In fixed-price contracts, the customer pays the fixed amount based on an agreed payment schedule. If the services rendered by the Group exceed the payment, a contract asset (previously referred to as “unbilled income”) is recognised. If the payments exceed the services rendered, a contract liability (previously referred to as “deferred revenue”) is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

During the half year, revenue by geographical segment is summarised below:

Revenue stream	Revenue recognition	APAC Financial Markets $'000	ANZ Wealth Mngt $'000	UK $'000	Lending $'000	South Africa $'000	Canada $'000	Total $'000
Software licence revenue	Over time	42,137	58,220	50,385	1,971	22,616	6,602	181,931
Royalties revenue	Over time	10,964	132	1,605	–	932	846	14,479
Implementation and consulting revenue	Over time	–	7,497	673	11,997	–	–	20,167
Other ancillary fees	Over time	3,778	1,165	5,056	1,020	584	1,492	13,095
Total revenue		**56,879**	**67,014**	**57,719**	**14,988**	**24,132**	**8,940**	**229,672**
Contract assets		423	3,046	6,504	–	397	–	10,370
Contract liabilities		(44)	(1,613)	(6,642)	–	(104)	(6)	(8,409)

Notes to the Consolidated Financial Statements continued

For the Half Year Ended 30 June 2018

7. DIVIDENDS

	HALF YEAR ENDED 30 JUNE	
	2018 $'000	2017 $'000
Dividends recognised and paid during the half year		
Final dividend for 2017 28.0 cents per share franked to 60% (2016: 28.0 cents per share franked to 60%)	48,075	47,588
Dividends declared after balance date		
Interim dividend for 2018 16.0 cents per share franked to 60% (2017: 16.0 cents per share franked to 60%)	27,703	27,403
Franking credit balance		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2017: 30%)	2,353	4,143

8. SUBSEQUENT EVENTS

Other than the declaration of the interim dividend noted above, there has been no other matter nor circumstance, which has arisen since the end of the financial period which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent year.

Directors' Declaration
For the Half Year Ended 30 June 2018

The Directors declare that in the Directors' opinion:

(a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) the attached half year financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including

i) giving a true and fair view of the financial position as at 30 June 2018 and the performance of the Group for the half year ended on that date.

ii) compliance with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporation Regulations 2001*.

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

TONY D'ALOISIO
Chairman

ANDREW WALSH
Chief Executive Officer and Managing Director

Melbourne
22 August 2018

Independent Auditor's Review Report

Deloitte.

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Independent Auditor's Review Report to the members of IRESS Limited

We have reviewed the accompanying half-year financial report of IRESS Limited which comprises the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year set out on pages 9 to 20.

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 gives a true and fair view and 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 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 consolidated entity's financial position as at 30 June 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 IRESS 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 is 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of IRESS Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

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 IRESS Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi

Tom Imbesi
Partner
Chartered Accountants
Melbourne, 22 August 2018