iress

ASX Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

21 February 2019

IRESS LIMITED - RESULTS FOR ANNOUNCEMENT TO THE MARKET

As required by the Listing Rules, IRESS encloses for immediate release the following information:

1. **Appendix 4E; and**
2. **IRESS' 2018 Annual Report**

Yours sincerely,

Peter Ferguson

Group General Counsel
& Company Secretary

IRESS Limited
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MELBOURNE VIC 3000 Australia
ABN: 47 060 313 359

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Enquiries@iress.com
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Offices in:
Australia, Canada, Hong Kong,
New Zealand, Singapore,
South Africa and United Kingdom

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Appendix 4E

Preliminary Final Report

Name of entity	ABN reference
IRESS Limited	47 060 313 359

1. REPORTING PERIODS

Financial year ended ('current period')	Financial year ended ('previous corresponding period')
31 December 2018	31 December 2017

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key information	Current period $'000	Previous corresponding period $'000	Percentage change increase	Amount increase $'000
Revenue from ordinary activities	464,624	429,952	8.06%	34,672
Profit before income tax expense	84,969	77,765	9.26%	7,204
Net profit attributable to the members of the parent company	64,096	59,755	7.27%	4,341

3. DIVIDENDS

Dividend	Period	Payment date	Amount per security Cents	Franked amount per security at 30% tax
Final dividend*	31 December 2018	22 March 2019	30.0	40%
Interim dividend	30 June 2018	28 September 2018	16.0	60%
Final dividend	31 December 2017	23 March 2018	28.0	60%

* The record date for the final dividend is 28 February 2019. A dividend reinvestment plan will operate in respect of the final dividend.

4. NTA BACKING

Net tangible assets backing per ordinary share	Current period Cents	Previous corresponding period Cents
Net tangible assets backing per ordinary share	(78.36)	(81.48)

NTA backing for the Group is negative reflecting the nature of a software company whereby the majority of the assets relate to intangible assets recognised and human capital responsible for creating and maintaining IRESS products that has not been recognised.

5. FINANCIAL STATEMENTS

For additional Appendix 4E disclosures, refer to the Directors' Report, audited Financial Report for the year ended 31 December 2018 and the Media Release lodged with the Australian Securities Exchange on 21 February 2019.

2018 Annual Report

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Sydney, Australia

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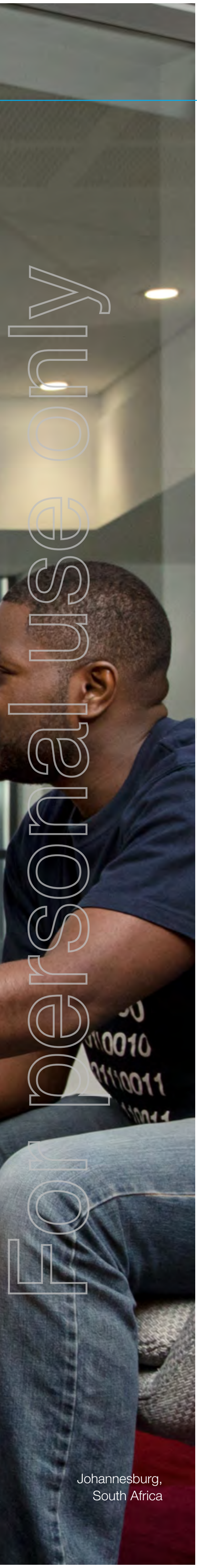
AGM details
Thursday 2nd May 2019
11.30am AEST
RACV Club
501 Bourke Street
Melbourne, Australia

IRESS LIMITED ABN 47 060 313 359


Johannesburg, South Africa

We design, develop and deliver technology for the financial services industry in Australia, New Zealand, the United Kingdom, South Africa, Canada and Asia.

Whether our clients trade on global financial markets, manage investments, provide mortgages or help people plan their financial future, they rely on our software and our team.

With a strong financial track record, we continue to grow and adapt to meet the complex and changing needs of our clients.

1,850
PEOPLE

17
OFFICES

6
COUNTRIES

1
AMBITION

To be the most innovative, reliable and respected technology partner, regarded by our clients as essential and desirable.

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2018 Snapshot

2018 was a year of focused investment and improvement for clients and users.

IRESS Open

The introduction of IRESS Open, our expanded approach to software integration, gives clients greater flexibility and choice in what third party applications are included in their technology ecosystem, while keeping IRESS at the core.

Custom integrations continue our existing approach of working together with third-party providers to develop and embed functionality within the IRESS user interface. Standard integrations allow a client to permission and facilitate the transfer of data with third-party applications simply and directly with no development required by us.

IRESS Labs

In 2018 we opened IRESS Labs, where we co-design our software with users. Focused initially on XPLAN, Labs builds on our history of co-designing with users for trading solutions such as ViewPoint.

Recent releases of XPLAN have included co-designed features such as a refreshed and contemporary screen design, a much simpler menu structure to make navigating XPLAN simpler and quicker, and a new way for clients to track sales opportunities.

To date, over 75 users representing more than 50 firms are actively involved in IRESS Labs. With a further series of experiments scheduled for 2019, the number of users contributing their insights and experience will grow significantly.

IRESS Automated Personal Advice

IRESS' automated personal advice product is now available, meaning IRESS clients can grow and scale their businesses by providing digital advice to their clients.

The solution allows an end client, such as a member of a superannuation fund, to set retirement objectives, review projections and make choices to optimise their retirement outcomes. The end client is provided with a statement of personal advice and can choose to action the recommendations using the solution and also monitor progress. Automated personal advice can also be provided for wealth protection, savings and debt management.

IRESS Client Portal

The launch of IRESS Client Portal means IRESS clients, such as financial advisers, can deliver a professional and personalised digital experience to their clients, offering access to their financial information and direct interaction through secure messaging.

The back end is built on a sophisticated enterprise-grade content management system that draws on data in clients' existing IRESS systems and enables IRESS clients to deliver a secure digital customer experience at scale and with ease.

IRESS Lumen

Following the acquisition in April of leading Australian regtech business Lucsan, and integration of its data analytics capability with XPLAN, we started implementing IRESS Lumen with financial services businesses in Australia.

IRESS Lumen securely and quickly analyses advice processes and information, and clients' additional proprietary or third-party data, to provide an in-depth picture of the operations and performance of the business and where there is risk.

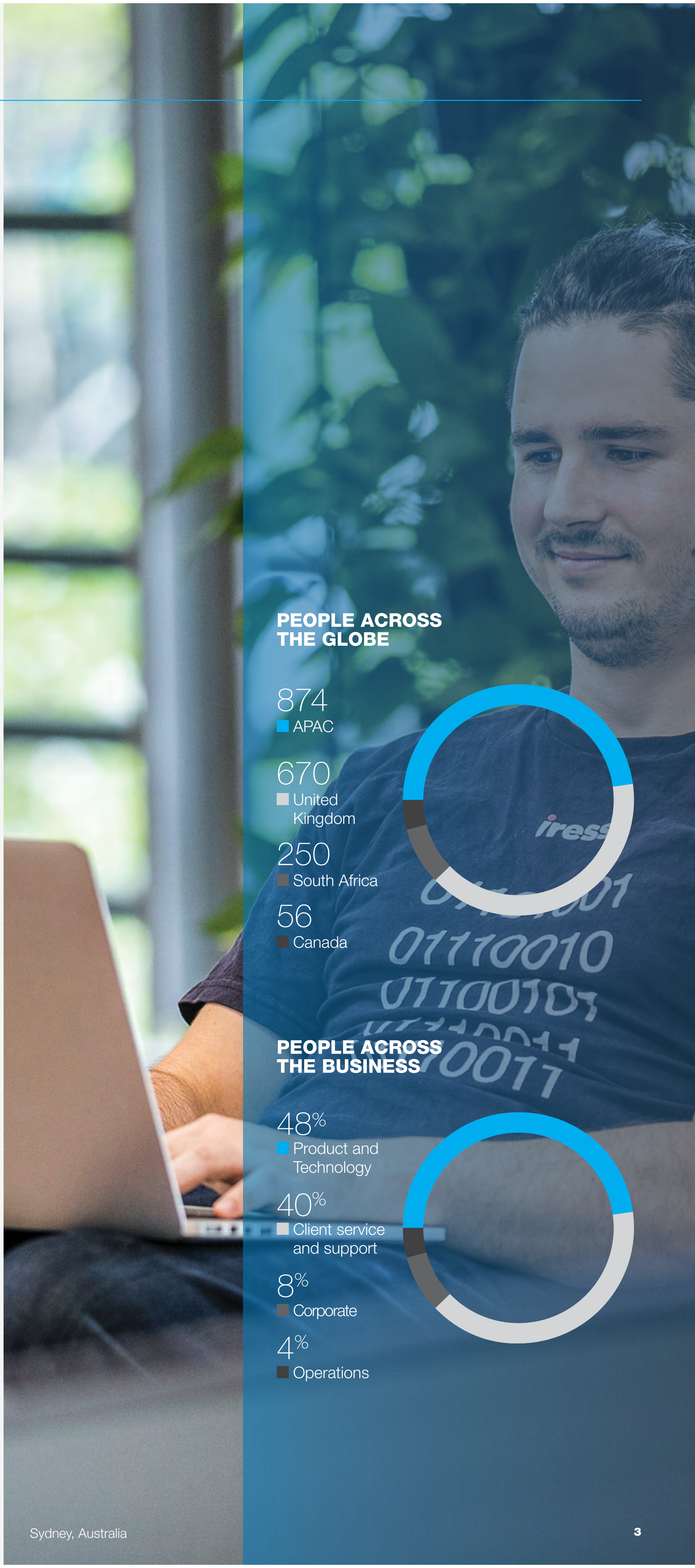
With wealth management businesses increasingly looking to technology to validate advice and prevent breaches before they happen, Lumen includes pre-configured compliance monitoring for ASIC's key risk indicators to satisfy compliance and regulatory requirements, recording all outcomes for more efficient reporting to auditors and regulators.

9,000+
clients from small businesses to global institutions

12,000
professional trading and market data users

50,000+
advice software users

461
integrations with third-party systems



PEOPLE ACROSS THE GLOBE

874
APAC

670
United Kingdom

250
South Africa

56
Canada

PEOPLE ACROSS THE BUSINESS

48%
Product and Technology

40%
Client service and support

8%
Corporate

4%
Operations

Sydney, Australia

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IRESS Foundation

Giving back to the communities in which we live and work has always been important to us.

Two years ago we set up the IRESS Foundation to more formally recognise the significant efforts of our team and collectively make a bigger difference where we could. Since then we've committed our support to a wide range of causes from health and homelessness, to social issues and unemployment, and found ways to give our time and skills in other areas – like sharing our enthusiasm for technology through educational projects.

IRESS OPPORTUNITY INITIATIVES

A safe family, a home, good health, access to quality food and an education are all foundations for making the most of the opportunities that we hope life will bring.

Through the IRESS Opportunity Initiatives we establish a long-term relationship with a regional community service initiative that focuses on those where family, health, education or welfare is at risk.

By giving our support we hope beneficiaries can make the best of their opportunities in life.

IRESS MATCHING INITIATIVES

Many of us have friends or family who have been affected by mental or physical health issues or are passionate about particular social issues.

Through the IRESS Foundation Matching Initiative we support people at IRESS who want to focus on causes that are close to their hearts beyond the local IRESS Opportunities Initiatives.

By matching our people's fundraising efforts, we contribute to worthwhile causes important to our people.

HELPING OUR PEOPLE HELP OTHERS

We give every member of our team three volunteering days of Foundation Leave each year to enable them to support their local communities in any way they choose. In 2018, our people clocked up 2,096 hours of time giving back to those that need it all around the world.

"We're very proud of our partnership with the fabulous team from IRESS."

Vanessa Watson,
Events & Special Projects, Two Good Co

"I love working for an organisation that doesn't just pay lip service to giving back. IRESS makes time for people to give back."

Jacqui Durbin,
Product Manager, IRESS

15

Opportunity Initiative partners across the globe

$138,000

gifted directly by the IRESS Foundation through our Opportunity Initiatives

$35,000

given to worthwhile causes under our Matching Initiatives

2,096 hours

of time given by our people

For more information about the IRESS Foundation and the work done by our people with our Opportunity Initiative partners, please visit **www.iress.com/au/resources/blogs/giving-something-back/**

IRESS Foundation at
Two Good Co, Australia

IRESS Leadership

Our greatest asset at IRESS is our people...

...supporting them are a leadership team committed to IRESS' goals, clients and people.

Back row (left to right)

John Harris
Chief Financial Officer

Glenn Wilson
Executive General Manager – Wealth & Trading

Julia McNeill
Group Executive – Human Resources

Andrew Todd
Chief Technology Officer

Simon New
Group Executive – Strategy

Simon Badley
Managing Director – United Kingdom

Andrew Walsh
Chief Executive Officer

Peter Ferguson
Group General Counsel

Coran Lill
Group Executive – Communications & Marketing

Front row (left to right)

Tizzy Vigilante
Managing Director – Australia & New Zealand (Wealth Management)

Aaron Knowles
Group Executive – Product

Kirsty Gross
Managing Director – Australia & New Zealand (Financial Markets)

Jason Hoang
Managing Director – Asia

Ray Pretorius
Managing Director – South Africa

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Financial Highlights

Revenue growth and operating leverage driving earnings

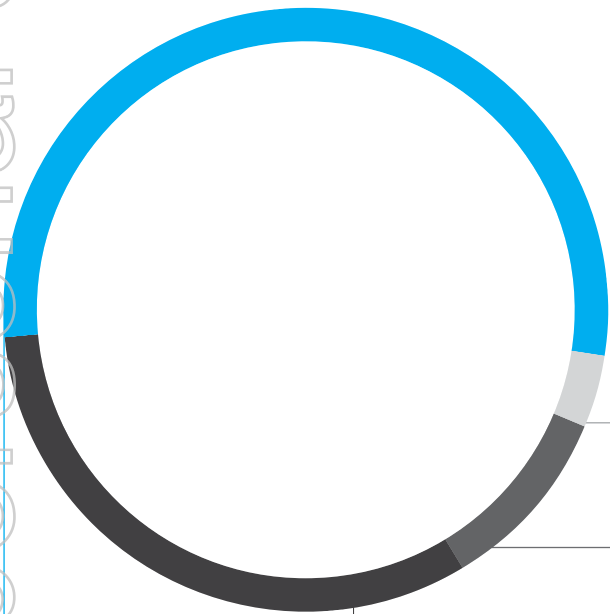
OPERATING REVENUE

$464.6M

↑8%

on 2017

↑6% **on a constant currency basis**



54%

APAC

- Growth in financial markets revenue driven by continuing buy-side demand and successful client delivery in Asia.
- Underlying XPLAN growth driven by ongoing demand amidst increased regulatory focus.
- Demand for superannuation solutions continuing.

32%

United Kingdom

- Revenue growth reflects successful key client deliveries and product uptake.
- Lending momentum is increasing following recent client deliveries.

10%

South Africa

- Revenue growth reflects continuing demand across product suite.

4%

Canada

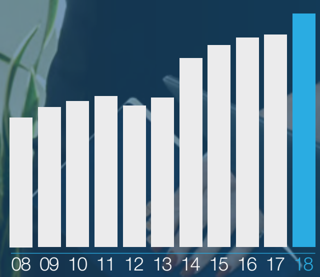
- Flat financial markets revenue reflects ongoing focus of clients on costs in challenging market.
- Wealth revenue growth from successful client deployments.

The percentages above represent the geographical segment's share of the Group's total revenue.

STRONG TRACK RECORD OF PRODUCING SUSTAINABLE RETURNS FOR SHAREHOLDERS

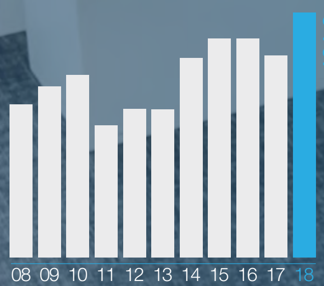
Operating Revenue
AUD (m)

Segment Profit (1)
AUD (m)

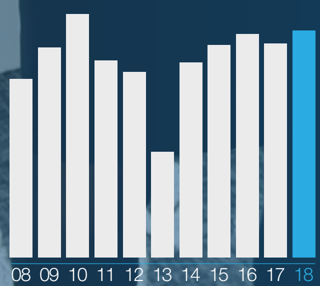


NPAT
AUD (m)

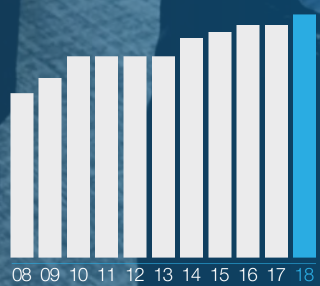
Operating Cash Flow
AUD (m)



Earnings Per Share
AUD (cents)



Dividend Per Share
AUD (cents)



Unless otherwise stated all comparisons are with the prior corresponding period on a reported currency basis.

Financial information in this report is extracted or calculated from the half year & annual financial statements which have been subject to review or audit.

London,
United Kingdom

(1) Segment Profit represents earnings before interest, tax, depreciation, amortisation, share based payments, non-operating items and unrealised FX gains/losses – see page 15 for a full reconciliation.

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Chairman & CEO's Letter

In 2018, our goal of being both essential and desirable to our clients and users drove our key decisions including our product investment and innovation priorities, technology improvements and how we work. Our financial results reflect our strong and ongoing progress towards this goal.

IRESS remains well-placed for continued success in a changing financial services industry, where there is strong demand for a broad range of standalone and integrated technology solutions. There is also an increasing focus by our clients on how technology – and IRESS – can help them manage and leverage data for compliance and growth.

FINANCIAL RESULTS

In 2018, IRESS continued to perform strongly, underpinned by a focus on achieving sustainable revenue growth and operating leverage.

Group revenue was up 8% on FY17 to $464.6 million, with Segment Profit up 10%. On a constant currency basis, operating revenue rose by 6% and Segment Profit was up 8%. Reported NPAT was $64.1 million, up 7% on FY17. Revenue growth was led by a strong overall performance, including from the United Kingdom and Australia.

In Australia, New Zealand & Asia, revenue growth was strong. Our trading and market data solutions demonstrated continued resilience and continue to play an important part in our broader offering globally, particularly through our integrated solutions. We are experiencing sustained growth in wealth management underpinned by existing and extended capability, including in data analytics solutions and superannuation, against a backdrop of increased regulatory scrutiny for clients and the spotlight of the Royal Commission.

In the United Kingdom, strong financial results reflect continued delivery on earlier wins. Accelerated revenue growth in the second half reflected the successful progression of client projects as anticipated. Growth in our wealth & trading business demonstrates ongoing work with key clients to expand the solutions we provide as well as a major new client. Sourcing growth reflects higher take up of ancillary products and services aligning to market demand.

Given the predominantly domestic focus of our UK clients we don't expect a significant direct impact from Brexit. We are exposed to indirect economic impacts which are harder to predict and are being closely monitored.

Lending continued to transition to a subscription-based revenue model with client deliveries in the UK and sound progress on new clients in Australia, with strong interest from digital banks.

In South Africa, we anticipate a return to stronger revenue growth rates in 2019 and despite a marginal increase in operating revenue in Canada, recurring revenue increased during the year reflecting both new client wins and client retention.

DIVIDEND AND CAPITAL MANAGEMENT

In respect of second half earnings, the Directors determined to pay a final dividend of 30.0 cents per share franked to 40% at a 30% corporate tax rate. This represents a total dividend for the year ended 31 December 2018 of 46.0 cents per share, which is up by 5% on 2017.

Cash conversion and recurring revenue are strong financial characteristics of IRESS' business and our balance sheet remains conservative, as shown by our leverage ratio of 1.3 times Segment Profit.

STRATEGIC HIGHLIGHTS

- **Successful completion of milestone projects** including significant deliveries in the UK and Australia to large private wealth management and advice clients.
- **Continued momentum in lending** with the successful go-live of a major UK lending project and with work for a number of new clients in UK and Australia underway.
- **Investment and innovation in our solutions** including a new automated, personal advice product for Australian superannuation funds, an improved adviser-client portal and the integration of our data analytics solution Lumen with XPLAN. Our focus on involving users directly in designing our products at scale, through our Labs program, is also gathering momentum.
- **Making integrations with third parties faster and easier for clients** through our IRESS Open initiative – building on our strong history of third-party integrations.
- **Improving efficiency and quality** with significant progress on technology initiatives including enhanced cloud capability and continuous delivery.

Tony D'Aloisio
Chairman

Andrew Walsh
Managing Director &
Chief Executive Officer

HOW WE WORK

How we work at IRESS – including with our clients – continues to be a major focus for us in consistently delivering quality at scale. This focus includes how we work within teams and across teams, how we best deliver to our clients' needs, the capability we have, and the technology and tools we use. Our focus on this is heightened by the international nature of our business, with efficiency and consistency across teams and timezones critical.

As foreshadowed in the FY17 report, we successfully implemented a new remuneration model for non-executive employees, discontinuing cash bonuses and replacing them with a profit-share arrangement. Those who consistently excel are offered equity as a fixed percentage of their base salary.

OUR FOCUS IN 2019

We will continue to focus on our goal of being essential and desirable to clients, through delivering consistent quality through scale. We are well placed as we respond to the needs of a changing financial services industry and our clients, particularly relating to data capability. This capability includes technology to support clients' data access, compliance and business growth.

THANK YOU

Thank you to our shareholders – as well as to our clients, users and people – for your continued support of IRESS.

BOARD INTRODUCES EXECUTIVE REMUNERATION CHANGES

In addition to reporting on 2018 outcomes under the current executive remuneration model, the Remuneration Report outlines changes to IRESS' executive remuneration framework that the Board has made, effective from 1 January 2019.

Since its founding in 1993, IRESS has grown from a local Australian business to an international business with substantial offshore operations. IRESS has continued to evolve and expand and now serves multiple client segments internationally, faces a range of competitors, and is exposed to global technology and regulatory influences. As a result, IRESS now competes for the best people on a global basis, with half of the company's executives based outside Australia.

Central to IRESS' success is a focus on sustainable long-term growth built on enduring client relationships and high-quality recurring revenue. Client successes and product investments made in any one year do not substantially change that year's performance outcomes but drive shareholder value over the medium to long term. For example, in 2016, IRESS put in place a five-year strategy which saw significant investment in our technology, products, platforms and people to achieve longer-term real returns.

It was in this context of creating long-term shareholder returns that the Board commenced a review of executive remuneration. Our objectives were to ensure that IRESS can continue to attract, retain and appropriately reward the people needed to deliver strategic and client outcomes, and that the interests of shareholders and the executives remain tightly aligned.

In undertaking this review, we spoke with our people, gained insight into the experiences of other peer group companies and met with many of our largest shareholders and their proxy advisers to discuss matters of strategy, performance, leadership and remuneration.

The key changes introduced by the new executive remuneration framework resulting from this process are summarised below. Detailed features of the new framework are set out in Section 2 of the Remuneration Report.

- Removal of cash STI which, in the Board's view, is too focused on short-term individual objectives whereas IRESS' strategy and business model are long-term and global in nature. Our experience is that cash STI has not aligned as well as we would have liked with providing incentives to create medium to longer-term shareholder value.
- An increased proportion of remuneration delivered in deferred equity to further enhance the alignment between the interests of shareholders and the executives.
- A material minimum shareholding requirement for the CEO and other executives, again ensuring strong alignment with shareholders.
- Additional safeguards enable the Board to decline to make an equity grant, lapse unvested equity and clawback equity subject to a holding lock to support robust performance and risk management.
- Moving from Relative Total Shareholder Return (RTSR) to Absolute Total Shareholder Return (ATSR) as the measure for vesting of long-term performance-based incentives to ensure that executives are only rewarded when shareholders have achieved positive returns. ATSR also makes the vesting conditions clear and transparent to executives and aligns with the shareholder value they deliver.

The Board is confident that this new executive remuneration framework to be implemented effective 1 January 2019, in combination with the non-executive remuneration model introduced from 1 January 2018, will ensure that IRESS can continue to attract, retain and appropriately reward the people needed to deliver its strategy and outcomes for clients. In addition, the framework further enhances the already strong alignment between shareholders' and executives' interests. We are excited about the long-term opportunities for IRESS and are committed to delivering strategic outcomes for the benefit of our shareholders, clients and the people of IRESS.

Tony D'Aloisio, Chair

Principal Activities

IRESS is a leading technology company, providing software to the financial services industry. It was founded in Melbourne in 1993 and operates in Australia, New Zealand, the United Kingdom, South Africa, Canada and Asia. IRESS' revenue is primarily subscription based and recurring.

Our clients range from small retail to large institutional businesses across the financial services industry. Our technology sits at the centre of our clients' businesses, supporting their core operations, providing essential functionality and helping them connect through their back, middle and front offices and to their clients and customers.

TRADING AND MARKET DATA	WEALTH AND TRADING	ADVICE AND SUPERANNUATION	LENDING
SOLUTIONS			
Global market data and trading software including: • order and execution management services, • smart order routing, • FIX services, • portfolio management, • securities lending, • analytical tools, and • connectivity.	Integrated software solution offering: • market data, • order management, • portfolio management, • client relationship management, and • wealth management.	Integrated wealth management platform offering: • client management, • business automation, • portfolio data, • research, • financial planning tools, • scaled advice journeys, • digital client solutions, and • data driven compliance and analytics. Superannuation administration platform offering: • fund registry, • digital member portal, and • digital advice solutions.	Multi-channel mortgage sales and origination platform including: • automated workflow, and • application processing. Mortgage intermediary advice and mortgage comparison solution.
CLIENTS			
Sell-side and buy-side institutions, retail advisory, online brokers and platforms.	Discretionary retail fund managers, private client advisers, wealth managers.	Institutional and independent advisory, wealth managers, mortgage intermediaries.	Lenders, mortgage intermediaries.

MATERIAL BUSINESS RISKS

The material business risks that have the potential to impact IRESS are outlined below, together with mitigating actions undertaken to minimise these risks.

RISK	NATURE OF RISK	MITIGATION
Information security breach and failure of critical systems	Due to the nature of IRESS' business, IRESS could be impacted significantly by the failure of critical systems, whether caused by error or malicious attack.	IRESS has increased its investment in information security in recent years in response to several factors including the increased sophistication of cyber terrorists, the increased reliance on our solutions by our customers and increased regulatory pressure from government agencies. We have a dedicated information security function across jurisdictions, Board oversight through the Audit & Risk Committee and executive oversight via the Executive Risk Committee and Chief Information Security Officer. IRESS' controls, audit and governance provide a framework for actively identifying gaps, new exposures and the development of appropriate treatment plans. Network and malware scanning and mandatory information security awareness training across the business. Comprehensive disaster recovery procedures in place. Focus on redundancy for internal and critical systems. IRESS Global Information Security Management System (ISMS) is certified by independent audit to meet the global ISO 27001 standard.
Economic climate	Economic conditions, domestically and internationally, can impact client expenditure and accordingly, client demand for IRESS' systems.	This risk is mitigated by IRESS' diverse geographic presence and diverse product portfolio.
Foreign exchange	IRESS is exposed to foreign exchange movements, which may affect the value of profits repatriated to Australia.	IRESS mitigates the foreign exchange risk associated with investments in international operations by funding these investments in the local currency. Foreign currency transaction risks are hedged where appropriate. IRESS does not hedge translation risk on foreign currency earnings. However, IRESS reports the financial performance of its offshore operations in local currency and AUD in order to enable investors to better understand the performance of the underlying business and the exposure to different currencies inherent in IRESS' international operations.
Regulation	Regulation can impact IRESS and its clients because regulation increases the cost of doing business. Regulation may have the effect of structural changes, including consolidation or fragmentation, both of which can negatively impact IRESS' client engagements.	IRESS' risk management strategy includes the close monitoring of regulatory developments globally. IRESS is pro-actively engaged in the development of new and existing relationships with relevant regulatory stakeholders, policy makers, and media groups to monitor the regulatory landscape. This strategy is focused on limiting potential impacts of regulatory development so that IRESS may continue to service its global markets and efficiently respond to compliance requests.
Market or technology risk	The risk that a pronounced shift in technology or a pronounced change in the way market segments organise themselves and make use of IRESS' technology.	IRESS endeavours to manage this risk by maintaining a highly skilled and educated technology organisation and by exploring the potential utilisation or impact of emerging technologies. In the same way, IRESS endeavours to manage market change by maintaining a high degree of engagement with its customers. In that regard IRESS is fortunate that its customer base, being distributed geographically and being comprised of highly sophisticated industry representatives, is likely to be at the forefront of industry change and evolution.
Reputation risk	IRESS provides solutions to the financial services industry. The financial services industry is subject to significant public focus, media attention and government review, as has been the case in Australia through the Hayne Royal Commission. The use of technology within financial services businesses, and especially its role in processing and storing sensitive personal information, can expose both the financial services provider and providers of technology such as IRESS, to reputational risk where there is a failure in a critical system or process or the release by error or mischief of personal data.	Mitigation of technology risk lies at the heart of IRESS' information security function (refer to comments above under Information Security) and software development practices. The latter includes rigour in architecture, code development and testing. IRESS does not outsource development of core technology, maintaining direct oversight and control.

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Operating & Financial Review

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.

REPORTED (AUD m)		2017	2018	2018 v 2017
Operating Revenue	Reported	430.0	464.6	8%
	Constant Currency Basis	430.0	454.3	6%
Segment Profit	Reported	125.4	137.7	10%
	Constant Currency Basis	125.4	135.1	8%
Segment Profit after Share Based Payments		116.1	127.3	10%
EBITDA		107.3	117.9	10%
Reported NPAT		**59.8**	**64.1**	**7%**
Basic EPS (C per Share)		35.4	37.6	6%
Dividend (C per Share)		44.0	46.0	5%

Constant currency basis assumes the 2018 financial results are converted at the same foreign exchange rates used to convert the 2017 financial results.

OPERATING REVENUE

On a reported basis, revenue from ordinary activities grew 8% from 2017 to 2018 which reflects underlying growth in ANZ Wealth Management, UK, and Lending in addition to favourable currency benefits. On a constant currency basis, revenue grew 6% from 2017 to 2018.

SEGMENT PROFIT

IRESS uses Segment Profit as a measure of underlying earnings to aid inter-period comparability of results.

On a reported basis, Segment Profit increased 10% from $125.4m in 2017 to $137.7m in 2018, reflecting revenue growth, margin improvement from increasing operating leverage, and favourable foreign exchange movements. On a constant currency basis, Segment Profit grew 8% from 2017 to 2018.

APAC FINANCIAL MARKETS

Revenue grew marginally in 2018 reflecting a flat result in Australia, amidst challenging market conditions, combined with growth in Asia following successful client deployment. Demand for IRESS' portfolio management solutions in Australia remains positive as buy-side clients focus on transparency and efficiency, which is offsetting pressure on sell-side revenue. In addition, there is accelerating interest from retail broking clients in Australia for an integrated solution across wealth and trading to help deliver across the needs of their clients.

ANZ WEALTH MANAGEMENT

Revenue increased 9% from $125.1m in 2017 to $136.4m in 2018.

Momentum in Wealth Management continued, reflecting ongoing demand for XPLAN against a backdrop of heightened regulatory scrutiny. Demand for IRESS' superannuation administration software (Acurity) and related services also remained strong.

During the year, IRESS launched a new automated personal advice solution combining the capabilities of XPLAN, Prime and Acurity's online member portal. IRESS' first client went live with this solution in November 2018 and there has been strong interest from industry superannuation funds. There was also strong interest in the recently acquired Lumen data analytics solution as clients look to introduce a data-driven approach in managing oversight of compliance and risk management.

	OPERATING REVENUE			DIRECT CONTRIBUTION		
REPORTED (AUD m)	2017	**2018**	2018 v 2017	2017	**2018**	2018 v 2017
APAC Financial Markets	115.1	115.6	0%	83.8	81.6	(3%)
ANZ Wealth Management	125.1	136.4	9%	93.9	100.7	7%
UK	105.5	119.0	13%	67.3	78.4	16%
Lending	23.8	28.6	20%	18.6	21.6	16%
South Africa	42.8	46.5	9%	32.8	35.3	8%
Canada	17.7	18.5	5%	9.0	9.6	7%
Total Group	**430.0**	**464.6**	**8%**	**305.4**	**327.2**	**7%**
Product and Technology				(108.3)	(114.2)	5%
Operations				(38.7)	(39.7)	3%
Corporate				(33.0)	(35.6)	8%
Segment Profit				**125.4**	**137.7**	**10%**

Direct contribution was up 7% on 2017, reflecting revenue growth, partially offset by revenue mix, additional people costs from the Lucsan acquisition and an increase in remuneration costs.

UNITED KINGDOM

On a reported basis, revenue increased 13% from 2017 to 2018. In local currency, revenue increased 7% during the same period, reflecting ongoing projects to deploy IRESS' integrated wealth and trading solution at key clients. Revenue in Sourcing also experienced strong growth driven largely by increased take up of data analytics and advertising services.

On a reported basis, direct contribution increased 16% from 2017 to 2018. In local currency, direct contribution was up 11% over the same period reflecting revenue growth and increased operating leverage as the business continues to scale.

LENDING

On a reported basis, revenue increased 20% from 2017 to 2018, while direct contribution increased 16%.

In local currency, revenue and direct contribution increased 15% and 10% respectively over the same period, reflecting increased pre-sales and implementation activity and recurring licence fee revenue following successful deployments of IRESS' Mortgage Sourcing and Origination platform (MSO) in the UK.

In the UK, deployments of MSO to Yorkshire Building Society and Coventry Building Society are progressing well. In addition, there are a number of other client discovery projects in progress.

In Australia, the deployment of MSO to digital challenger bank Xinja is progressing well, and a second client has been secured.

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 2018, up from 15% in 2017.

SOUTH AFRICA

On a reported basis, revenue increased 9% from 2017 to 2018 while direct contribution increased 8% during the same period.

On a constant currency basis, revenue grew 4% and direct contribution increased 3% in 2018, reflecting ongoing underlying demand for IRESS' suite of products across trading and wealth.

During the year, IRESS secured a contract to deploy a broad integrated solution to a tier one financial services business. This client implementation spans the breadth of IRESS' product capability, is progressing well and expected to be completed during 2019.

CANADA

On a reported basis, revenue increased 5% from 2017 to 2018 while direct contribution increased 7% over the same period.

In local currency, revenue increased 1% and direct contribution increased 3% from 2017 to 2018, which reflects a number of smaller deployments of IRESS' wealth solution to Canadian clients. There are now seven clients operating on IRESS' wealth solutions.

The Canadian business continues to focus on establishing its presence in the wealth market and in late 2018 successfully tendered for a mandate to provide a broad wealth solution to a large wealth advisor. Delivering this solution will be a key focus in 2019.

Operating & Financial Review

PRODUCT AND TECHNOLOGY

The ongoing investment in product and technology is at the heart of IRESS' success, supporting client retention and future recurring revenue growth.

On a reported basis, costs increased 5% from $108.3m in 2017 to $114.2m in 2018. On a constant currency basis, costs increased 3% over the same period which reflects progress on the establishment of an effective and aligned approach to teams, planning, executing and delivering value to our clients with operating leverage, which partially offset salary inflation, the impact of the 2017 reduction in cash STI that was not repeated in 2018 and increases in occupancy costs during the year.

In 2018, Product and Technology costs remained at 25% of operating revenue.

OPERATIONS

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

On a reported basis, costs increased 3% from $38.7m in 2017 to $39.7m in 2018 which reflects the impact of foreign exchange movements, particularly the British pound. On a constant currency basis, costs were flat on 2018 and remained at 9% of operating revenue.

CORPORATE

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

On a reported basis, costs increased 8% from $33.0m in 2017 to $35.6m in 2018. On a constant currency basis, costs increased 6% over the same period reflecting an increase in people costs. Excluding the impact of the increase in people costs following the 2018 change in non-executive remuneration model, costs were flat on the previous year reflecting a strong focus on operational and process efficiency to offset increasing occupancy costs, higher software licence fees associated with core corporate systems including information security. In 2018, Corporate costs remained at 8% of operating revenue.

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NET PROFIT AFTER TAX (NPAT)

REPORTED (AUD m)	2017	2018	2018 v 2017
Segment Profit	**125.4**	**137.7**	**10%**
Share-based payment expense	(9.3)	(10.4)	12%
Segment Profit after share-based payment expense	**116.1**	**127.3**	**10%**
Other non-operating expenses	(8.8)	(9.4)	7%
Profit before depreciation, amortisation, interest and income tax expense	**107.3**	**117.9**	**10%**
Depreciation and amortisation	(25.1)	(26.8)	7%
Profit before interest and tax	**82.2**	**91.1**	**11%**
Net interest and financing costs	(4.4)	(6.1)	39%
Income tax expense	(18.0)	(20.9)	16%
Profit after income tax expense	**59.8**	**64.1**	**7%**

NET PROFIT AFTER TAX (NPAT)

IRESS' reported NPAT increased 7% from 2017 to 2018 which largely reflects the growth in Segment Profit.

Non-recurring items are primarily one-off costs in relation to:

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

The increase in net interest and Financing costs from $4.4m in 2017 to $6.1m in 2018 reflects higher average debt levels (driven primarily by investment in office refurbishments) and higher effective interest rates. In addition, in 2017, the Group benefited from a favourable revaluation of a cross currency swap of $0.7m which was not repeated in 2018.

The Group's tax rate of approximately 25% 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.

DIVIDENDS

The IRESS dividend policy is to maintain a payout ratio of not less than 80% of underlying earnings(1) on an annualised basis, subject to accounting limitations. Dividends continue to be franked to the greatest extent possible, while reflecting the geographical context of the business.

In respect of 2018 earnings, the Directors determined to pay a final dividend of 30.0 cents per share franked to 40% at a 30% corporate tax rate bringing the full year 2018 dividend to 46.0 cents per share, franked to 47% at a 30% corporate tax rate.

BALANCE SHEET

The refurbishment of the Melbourne office was successfully completed during the year and represents a significant investment in IRESS' workplace strategy and ways of working. The new office environment facilitates more agile ways of working and encourages greater cross-team collaboration. The refurbishment resulted in an increase in the value of plant and equipment held on the balance sheet, while the related lease make-good provision contributed to the increase in non-current provisions.

IRESS increased its interest in Lucsan Capital Pty Ltd (Lucsan) to 100% in April 2018. IRESS had originally purchased 15% in 2017 and this investment was accounted for as an investment in associate in 2017.

Now that the business is fully owned its results are included within IRESS' consolidated results for 2018.

In September 2018, the Group entered into a new cross currency swap upon maturation of the existing arrangements. The swap provides a foreign currency translation hedge against revaluation of the underlying GBP assets in the UK as well as a lower cost of funding for the Group.

The increase in net debt of $8.8 million was due largely to the changes to IRESS' Melbourne workplace. IRESS continues to actively manage cash holdings and debt facilities to reduce interest costs whilst maintaining sufficient liquidity for ongoing business requirements. At 31 December 2018, IRESS' leverage ratio remains in line with the prior year at 1.3x Segment Profit.

(1) Segment Profit less operating depreciation and tax at 30%.

Board of Directors

TONY D'ALOISIO

Independent Non-Executive Director since June 2012, Chairman since August 2014

Tony has 45 years' experience as a senior executive in government, corporate and legal roles. Tony became Chairman of Perpetual in May 2017, following his appointment as independent non-executive director in December 2016. He was appointed as a Commissioner for the Australian Securities and Investment Commission (ASIC) in late 2006 and then as Chairman in 2007 for a four-year term. He was Chairman of the (International) Joint Forum of the Basel Committee on Banking Supervision from 2009 to 2011. Prior to ASIC, he was managing director and chief executive officer at the Australian Securities Exchange (ASX) from 2004 to 2006. Tony was chief executive partner at Mallesons Stephen Jaques between 1992 and 2004, having first joined the firm in 1977. Tony has a depth of experience in executive and non-executive roles, which are directly relevant as we grow our international footprint in financial markets and wealth management.

ANDREW WALSH

Executive Director and Chief Executive Officer since October 2009

After a career as an actuarial consultant, Andrew co-founded and spearheaded the development of market leading financial planning software XPLAN and joined IRESS when it acquired XPLAN Technology in 2003. Andrew became IRESS' CEO in 2009 and has since led the growth of the group. Since Andrew became CEO, IRESS has expanded organically and made several local and international acquisitions and now has 1,850 people designing, developing and delivering software solutions for the financial services industry in Australia, New Zealand, the United Kingdom, South Africa, Canada and Asia.

JOHN CAMERON

Independent Non-Executive Director since March 2010

John is one of the pioneers of electronic trading. He was a key member of the team that first automated the trading floor of the Australian Securities Exchange, one of the first in the world. He has designed and developed information systems for major financial institutions in the United Kingdom, France, the United States and Australia. In 1997 John created what was to become the world's leading FIX solution, CameronFIX. It was acquired by Orc Software in 2006 where John served as CTO until 2009. In 2007 John created the Cameron Foundation. John now works pro bono for the global refugee initiative Talent Beyond Boundaries and serves as Vice Chair of its board.

JOHN HAYES

Independent Non-Executive Director since June 2011, Chair of the Audit & Risk Committee since June 2011

John is a Fellow of CPA Australia with over 45 years' experience in financial services. His senior roles have included CFO of both ASX and Advance Bank Australia and Vice President Financial Services with BT Australia. John's previous directorships include ASX Perpetual Registry (now Link Market Services) and Orient Capital as well as executive director roles with the Australian Clearing House, ASTC (CHESS) and ASX Operations. He was also previously a member of the Advisory Council of Comcover, a federal government entity, for six years.

GEOFF TOMLINSON

Independent Non-Executive Director since February 2015

Geoff has more than 40 years' experience in financial services. His executive career encompassed 29 years with the National Mutual Group, including six years as group managing director and chief executive officer. He was a non-executive director of National Australia Bank from March 2000 to December 2014, including Chairman of its wealth management division MLC. Other companies he has been a director of include Amcor, Suncorp, Dyno Nobel, Programmed Management Services and Neverfail Springwater. Geoff is Chairman of Growthpoint Properties Australia and a director of Wingate Group Holdings.

JULIE FAHEY

Independent Non-Executive Director since October 2017

Julie has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors and SAP, covering consulting, software vendor and chief information officer roles. In addition to her industry experience, Julie spent 10 years at KPMG as a partner with the firm, during which time she held roles as national lead partner telecommunications, media and technology, and national managing partner – markets. Julie was also a member of the KPMG National Executive Committee. Julie is a non-executive director of SEEK, Datacom Group, CenITex, Vocus Group and non-profit disability services organisation Yooralla, and a member of the Emergency Services Telecommunications Authority's ICT Advisory Board.

JENNY SEABROOK

Independent Non-Executive Director since 2008, Chair of the People & Performance Committee since May 2011

Jenny has more than 30 years' experience as a chartered accountant, investment banker and capital markets adviser. She is experienced in mergers and acquisitions and has public company board experience. She is a senior advisor to Gresham Advisory Partners and a non-executive director of listed entities, Iluka Resources and MMG, of federal government corporation Australian Rail Track Corporation and privately held entities BGC (Australia) Pty Ltd and Esther Investment Pty Ltd. Former directorships include Alinta Gas, Amcor, Australia Post, Bankwest, Edith Cowan University, Export Finance and Insurance Corporation, MG Kailis, Princess Margaret and King Edward Hospital, West Australian Newspapers, Western Australian Treasury Corporation and Western Power. Jenny has been a member of ASIC's external advisory group and was a member of the Takeovers Panel from 2000 to 2012.

NIKI BEATTIE

Independent Non-Executive Director since February 2015

Niki has more than 25 years' experience in financial technology and capital markets. She currently runs Market Structure Partners, a strategic consulting firm. Niki spent more than a decade in senior positions at Merrill Lynch International. She is currently non-executive chairman of listed entity Aquis Exchange Plc, which operates a pan-European share trading platform, and of XTX Markets, a quantitative-driven, electronic global market-maker. She is also non-executive director of European financial services company Kepler Cheuvreux International and Borsa Istanbul, the Turkish stock exchange. She was previously on the board of MOEX, the Moscow Exchange. She serves on the Secondary Markets Advisory Committee to the European Securities Market Authority and between 2012 and 2018 she was on the Regulatory Decisions Committee of the UK Financial Conduct Authority.

COMPANY SECRETARY

PETER FERGUSON

Peter joined IRESS in 2011 and has many years' experience in international legal and commercial appointments in the financial technology sector, with prior international and domestic appointments including seven years with Nasdaq OMX, located in Stockholm and later in Sydney.

Directors' Report

For the year ended 31 December 2018

The Directors of IRESS Limited and its subsidiaries ("the Group") submit the annual financial report for the year ended 31 December 2018.

DIRECTORS MEETINGS

The following table sets out the number of meetings of the Group's Board of Directors and of each Board Committee held during the year ended 31 December 2018, and the number of meetings attended by each Director.

	BOARD MEETINGS		AUDIT & RISK		PEOPLE & PERFORMANCE	
Director	Eligible	Attended	Eligible	Attended	Eligible	Attended
Tony D'Aloisio	8	8	4	4	*	*
Niki Beattie	8	8	*	*	6	6
John Cameron	8	8	*	*	6	6
Julie Fahey	8	8	4	4	6	5
John Hayes	8	7	4	4	*	*
Jenny Seabrook	8	8	4	4	6	6
Geoff Tomlinson	8	8	4	4	*	*
Andrew Walsh	8	8	*	*	*	*

* Not a member of this committee.

SUBSEQUENT EVENTS

On 20 February 2019, the Directors declared a final dividend of 30.0 cents per share franked to 40% totalling $52.0 million.

Other than the dividend declared, there has been no other matter or circumstance which has arisen since the end of the financial year 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 years.

CHANGES IN OPERATIONS DURING THE YEAR

During the year, the operations of the Group were not modified in any material way.

CHANGES IN STATE OF AFFAIRS

Following a minority investment in 2017, IRESS acquired the remaining equity in Lucsan Capital Pty Ltd in April 2018. This acquisition increases IRESS' data analytics capability to meet an increasing focus by clients on data to drive business growth, deliver operating efficiency, manage risk and meet regulatory requirements.

Other than the above, there was no significant change in the state of affairs of the Group during the financial year.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the year, the Company paid a premium in respect of a contract insuring each of the Directors of the Company (as named above), the Company Secretary and each of the Executive Officers of the Company and any related body corporate against a liability or expense incurred in their capacity as a Director, Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001*. Further details have not been disclosed due to confidentiality provisions in the insurance contract.

In addition, the Company has entered into a Deed of Indemnity which ensures that a Director or an officer of the Company will generally incur no monetary loss as a result of defending actions taken against them as a Director or an officer. Certain actions are specifically excluded, for example, penalties and fines which may be imposed in respect of breaches of the law.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by the law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred in their capacity as an officer or auditor.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for audit services provided during the year are outlined in Note 1.6 to the financial statements. During the year, the Company's auditor performed certain other services in addition to its audit responsibilities. The Board is satisfied that the provision of non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company to ensure that they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided did not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity of the Company, acting as an advocate of the Company or jointly sharing risks or rewards.

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 51.

ROUNDING OF AMOUNTS

The amounts shown in this report and in the 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.

CORPORATE GOVERNANCE

The Corporate Governance Statement is located on the IRESS website https://www.iress.com/global/company/corporate-governance/corporate-governance-statement/.

Directors' Report continued

For the year ended 31 December 2018

AUDITED REMUNERATION REPORT

This remuneration report provides detail of IRESS' remuneration policy and practice for Key Management Personnel (KMP) for the 2018 financial year. The information presented in this report has been audited as required under Section 308(3C) of the *Corporations Act 2001* and forms part of the Directors' Report.

CONTENTS

SECTION 1 OVERVIEW OF 2018 REMUNERATION

2018 EXECUTIVE REMUNERATION FRAMEWORK AND OUTCOMES

IRESS' 2018 executive remuneration framework and the resulting outcomes for 2018 are summarised in the diagram below. This framework applied to the MD/CEO and his direct reports, of which the Executive Key Management Personnel (KMP), as listed in Section 3, are a subset. As detailed in Section 6.2, IRESS' performance in 2018 was above the financial targets set by the Board while non-financial measures were at or below target. This performance was reflected in the cash Short-Term Incentives (STI) for Executive KMP being 7% below target (see Section 6.4). IRESS' TSR performance relative to peers resulted in the three-year long-term incentive (LTI) awards (granted in 2014/2015) lapsing and the four-year CEO LTI award (granted in 2014) partially vesting.

	IRESS' BUSINESS STRATEGY					
Remuneration objectives	**Attract, motivate and retain talent**		**Reward for performance**		**Aligned with shareholder interests**	
Annual performance measurement/ remuneration drivers	Financial (particularly segment profit)	Clients	Growth	People	Products/ Technology	Group/ Corporate

	Fixed remuneration	**Cash STI**	**Deferred Equity**	**LTI**
Our remuneration components	Market-based reward for role	Cash reward for annual performance	Equity to reward annual performance and retain talent	Equity to reward superior shareholder returns
2018 Exec KMP remuneration awarded				
% target:	n/a	93% of target (2017: 41%)	99% of target (2017: 93%)	n/a
Total $	$4.3m (2017: $4.8m)	$0.8m (2017: $0.3m)	$1.6m (2017: $1.5m)	
YoY change:	↓ 11%	↑ 127%	↑ 8%	
Key driver	One salary increase in 2018 was offset by the impact of the 2017 executive team restructure that reduced the number of KMP	Superior financial performance compared to 2017	Superior financial performance compared to 2017	No LTI to be awarded for 2018 performance due to changes to the executive remuneration framework (see 2.3)
Long-term performance measurement			Share price exposure over the deferral period	Relative Total Shareholder Return (TSR)
			Deferred Equity	**LTI**
Prior year remuneration vested in 2018			2015 three-year awards vested based on service	2015-2018 three-year awards lapsed as IRESS' TSR was at the 47.7th percentile 2014-2018 four-year CEO award vested at 81.4% as IRESS' TSR was at the 65.7th percentile

Directors' Report continued

For the year ended 31 December 2018

SECTION 2 CHANGES TO EXECUTIVE REMUNERATION EFFECTIVE FROM 1 JANUARY 2019

A new executive remuneration framework will be effective 1 January 2019. These changes are explained in three Sections:

2.1 Executive summary: overview of changes being made and the rationale for these changes
2.2 Detailed explanation of each element of the new executive remuneration framework
2.3 Transition arrangements

2.1 EXECUTIVE SUMMARY

Why is IRESS changing the remuneration framework for executives?

As outlined in the Chairman's letter on page 9 of this annual report, the Board recognised that the nature of IRESS' business has changed significantly. However, the executive remuneration framework has remained largely unchanged since IRESS was founded. The Board was also mindful that the broader executive remuneration landscape in Australia and globally continues to evolve. For these reasons, the Board conducted an extensive review of the executive remuneration framework to ensure that IRESS could continue to attract, retain and appropriately reward the people needed to deliver its strategy and that the interests of shareholders and the executives remain tightly aligned.

What are the principles that guided the review?

The guiding principles that the Board used for its review were that the new executive remuneration framework should:

1. Enhance alignment with IRESS' overall strategy for medium to long-term value creation.
2. Enhance alignment of executives with shareholders.
3. Ensure that IRESS continues to attract, motivate and retain the leadership talent needed to succeed on an international basis.
4. Be simple to understand and be transparent for all stakeholders.
5. Continue to support robust performance management.
6. Ensure that the transition to the new framework is fair and equitable.

What are the key features of the new executive remuneration framework?

The key features of the new framework are as follows:

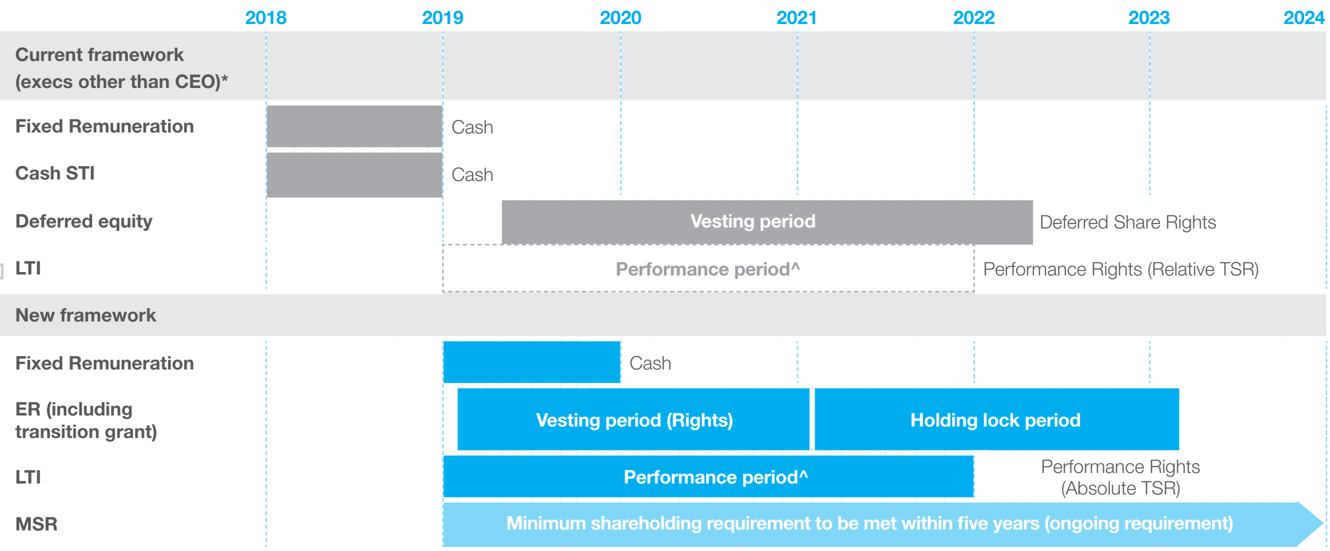
- There will be no traditional cash STI. In the Board's view such instruments are too focused on short term individual objectives whereas IRESS' strategy and business model look beyond any given year.
- An increased and fixed proportion of remuneration will be delivered as equity to further enhance alignment with the interests of shareholders.
- Two equity instruments will be utilised:
  - **Equity Rights:** Equity Rights will have a two-year vesting period followed by a two-year holding lock. Executives will not be entitled to dividends during the vesting period but will receive a dividend equivalent 'top-up' at vesting. Equity Rights will constitute 32% of total remuneration for the CEO and 25% of total remuneration for other executives.
  - **LTI:** LTI will have a three-year vesting period. LTI vesting will be based on Absolute Total Shareholder Return (ATSR) performance. The vesting hurdles will be reviewed by the Board annually for each grant (see Section 2.2 for the vesting hurdles for the 2019 grant). LTI will constitute 32% of total remuneration for CEO and 25% of total remuneration for executives.
- Equity Rights and LTI will be granted at the start of each year (in the CEO's case in May subject to shareholder approval at the AGM).
- There will be a Minimum Shareholding Requirement (MSR) that will result in material individual holdings.
- The Board can decline to make a grant, and/or lapse unvested equity (both Equity Rights and LTI) for malus on the part of the executive or if company or individual performance is significantly below expectations.
- The Board can clawback vested Equity Rights subject to a holding lock if the participant has engaged in fraud, misrepresentation, dishonesty, gross misconduct or any other matters the Board determine relevant.

The new framework is summarised in the diagram below.

	IRESS' BUSINESS STRATEGY			
Remuneration objectives	**Attract, motivate and retain talent**	**Reward for value creation**	**Simple and transparent**	**Aligned with shareholder interests**
Annual performance measurement	**Robust performance management incorporating the 'what' and the 'how' (see Section 4.3)**			
Remuneration components	**Fixed remuneration**	**Equity Rights**	**LTI**	**MSR**
	Market-based reward for role	Equity to reward shareholder returns and retain talent	Equity to reward exceptional shareholder returns	A material minimum shareholding requirement to be met within five years
Long-term performance measurement	**Individual performance**	**Share price movement**	**Absolute Total Shareholder Return (ATSR)**	**Shareholder wealth**
	Any increases in fixed remuneration will consider the market and individual contribution and experience	Over the four-year aggregate ER holding period, executives will be directly exposed to the same share price movements as shareholders	ATSR over a three-year period, relative to a pre-determined benchmark, will determine vesting for 2019 LTI awards onwards	Over time, executives will see a direct increase or decrease in their wealth in the same way that shareholders do

The new executive remuneration framework can be summarised as follows: Total remuneration for each executive is set based on market relativity, individual performance, experience, and value to IRESS. A fixed percentage of total remuneration is delivered as Base Salary and the balance divided equally between Equity Rights and LTI. Equity Rights are subject to restrictions on sale and clawback, and LTI is also subject to ATSR performance.

The following diagram compares the current and new executive remuneration frameworks as they apply to 2018 and 2019 respectively.



* Note: this graphic represents the final DSR grant to be made in May 2019 for 2018 performance and the LTI grant that would have been made in May 2019 to executives other than the CEO had the changes to the executive remuneration framework not been implemented. The CEO's LTI would have had a four-year vesting period as shown in Section 4.1.

^ Note: subject to performance, vesting occurs after the performance period has ended – on or about 7 May (current framework) and 28 February (new framework).

Directors' Report continued

For the year ended 31 December 2018

How does the new framework align with the remuneration principles that guided the Board's review?

1. Enhance alignment with IRESS' overall strategy for medium to long-term value creation:

- The removal of short-term cash STI recognises that client successes and product investments that will support the achievement of medium-long term strategies should be encouraged even where they don't substantially change current year outcomes.
- By increasing the proportion of remuneration delivered in equity, by requiring that equity be held for longer and by introducing a minimum shareholding requirement, the Board intends to reinforce the executive's focus on medium to long-term outcomes.
- By linking LTI vesting to ATSR, the Board seeks to ensure that rewards are available for collective progress against the business strategy, which focuses the executives on generating real not relative returns.

2. Enhance alignment of executives with shareholders:

- A greater portion of remuneration will be granted in equity, providing more 'skin in the game'. Equity will represent 64% of total remuneration for the CEO and 50% of total remuneration for executives. With the addition of the minimum shareholding requirement, executives will see a direct increase or decrease in their wealth over the equity holding period in the same way that shareholders do.
- The LTI, which makes up half of the equity awarded, is subject to an additional ATSR hurdle, which vests only if substantial returns are delivered to shareholders.
- In setting the ATSR target for prospective grants, the Board will consider shareholder expectations and achievability, with reference to several lenses including performance over time of a peer group comprising ASX and international technology companies, remuneration practice, cost of equity and IRESS' evolving strategy. The Board will consider these benchmarks when determining the absolute targets at the time of each grant.
- With the removal of the RTSR measure, LTI will not vest unless shareholders have made real returns over three years.

3. Ensure that IRESS continues to attract, motivate and retain the leadership talent needed to succeed on an international basis:

- The design of the new executive remuneration framework incorporated a review of market practice for global technology peers and consultation with the executives.
- Total remuneration will continue to be reviewed against the remuneration offered to executives performing comparable roles in other similarly-sized listed technology companies with dynamic international operations.
- Equity is granted sooner to newly appointed executives (on average within six months of commencement at IRESS) under the new framework to ensure alignment to group strategic goals and shareholder outcomes.
- The minimum shareholding requirement will result in equity being held for longer periods encouraging increased executive tenure.
- ATSR performance is a quantified target which is more within the executive's control, thereby increasing the assessed value of LTI by an individual, when compared to the current RTSR hurdle.
- Substantial equity exposure allows executives to share appropriately in the value they generate for shareholders. This will enhance IRESS' ability to attract and retain the executives needed to execute IRESS' strategy.
- The simplicity and transparency of the framework increases its perceived value for executives.

4. Be simple to understand and be transparent for all stakeholders

- There are fewer incentive instruments used, and equity exposure is real and in the hands of executives.
- By moving to a Total Remuneration (TR) approach, with the quantum of each component of remuneration at a set percentage of TR, the remuneration and value available is clearly communicated to the executives and shareholders.
- The value of unvested equity is easily assessed by stakeholders, based on current share price and ATSR performance.

5. Support robust performance and risk management

- The Board will continue, as it does under the current framework, to set financial and non-financial objectives (see Section 4.3) and review IRESS' performance and the performance of each executive on an ongoing basis.
- By increasing the proportion of remuneration delivered in equity and by requiring that equity be held for longer, the impact of individual and collective performance is measured over a longer timeframe.
- Remuneration outcomes are capped, with grant values a set percentage of TR and LTI only vesting if shareholders have made real returns over three years.
- The new framework has safeguards that give the Board discretion over remuneration outcomes if company or individual performance is significantly below expectations. In particular, the Board may decline to make an equity grant (either as both Equity Rights and LTIs) and can clawback unvested equity and vested Equity Rights subject to a holding lock if the participant has engaged in fraud, misrepresentation, dishonesty, gross misconduct or any other matters the Board determines is relevant.

6. Ensure that the transition to the new framework is fair and equitable

- The CEO's target Total Remuneration opportunity will be reduced by approximately 8%. The discount for the CEO was determined after extensive modelling and review of historical incentive payouts, the expected value to the CEO of the current and future remuneration model and an assessment of fairness to the individual and to IRESS. Furthermore, the Board reviewed the CEO's total remuneration having regard for remuneration at IRESS' global software and technology peers.
- To simplify the remuneration framework, the CEO LTI awards are changing to a three-year vesting and performance period in line with other executives. The CEO previously received LTI awards with a four-year vesting period, of which 50% was subject to a three-year performance hurdle (with a one-year deferred start to the measurement period) and 50% was subject to a four-year performance hurdle (see Section 4.1). The change to the vesting and performance period does not unfairly advantage the CEO as when the CEO's LTI awards changed from a three to four-year vesting hurdle in 2011, he had no LTI eligible to vest in 2014.
- Until the new Equity Rights begin to be released from holding restrictions in 2023, executives will have a negative cash flow impact due to the removal of Cash STI. To ameliorate this aspect of the transition to the new model, a one-off additional grant of ERs valued at 30% of 2019 base salary will be provided to executives other than the CEO in 2019. The vesting of Transitional ERs is conditional on two-years' continued service, with the vested equity subject to a further two-year holding lock. The terms of the ERs are consistent with the annual ER allocations, with the exception that for circumstances such as redundancy, Transition ERs will be retained on a pro rata basis (whereas annual ERs could be retained in full in such circumstances). The CEO will not receive Transition ERs.
- Transition arrangements are covered in detail in Section 2.3 below.

2.2 DETAILED EXPLANATION OF EACH ELEMENT OF THE NEW EXECUTIVE REMUNERATION FRAMEWORK

2019 remuneration components

The new executive remuneration framework will comprise of the following components:

Component	Description
Fixed Remuneration	• A market-related reward for performing a leadership role at IRESS. Future increases will continue to consider individual performance, experience, value to IRESS, market pressures and total remuneration.
Equity Rights (ERs)	• An up-front grant of ERs to facilitate immediate, collective alignment of executives with shareholders. • Vesting is conditional on two-years' continued service with a further two-year holding lock[1], supporting retention and sustainable value creation over a total of four years. • Executives will share in the same price movements as shareholders over the entire vesting and holding period. • Executives will not be entitled to dividends during the vesting period but they will receive a dividend equivalent 'top-up' at vesting. • The ER is both service and performance-based. Performance is reflected in share price movements and dividend value earned which can increase or decrease the value of ERs. Poor individual performance can lead to reduced vesting at Board discretion. • Executives can build wealth through increased share price, and dividends, only to the extent that shareholders also benefit. • Vesting is subject to Board confirmation and remains "at-risk" of forfeiture for executives leaving the company or poor performance. In addition, the Board may decline to make future equity grants in cases of material underperformance. • The Board will have the ability to reduce or eliminate entirely any unvested ERs or vested ER's subject to a holding lock (i.e. malus and clawback). Circumstances which may give rise to malus or clawback include: material non-compliance with financial reporting requirements resulting in material misstatement of results; fraud, misrepresentation, dishonesty or gross misconduct; poor risk practices or reputational issues; any other matters the Board determine relevant. • If an executive leaves employment due to resignation, termination for cause or gross misconduct, all unvested Deferred Share Rights (DSRs) at the time of cessation of employment will lapse, unless the Board determines otherwise. For termination for other reasons, including redundancy, ERs will remain eligible to vest, unless the Board determines otherwise. In the event of a change of control, Board discretion will apply.
Long-term incentive (LTI)	• A grant of performance-based LTI, with vesting subject to IRESS' ATSR performance over three financial years and ongoing service until the vesting date in February. • ATSR is better aligned to IRESS' business objectives than the current RTSR performance metric, as ATSR focuses on growth of IRESS and value to shareholders, regardless of the broader market and other companies' movements. Awards to executives will not vest unless real IRESS shareholder value has been created over the performance period. • ATSR is simpler and provides clarity to executives as they have greater influence on performance outcomes and is transparent to shareholders. It also provides a more relevant measure of performance than the current RTSR measure as it better enables consideration of both local and international benchmarks for performance. • In setting the ATSR target for each LTI grant, the Board will reference a vesting range which reflects business strategy but is informed by benchmarks such as recent performance of the All Ordinaries Accumulation index, IRESS' cost of equity, market practice for companies with ATSR targets and local and international peer company returns. • For 2019 grants, 50% of the LTI will vest in February 2022 if IRESS' ATSR is 6.5% per annum, 100% will vest for 10.0% per annum growth, and a sliding scale will apply for performance between these points. These represent stretching targets based on the benchmarks above. • TSR will continue to be calculated using a 20-day Volume Weighted Average Price to 31 December and the impact of franking credits will be excluded. • The Board will continue to closely monitor IRESS' performance and the performance of each individual executive on an ongoing basis and will intervene where required. The Board can also reduce or eliminate outstanding awards if individual performance is significantly below expectations. • The Board retains the discretion to grant additional LTI performance rights to recognise specific strategic incentives for the company or forecast individual responsibility or stretch in the context of company strategy. • All other terms of the LTI awards will be consistent with prior years, including the treatment on termination of employment and change of control.

1. In certain international jurisdictions, exercise restrictions will be used in lieu of the holding lock for tax purposes.

Directors' Report continued

For the year ended 31 December 2018

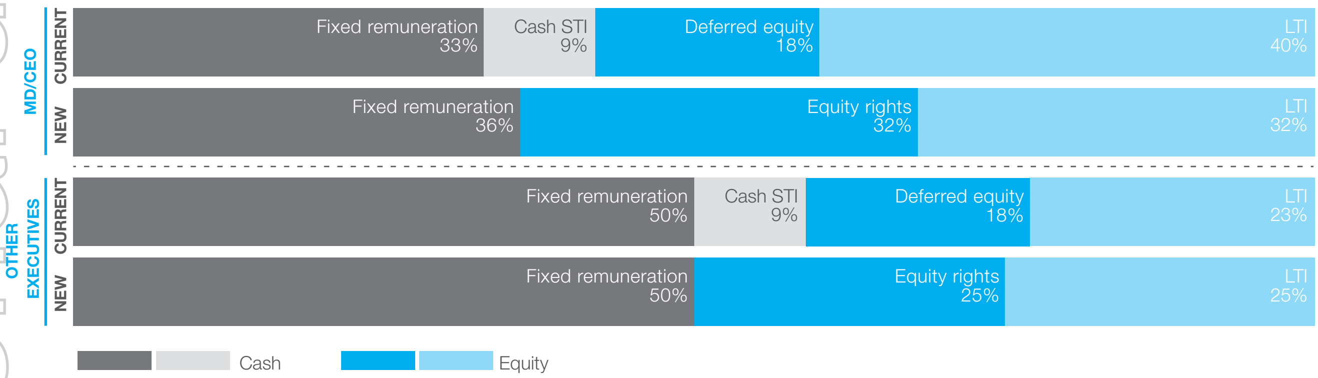
2.2 DETAILED EXPLANATION OF EACH ELEMENT OF THE NEW EXECUTIVE REMUNERATION FRAMEWORK CONTINUED

2019 remuneration components continued

Component	Description
Minimum shareholding requirement	• The CEO will be required to accrue and hold IRESS equity equivalent to 400% of base salary within five years. • Executives, other than the CEO, will be required to accrue and hold IRESS equity equivalent to 225% of their base salary within five years. • Unvested ERs, subject to service only, will count towards meeting the requirement; unvested LTIs which are subject to performance conditions will not.

2019 remuneration mix

The new executive remuneration framework delivers a greater proportion of remuneration in equity. Equity will comprise 64% of remuneration for the MD/CEO (currently 58%) and 50% of remuneration for other executives (currently 41%) as shown in the diagram below. In the current model, deferred equity does not allow the executive to benefit from dividends, as such it is shown at fair value (adjusted for foregone dividends). In the new model, executives receive dividend equivalents on vesting of ERs, and as such the fair and face value are the same. No dividend equivalents are payable on LTI under the current or new frameworks. Both are shown at face value below. The higher proportion of CEO total remuneration represented by fixed remuneration under the new model is due to the reduction in the target Total Remuneration opportunity under the new model.



2.3 TRANSITION TO NEW FRAMEWORK

Under the current executive remuneration framework, incentive outcomes are based on a retrospective assessment of performance. Under the new framework, equity is awarded up-front with service and performance measured from grant. Therefore, in transitioning to the new framework, some elements under both frameworks will be awarded in 2019, which is covered below.

Final awards under the current framework:

- **Cash STI in respect of 2018 performance:** Final cash STI payments in relation to 2018 performance have been accrued in the accounts at 31 December 2018 and are payable in March 2019.
- **Deferred Share Rights in respect of 2018 performance:** A final award of Deferred Share Rights will be made in relation to 2018 performance in May 2019 and will be eligible to vest in May 2022.
- **LTI:** No LTI will be awarded in 2019 under the current framework (in relation to 2018 performance).

New framework awards:

- **Equity Rights and LTI:** Equity Rights and LTI for the 2019 year (including the one-off transition grant of ERs discussed below) will be awarded under the new framework in February 2019 (after financial results are announced) for Executives other than the CEO and are proposed to be made to the CEO in May 2019 (after seeking shareholder approval at the AGM).

  Equity Rights will be eligible to vest in February 2021 but will be subject to restrictions on trading (holding lock) until February 2023.

  LTIs will be eligible to vest in February 2022 subject to IRESS' ATSR performance over that period.

Executives other than the CEO

The combination of awards to be granted in 2019 means that in the upcoming years, only one equity award of each type is released each year, as shown in the diagram below.

Until the new Equity Rights begin to be released from restrictions in 2023, the replacement of annual cash STI with ERs will result in reduced cash flow for executives. To offset this, a one-off additional grant of ERs (Transition ERs) valued at 30% of an Executive's 31 December base salary will be provided to executives (excluding the CEO) in 2019. Transition ERs will have the same vesting conditions and holding restrictions as the annual ER allocations. However, for circumstances such as redundancy, Transition ERs will be retained on a pro rata basis (annual ERs could be retained in full in such circumstances).

	WHEN IS THE AWARD MADE?		WHEN DO EQUITY RESTRICTIONS LIFT?				
Remuneration Component	Awards under 2018 Framework	Awards under 2019 Framework	2019	2020	2021	2022	2023
Deferred Equity	May 2019 (after AGM)	n/a	2016 award	2017 award	2018 award	2019 award	
Equity rights	n/a	Feb 2019 (after 2018 results announced)					2019 award
Transition ERs	n/a						One-off award
LTI	n/a		2016 award	2017 award	2018 award	2019 award	2020 award

CEO

The CEO will not receive a one-off transition grant to compensate for the cash flow impact of cash STI being deferred into equity. As discussed above, the CEO previously received LTI awards with a four-year vesting period. To simplify the remuneration framework, the CEO LTI awards are changing to a three-year vesting and performance period in line with other executives. Accordingly, the CEO will have two LTI awards eligible to vest in 2022 as shown below. However, this does not unfairly advantage the CEO as, in addition to forgoing a transition grant, when the CEO's LTI awards changed from a three to four-year vesting hurdle in 2011 he had no LTI eligible to vest in 2014, for which no compensation was provided.

	WHEN IS THE AWARD MADE?		WHEN DO EQUITY RESTRICTIONS LIFT?				
Remuneration Component	Awards under 2018 Framework	Awards under 2019 Framework	2019	2020	2021	2022	2023
Deferred Equity	May 2019 (after AGM)	n/a	2016 award	2017 award	2018 award	2019 award	
Equity rights	n/a	May 2019 (after AGM)					2019 award
LTI	n/a		2015 award	2016 award	2017 award	2018 award 2019 award	2020 award

All Executives

As at the date of this report, fixed remuneration has not changed because of the transition to the new framework. However, there may be changes in the remuneration of executives in 2019 based on an assessment of market and individual performance and contribution.

The combination of changes to the executive remuneration framework are expected to provide a reduction in annual executive remuneration expense from 2022 (assuming no changes are made to the total remuneration awarded to executives). In the short term, a minor increase in accounting expense is expected as a result of the Transition ERs, the recognition of ER expense over two years[2] and the recognition of MD/CEO LTI over three years, which increases annual expense from FY19 to FY21 inclusive.

2. The accounting treatment of ERs is determined by the two-year vesting period of the instrument and excludes the additional two-year holding lock. As a result, ERs will be recognised as an accounting expense over two years compared to the three-year period over which the previous DSRs were expensed.

Directors' Report continued

For the year ended 31 December 2018

SECTION 3 KEY MANAGEMENT PERSONNEL (KMP)

IRESS' KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. KMP comprises the Executive KMP (the MD/CEO and Group Executives) as well as Non-Executive Directors (NEDs).

For the year ended 31 December 2018, the KMP were:

KMP	Position	Term as KMP
Non-executive Directors		
A D'Aloisio	Non-executive Chairman	Full year
N Beattie	Non-executive Director	Full year
J Cameron	Non-executive Director	Full year
J Fahey	Non-executive Director	Full year
J Hayes	Non-executive Director	Full year
J Seabrook	Non-executive Director	Full year
G Tomlinson	Non-executive Director	Full year
Executive Director		
A Walsh	Managing Director and CEO (MD/CEO)	Full year
Executives		
P Ferguson	Group General Counsel and Company Secretary	Full year
J Harris	Chief Financial Officer	Full year
A Knowles	Group Executive, Product	Full year
J McNeill	Group Executive, Human Resources	Full year
S New	Group Executive, Strategy	Full year
A Todd	Chief Technology Officer	Full year

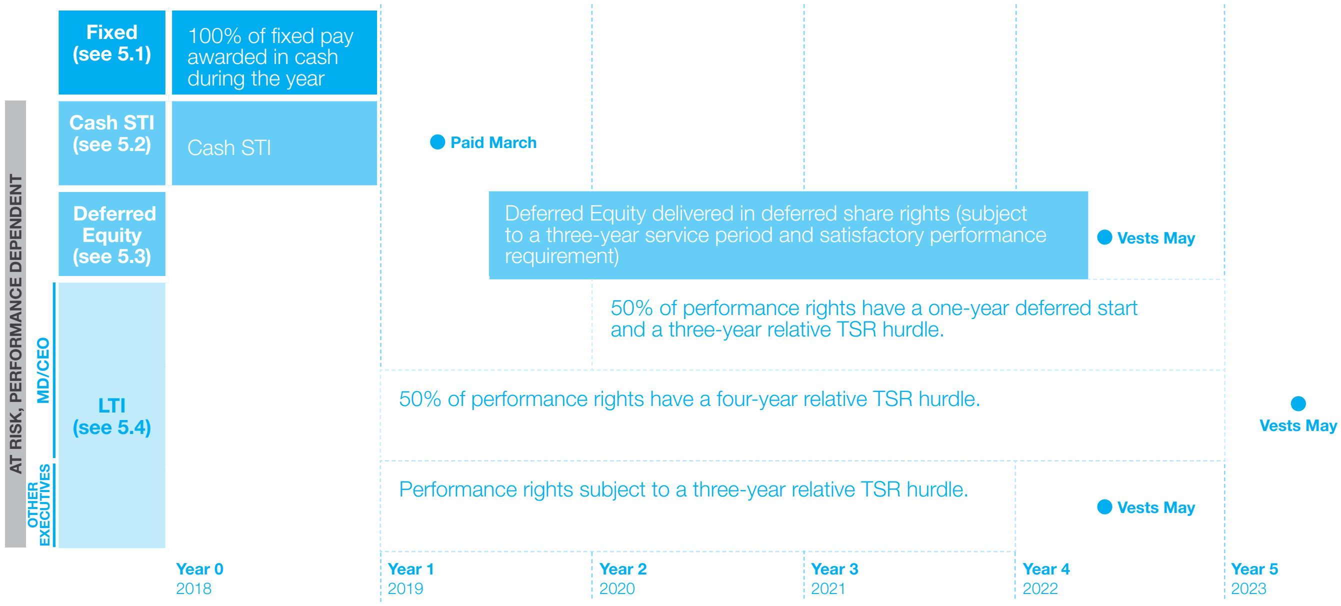
SECTION 4 2018 EXECUTIVE REMUNERATION FRAMEWORK

4.1 REMUNERATION MIX

There were three core components of executive remuneration at IRESS in 2018, as shown in the diagram below:

- Fixed remuneration including base salary, superannuation and other benefits (e.g. health insurance)
- Cash Short-Term Incentive (STI); and
- Deferred Equity delivered through deferred share rights.

As a result of changes to IRESS' executive remuneration framework outlined in Section 2, no Long-Term Incentive (LTI) will be issued to KMP in relation to 2018. However, the LTI that would have been delivered under the current remuneration framework is shown for completeness.



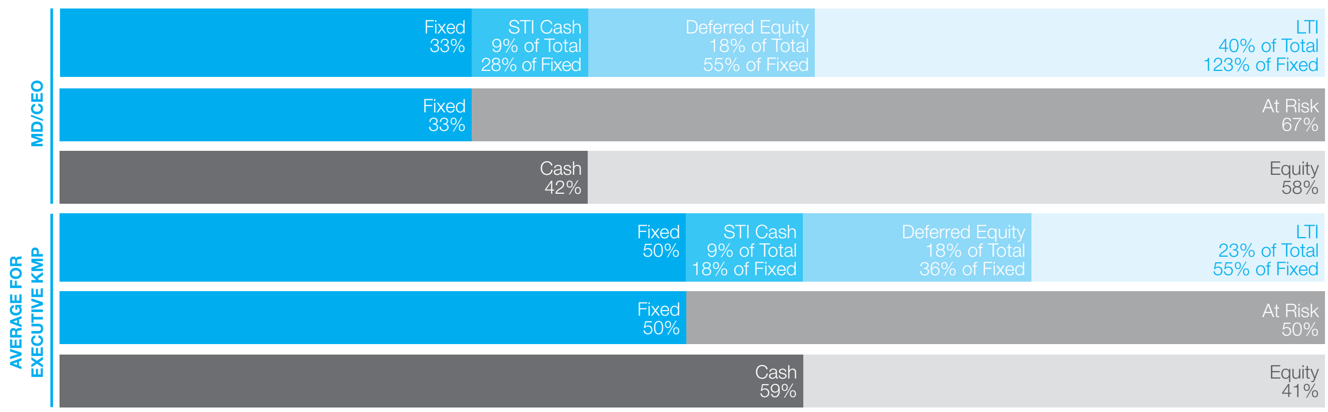
In structuring remuneration, the Board aimed to achieve a balance between:

- Fixed remuneration and "at risk" remuneration;
- Cash and equity; and
- Short and long-term performance assessment.

Through this remuneration mix, the Board aimed to align the interests of Executive KMP with shareholders.

The diagram below shows the mix of total remuneration that would typically be awarded to Executive KMP under the current remuneration framework for a target level of performance ("policy remuneration mix"). A significant portion of total Executive KMP remuneration is at-risk and will not be received if service and performance criteria are not met. The value of remuneration granted as equity is directly subject to share price movements and the vesting of Performance Rights is subject to an additional TSR hurdle:

- **MD/CEO:** Two-thirds (67%) of total remuneration is at risk and 58% is delivered in equity with a three or four-year vesting period. More than two-thirds of equity has further vesting hurdles based on IRESS' RTSR performance; and
- **Other Executive KMP:** Half of total remuneration (50%) is at risk and 41% is delivered in equity with a three year vesting period. More than half of equity has further vesting hurdles based on IRESS' RTSR performance.



The target remuneration outcomes for each executive KMP are shown in Section 6.4.

Directors' Report continued

For the year ended 31 December 2018

4.2 APPROACH TO SETTING REMUNERATION

In determining 2018 fixed remuneration, IRESS considered the size and complexity of the role, the skills and experience of the individual and market pay levels of comparable roles. Any decision to increase fixed remuneration was considered in the context of the resulting change in cash STI, Deferred Equity and LTI opportunity. IRESS believes that the fixed and total remuneration opportunity it offers is competitively positioned against comparable companies (based on sector and market capitalisation).

When awarding 'at risk' remuneration, IRESS considered the individual's target remuneration opportunity (as per the policy remuneration mix) and contribution to the business based on group and individual performance against the agreed performance measures (see 5.2(d) for more detail). Additionally, for equity (both Deferred Equity and LTI), IRESS considered the individual's future potential, total remuneration and the value of their unvested equity.

4.3 SUMMARY OF IRESS' PROCESS FOR PERFORMANCE MANAGEMENT AND 2018 'AT RISK' REMUNERATION

AT THE BEGINNING OF THE YEAR	1. The Board sets the financial budget for the Group. The financial budget is the primary driver of Cash STI outcomes.	Section 5.2(c)
	2. The Board approves non-financial objectives for the Group.	Section 5.2(d)
	3. The Board sets individual objectives for the CEO and other executives which include financial targets specific for each executive's role.	Section 5.2(d)
	4. The Board approves target remuneration (Cash STI, Deferred Equity, LTI) for each executive.	Cash STI: Section 5.2(d) Deferred Equity: Section 5.3(d) LTI: Section 5.4(d)
DURING THE YEAR	5. The Board assesses the financial performance of the Group and adjusts the Cash STI pool for executives up or down.	Process: Section 5.2(c) Outcome: Section 6.2
	6. The Board assesses the performance of the Group against non-financial objectives. This outcome is given a 50% weighting in the determination of the Cash STI for each executive.	Process: Section 5.2(d) Outcome: Section 6.2
	7. The Board assesses the performance of each executive against individual non-financial objectives. This outcome is given a 50% weighting in the determination of the Cash STI for each executive.	Process: Section 5.2(d)
	8. The Board determines a Cash STI outcome for each executive based on points 4-7 above. The Board applies discretion to establish the final Cash STI outcome.	Outcome: Section 6.4
	9. The Board determines the Deferred Equity and LTI for each executive with reference to: the performance measures in points 5-7 above, their potential future contribution to the organisation and the value of their unvested equity.	Outcome: Section 6.4
THE FOLLOWING YEAR	10. Executive KMP receive any Cash STI in March after the Group's full-year results have been finalised. Cash STI amounts are subject to revision up to this point in the event of material change to company performance.	Section 5.2(f)
	11. The MD/CEO's Deferred Equity and LTI grants are subject to shareholder approval at the AGM in May each year. Deferred Equity and LTI are issued after the AGM (no LTI will be issued in relation to 2018).	Section 5.3(f)
	12. Deferred Equity and LTI grants for other Executive KMP are issued after the AGM, subject to Board approval. Equity grants are subject to revision up to this point in the event of material change to company performance.	Section 5.3(f)
	13. LTI grants from prior years are tested against the vesting conditions in May (with the portion not vesting eligible for re-testing in November).	Process: Section 5.4 Outcome: Section 6.3

4.4 RISK MANAGEMENT

There has been significant regulatory and investor focus on the link between remuneration and risk. The Board notes that the following safeguards are in place to protect against the risk of unintended and unjustified outcomes:

- A range of financial and non-financial measures were used to determine 2018 remuneration outcomes to ensure that a singular focus on financial outcomes (see Section 5.2(d)) does not drive poor behaviour in other areas.
- STI and Deferred Equity awarded was constrained by Group profitability.
- Future LTI vesting outcomes are self-limiting as all awards will only vest if IRESS outperforms the market.
- Remuneration outcomes are based on performance in the short (STI) and long (Deferred Equity, LTI) term.
- The deferral period on Deferred Equity and LTI result in KMP having a material holding in IRESS shares which aligns their interests with shareholders.
- Clawback provisions are available for Deferred Equity and LTI in case of poor performance and/or misconduct.
- Board can apply discretion to adjust outcomes to ensure they are fair and appropriate.

The Board's review of executive remuneration outcomes in 2018 resulted in remuneration outcomes that were less than target (see Section 6.4), because not all non-financial targets were achieved, although financial results were above target. There were no poor risk outcomes requiring adjustments to the remuneration awarded and no awards eligible for vesting in 2018 were forfeited due to unsatisfactory performance during the vesting period.

Directors' Report continued

For the year ended 31 December 2018

SECTION 5 2018 REMUNERATION COMPONENTS IN DETAIL

5.1 FIXED REMUNERATION

a. What is fixed remuneration?

Base salary, superannuation, and other benefits (e.g. health insurance)

b. How is fixed remuneration determined?

As noted in Section 4.1, the following factors are considered when setting fixed remuneration:

- The size and complexity of the role
- Skills and experience of the individual
- Market pay levels for comparable roles

Any decision to increase fixed remuneration is considered in the context of the resulting change in total remuneration.

5.2 CASH SHORT-TERM INCENTIVES (STI)

a. What is the purpose of the Cash STI?

The STI is an 'at-risk' incentive awarded annually, subject to performance against pre-set financial and non-financial objectives (refer to Section 5.2(d) below).

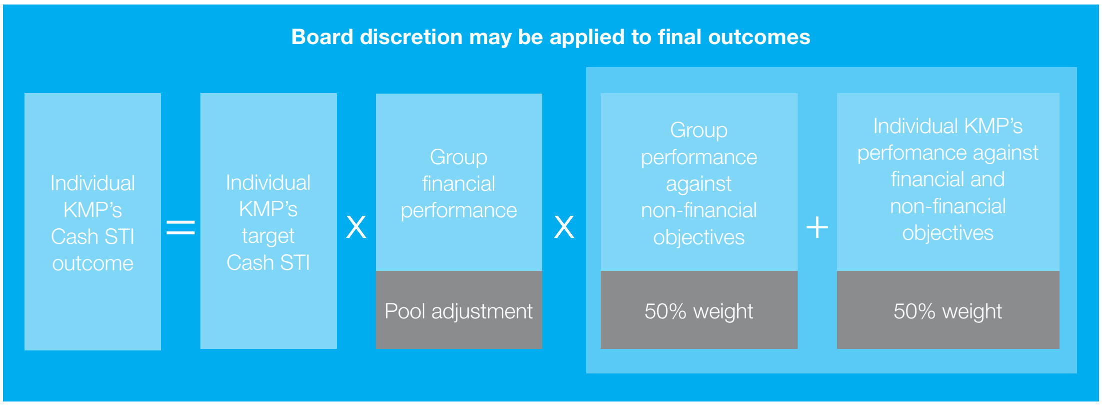
b. Who participates in Cash STI?

The MD/CEO and other Executive KMP were eligible to participate in the STI plan in 2018.

c. What mechanisms link performance to Cash STI outcomes?

The following mechanisms link performance to Cash STI outcomes:

- **Cash STI Funding:** The target Cash STI pool available to allocate to executives based on the policy remuneration mix (see 4.1) is adjusted up or down based on Group financial performance (100% weighting). In this way, the performance of the Group against financial budgets set at the beginning of the year is the primary driver of Cash STI outcomes.
- **Cash STI Allocation:** The starting point for individual Cash STI outcomes is the executive's target Cash STI, adjusted for Group financial performance as above. The individual's Cash STI is then adjusted up or down with a 50% weighting to Group performance against non-financial objectives and 50% weighting to performance against individual's financial and non-financial objectives.



The final determination of remuneration outcomes is subject to Board discretion.

The 2018 Cash STI outcomes that resulted from this assessment (as compared to target) are provided for Executive KMP in Section 6.4.

d. What are the performance measures and how are they established?

At the start of the year the Board sets the budget for the Group (and each business segment) having regard to business strategy and prior year performance.

The primary financial metric used to determine Cash STI pool funding is segment profit, which is a measure of underlying operating performance. The measure (as shown in Note 1.1 to the Consolidated Financial Statements) excludes items that may fluctuate year-on-year for reasons not related to core business performance in the current year. The Board has discretion to make further adjustments to the Cash STI pool with consideration to Earnings Before Interest, Tax, Amortisation and Depreciation (EBITDA) performance, Net Profit After Tax (NPAT) performance, and the impact of foreign exchange rate movements on financial performance.

The Board also confirms non-financial objectives and specific targets for the Group at the start of the year in the below key focus areas. The weightings of each focus area for determining the Group non-financial adjustment to Cash STI are also shown.

Focus area	Weighting	Performance objectives
Clients	20%	Maintain resilient leadership in existing markets.
Growth	20%	Grow revenue organically and pursue inorganic opportunities where appropriate.
People	20%	Position IRESS as an employer of choice globally.
Products/Technology	20%	Anticipate trends and innovate to maintain product leadership.
Company	20%	Enhance IRESS' brand through strong stakeholder relationships and communication. Enhance and scale internal systems to support client service, delivery and growth.

At the beginning of the year, the Group financial and non-financial objectives and targets are cascaded to individual KMP. The targets and weighting of each of the focus areas are specific to each executive's role. Performance against these targets is used to adjust each KMP's Cash STI and Deferred Equity outcome (as discussed in Section 5.2(c)).

e. What is the maximum Cash STI opportunity?

There is no policy maximum STI opportunity. However, Cash STI outcomes are constrained by the Group's profitability (Section 5.2(c)). Since the targets were introduced in 2017, the maximum STI achieved by any Executive KMP has been 95% of target.

f. When do executives receive Cash STIs?

Executives receive Cash STI after the Group's full year results have been finalised. Cash STI remains subject to Board approval and revision up to this point in the event of material change to company performance.

Directors' Report continued

For the year ended 31 December 2018

5.3 DEFERRED EQUITY

a. What is the purpose of Deferred Equity?	The purpose of the Deferred Equity plan at IRESS is to link remuneration outcomes to company performance and closely link executives' interests with those of shareholders.
b. Who participates in Deferred Equity?	The MD/CEO and other Executive KMP were eligible to participate in the Deferred Equity plan in 2018.
c. How are Deferred Equity awards delivered?	Deferred Equity is delivered as deferred share rights to MD/CEO and Executive KMP. A deferred share right (DSR) is a deferred right issued by IRESS to acquire one fully paid ordinary share in IRESS (subject to adjustment for certain capital actions) at no cost. DSRs vest subject to a three-year continuing service requirement and achievement of a satisfactory level of individual performance during these three years.
d. What mechanisms link performance to Deferred Equity outcomes?	The award of Deferred Equity is at the Board's discretion and is determined with reference to the executive's target remuneration outcome and performance against individual objectives, as well as the Group's performance against financial and non-financial objectives (see Section 5.2(c)). Other factors such as the individual's future contribution to the organisation, retention considerations and the total value of executive's accumulated unvested equity may result in an upward or downward adjustment of the Deferred Equity award. IRESS reviews Total incentive (cash STI, Deferred Equity and LTI) as % of Target and Total Remuneration for each executive, as well as Total cash and equity as a proportion of segment profit, to confirm that cash and equity is being appropriately and fairly distributed. The 2018 Deferred Equity outcomes that resulted from this assessment (as compared to target) are provided for Executive KMP in Section 6.4.
e. What is the maximum Deferred Equity opportunity?	There is no policy maximum Deferred Equity opportunity. However, Board considers the Group's profitability when determining Deferred Equity awards. Since the targets were introduced in 2017, the maximum Deferred Equity achieved by any Executive KMP has been 103% of target.
f. When do executives receive Deferred Equity awards?	Deferred Equity is granted to executives following the AGM in May each year and remains subject to Board approval and revision up to this point in the event of material change to company performance. The MD/CEO's equity grants are subject to shareholder approval at the AGM.
g. What is the vesting period for deferred share rights?	Deferred Share Rights vest after three years provided the Board is satisfied that the individual's performance is satisfactory, and the service condition is met.
h. How will shares to satisfy Deferred Share Rights be sourced?	The Board assesses annually whether to issue new shares or buy shares on market based on which would deliver a better outcome for shareholders. The Board considers a range of factors such as share price, balance sheet capacity and debt funding rates.
i. Is there a clawback provision?	The Board may exercise discretion to determine that Deferred Equity will be forfeited where individual performance has been unsatisfactory.
j. Are participants entitled to dividends and voting rights?	Deferred Share Rights do not carry any voting rights or entitle the holder to dividends. Shares allocated upon the vesting of DSRs carry the same rights as any other IRESS share.
k. How is Deferred Equity treated upon termination?	*Resignation, termination for cause or gross misconduct:* All unvested DSRs at the time of cessation of employment will lapse, unless the Board determines otherwise. *Other reasons, including redundancy:* DSRs will remain eligible to vest in accordance with the terms of the plan, unless the Board determines otherwise.
l. How is Deferred Equity treated upon a change of control?	In the event of a takeover bid, change of control, compromise or arrangement involving a scheme of arrangement, voluntary winding up or compulsory winding up of IRESS, the Board has discretion to allow unvested deferred share rights to vest.

5.4 LONG-TERM INCENTIVES UNDER THE CURRENT FRAMEWORK (granted May 2018 and prior)

a. What is the purpose of the LTI plan?

The purpose of the Executive LTI plan at IRESS is to:

- Closely link executives' interests with those of shareholders; and
- Promote the delivery of sustainable returns to shareholders.

b. Who participates in LTI?

LTI grants are limited to the MD/CEO and Executives who are most able to influence shareholder value.

c. How are LTI awards delivered?

LTI awards are granted in the form of performance rights (PRs). A performance right is a right issued by IRESS to acquire one fully paid ordinary share in IRESS, provided specific company performance hurdles are achieved.

d. How does IRESS determine the amount of the LTI opportunity awarded?

The award of LTI is at the Board's discretion and is determined with reference to the executive's target remuneration outcome and performance against individual objectives, as well as the Group's performance against financial and non-financial objectives.

Other factors such as the individual's future contribution to the organisation, retention considerations, the total value of an executive's remuneration and the value of unvested equity held by the individual are considered as part of the determination of equity awards.

e. How does IRESS determine how many rights to grant?

The number of LTI Performance Rights granted to each executive is calculated using a face value approach – total LTI amount divided by the five-trading-day volume weighted average share price in the week up to and including the grant date.

f. What are the vesting conditions?

Vesting of performance rights is determined based on RTSR performance over the performance period. RTSR provides an objective assessment of the returns from an investment in IRESS (share price growth and dividends), relative to other companies in which shareholders could have invested.

IRESS' TSR performance is measured against a comparator group consisting of companies listed in the S&P/ASX 200 Index, excluding mining and resources companies, and listed property trusts. The comparator group companies are determined as at 1 January of the year of grant and represent alternative investment options available to shareholders.

Prior to 2016 grants, the comparator group was adjusted to exclude companies that exited the S&P/ASX 200 Index during the performance period.

The TSR calculation for IRESS and companies in the comparator group includes franking credits for grants prior to 2015 (including the grant that was eligible to vest in 2018 for executives other than the CEO). For the 2016 and subsequent grants (which could vest from 2019 onwards), franking credits have been excluded from calculations. This change was made to remove complexity, align with the prevailing market practice and reflect the increasingly global nature of IRESS' business.

g. What is the vesting schedule?

Performance rights vest on the following basis:

IRESS' RTSR ranking	Percentage of performance rights to vest
Below 50th percentile	Nil.
50th percentile	50% of performance rights vest.
51st to 74th percentile	Pro-rata vesting between 50% and 100%.
75th percentile or higher	100% of performance rights vest.

Directors' Report continued

For the year ended 31 December 2018

5.4 LONG-TERM INCENTIVES UNDER THE CURRENT FRAMEWORK (granted May 2018 and prior) CONTINUED

h. What is the performance and vesting period?	As a result of changes to IRESS' executive remuneration framework outlined in Section 2, no LTI will be issued to KMP in relation to 2018. The below information relates to LTI granted in May 2018 (for performance in 2017) and prior years. *MD/CEO* The LTI grant for the MD/CEO consisted of two tranches: 1) 50% of performance rights are assessed over a four-year period, commencing at the start of the financial year (e.g. 1 January 2018 to 31 December 2021 for the May 2018 grant). The vesting period begins on the date of grant, which is five-trading days after the Annual General Meeting (AGM) (e.g. 11 May 2018 to 11 May 2022 for the May 2018 grant). 2) 50% of performance rights have a one-year deferred start and are assessed over a three-year period (e.g. 1 January 2019 to 31 December 2021 for the May 2018 grant); with vesting over the four-year period following grant (e.g. 11 May 2018 to 11 May 2022 for the May 2018 grant). *Other Executive KMP* Performance is assessed over a three-year performance period commencing at the start of the financial year (e.g. 1 January 2018 to 31 December 2020 for the May 2018 grant); the vesting period begins on the date of grant, which commences five-trading days after the Annual General Meeting (AGM) (e.g. 11 May 2018 to 11 May 2021 for the May 2018 grant). For all grants prior to May 2016, the Group performance period was aligned with the vesting period.
i. How will shares to satisfy the rights be sourced?	If shares are to be provided on vesting, the Board assesses at the time of vesting whether to issue new shares or buy shares on market based on which would deliver a better outcome for shareholders. The Board considers a range of factors such as share price, balance sheet capacity and debt funding rates.
j. Are awards subject to re-testing if they do not vest on initial testing?	IRESS share price volatility is greater than many other ASX listed entities due to the stage of the growth we are in, the industry we belong to and the high proportion of closely held shares. To reduce the impact of this, IRESS allows for one re-test, six months after the initial test date, for any portions of award that do not vest on the first test date.
k. What happens to unvested LTI grants if an executive leaves the Group?	*Reason other than resignation, termination for cause or gross misconduct:* Unvested LTI grants will lapse in full (if less than six months of the performance period has elapsed at the date of cessation of employment) or pro rata if six months or more of the performance period has elapsed, unless the Board determines otherwise. Performance rights that do not lapse will remain eligible to vest in accordance with the terms of the plan. *Resignation, termination for cause or gross misconduct:* All unvested LTI awards at the time of cessation of employment will lapse.
l. How are unvested LTI awards treated upon a change of control?	In the event of a takeover bid, change of control, compromise or arrangement involving a scheme of arrangement, voluntary winding up or compulsory winding up of IRESS, the Board has the discretion to allow unvested performance rights to vest. The Board will consider time elapsed and performance achieved when exercising their discretion.
m. Are participants entitled to dividends and voting rights?	Performance rights do not carry any voting rights or receive dividends. Shares allocated upon the vesting of rights carry the same rights as any other IRESS share.
n. Are there restrictions on dealing with securities allocated under the LTI plan?	Consistent with the *Corporations Act 2001*, participants are prohibited from hedging their unvested performance rights.

5.5 EMPLOYEE SHARE PLAN

a. How does IRESS encourage share ownership for employees

IRESS has an employee share plan covering the two major employee populations of Australia and the UK. Eligible participants are invited to acquire IRESS shares by salary sacrifice and IRESS supplements this with approximately one share for every two shares the employee acquires up to a maximum value of $300 (share matching).

b. How many shares were issued under this plan in 2018?

The Australian plan has been operating since 2013. In 2018, 417 employees participated (55% of eligible employees), subscribing to 30,858 shares including 9,253 matched shares. The UK plan was established in 2015. In 2018, 212 employees participated (33% of eligible employees), subscribing to 30,547 shares including 4,466 matched shares.

5.6 SPECIAL ACQUISITION-RELATED INCENTIVES (‘AVELO AWARDS’)

a. Does IRESS have any other equity plans with awards outstanding?

As disclosed in the 2013 Annual Report, a special set of deferred share rights awards were made in September 2013 in relation to the acquisition of Avelo FS Holdings Limited and its subsidiaries in the United Kingdom.

b. Who participated in the Avelo awards and what are the vesting criteria?

A core group of former Avelo Senior Management (including J McNeill: 54,981 DSRs) and staff to secure their retention and to ensure ongoing support for the integration and development of the business opportunity in the United Kingdom.

Vesting is subject to commercially sensitive performance criteria over two tranches:

- **Tranche 1:** 1 January 2014 – 31 December 2017. The performance conditions were assessed in February 2018 and 89% of the DSRs vested and the remainder were forfeited.
- **Tranche 2 (former Avelo Senior Management only):** 1 January 2014 – 31 December 2018. The vesting period was extended by one year to provide additional executive alignment to IRESS’ non-financial goals in the UK. As at 31 December 2018, the performance conditions were still being assessed. Accordingly, the DSRs had not vested.

Directors' Report continued

For the year ended 31 December 2018

SECTION 6 2018 REMUNERATION AWARDED AND THE LINK BETWEEN PERFORMANCE AND REWARD

6.1 OVERVIEW OF GROUP PERFORMANCE

The table below provides summary information on the Group's earnings for the five years to 31 December 2018.

Measure	**2018**	2017	2016	2015	2014
Net Profit After Tax (NPAT) ($'000s)	64,096	59,755	59,452	55,385	50,671
Segment profit ($'000s) [a]	137,702	125,383	123,531	119,175	111,444
Statutory EPS – basic (cents)	37.6	35.4	37.0	35.2	32.3
Dividends per share – ordinary (cents) [b]	46.0	44.0	44.0	42.7	41.5
Share price at 31 December	11.12	11.58	11.87	10.00	10.71
Annual TSR [c]	(0.17%)	1.26%	22.97%	(2.79%)	16.33%
Annualised 3-year TSR [c]	7.51%	6.29%	11.59%	11.69%	20.59%

(a) Segment profit (calculation as set out in Note 1.1 to the Consolidated Financial Statements) is a measure of core underlying business performance and the basis on which the Cash STI Pool is determined.

(b) Dividend per share is calculated based on the total of the interim dividend and the announced (but not yet paid) final dividend relating to the financial year.

(c) Total Shareholder Return (TSR) amounts are sourced from IRESS' market data product and are different from that used to determine LTI vesting, which is specific to the IRESS LTI plan. It excludes franking credits (whereas for LTI grants made prior to 2016, franking credits are included). It is based on share price at start and end of the relevant period (whereas for LTI grants, a 20-day volume weighted average price is applied).

6.2 TRANSLATION OF GROUP PERFORMANCE INTO REMUNERATION

The Board's assessment of the Group's performance against 2018 financial and non-financial objectives is summarised in the table below. In summary, IRESS' performance in 2018 was above the financial targets set by the Board while performance against non-financial measures was at or below target. This assessment, formed the basis for the determination of STI awards for the year, consistent with the process outlined in Section 4.3. The result of the Board's assessment was Cash STI awarded at 93% of target. Deferred Equity was awarded at 99% of target. Details of remuneration awarded to Executive KMP for 2018 performance is shown in Section 6.4.

Key focus area	Performance goal	Performance outcome	Result
Financial measures			
Financial	Achievement of the Board approved budget (see Section 5.2(c)).	The 2018 consolidated financial performance of the company (segment profit, EBITDA and NPAT) was above the budget set by the board at the start of the year.	Above target
Non-financial measures			
Clients	Maintain resilient leadership in existing markets, client service excellence, new client implementations and retention of existing clients.	Long term customer relationships underpinned by extremely low customer churn continued as a central element of IRESS' performance in 2018. Material new customer relationships were successfully forged in 2018 and existing relationships expanded, which together drove revenue growth of 8%. The introduction of IRESS service central and cross functional client support teams led to reduced resolution times and enhanced customer experience. The development of the IRESS user community continued.	At target
Growth	Grow revenue organically and pursue inorganic opportunities where appropriate.	2018 revenue growth was 8% driven by good momentum in wealth and lending opportunities globally. The pipeline of client activity generated in 2018 that will manifest future years' revenue growth is also positive. However, 2018 revenue growth performance was below the targets set by the board at the start of the year. Lucsan was acquired in 2018, which added to IRESS' data analytics capability.	Below target
People	Position IRESS as an employer of choice globally.	A new non executive remuneration framework was successfully implemented in 2018. The review of the executive remuneration framework was completed in 2018. A performance excellence framework was successfully implemented. Direct sourcing of talent exceeded target and regretted attrition remained low and better than target.	At target

Key focus area	Performance goal	Performance outcome	Result
Products/ Technology	Anticipate trends and innovate to maintain product leadership.	IRESS continued to respond to regulatory and market changes, as well as client demand, with product updates and releases during the year. Significant investments continue in IRESS Labs, user interface enhancements and the IRESS Automated Personal Advice solution. IRESS Open (an expanded approach to software integration) and IRESS Client Portal were both launched in 2018. Lumen data analytics capability (Lucsan acquisition) has been productised and integrated with other IRESS solutions.	At target
Group/ Corporate	Enhance IRESS brand through strong stakeholder relationships and communication. Enhance and scale internal systems to support client service, delivery and growth.	Ongoing transformation of IRESS' approach to software engineering, software deployment and use of third party cloud capability continues in line with strategic milestones and expectations. The Melbourne office was upgraded during the year and significant investments were made in global workplace technology. The impact of office environment and workplace technology investments on collaboration, employee engagement and operating efficiency have been significant. The uplift in IRESS' external communication and brand management continued in 2018 with a focus on digital campaigns, global thought leadership and client advocacy. A new Enterprise Resource Planning (ERP) system was successfully implemented in 2018.	At target

6.3 TRANSLATION OF GROUP PERFORMANCE INTO LTI AWARDS

IRESS' dividends and share price performance directly affect the vesting of LTI awards as all performance rights granted under the Executive LTI plan are subject to a TSR performance measure.

2018

The table below provides the independently verified vesting outcomes for the LTI grants that were eligible to vest in 2018 based on the Group's RTSR performance.

LTI Award	Performance Period	RTSR Performance [a]	Vesting Outcome
MD/CEO – 2014 Four-year performance rights	7 May 2014 to 7 May 2018	65.7th percentile	81.4% of performance rights vested
MD/CEO – 2014 Deferred three-year performance rights	7 May 2015 to 7 May 2018	47.7th percentile	0% of performance rights vested
Other Executive KMP – 2015 performance rights	7 May 2015 to 7 May 2018	47.7th percentile	0% of performance rights vested

(a) Based on maximum RTSR performance as measured on 7 May 2018 and 7 November 2018.

2019

The table below shows the anticipated vesting outcomes for those LTI grants eligible to vest in 2019 based on the Group's RTSR performance to 31 December 2018. This is subject to change based on independent testing of the vesting criteria following the 7 May 2019 vesting date.

LTI Award	Performance Period	RTSR Performance [b]	Indicative Vesting Outcome
MD/CEO – 2015 Four-year performance rights	7 May 2015 to 7 May 2019	51.4th percentile	52.8% performance rights to vest
MD/CEO – 2015 Deferred three-year performance rights	6 May 2016 to 7 May 2019	36.7th percentile	0% of performance rights to vest
Other Executive KMP – 2016 performance rights	1 January 2016 to 31 December 2018	66.0th percentile	82.0% performance rights to vest

(b) Based on RTSR performance from the beginning of the performance period to 31 December 2018.

Directors' Report continued

For the year ended 31 December 2018

6.4 TRANSLATION OF GROUP AND INDIVIDUAL PERFORMANCE INTO REMUNERATION AWARDED TO EXECUTIVE KMP FOR 2018

2018 outcomes compared to target

The table below shows the remuneration awarded to Executive KMP for 2018 performance, as compared to target remuneration.

- **Cash STI:** The Cash STI outcome for each executive resulting from the Board's assessment of Group and individual performance is shown in the table below. As noted in Section 6.2 above, the company's financial performance was above the target set by the Board at the start of the year. Performance against other measures was at or below targets. As a result, the Cash STI awarded to Executive KMP was 7% less than target.
- **Deferred Equity:** Deferred Equity awards are determined at the discretion of the Board with reference to Group financial and non-financial performance and the executive's performance against individual objectives. In addition, the award of equity reflects retention considerations, the expected long-term contribution of the individual and their unvested equity exposure. The Board's weights reductions in actual versus target remuneration towards Cash STI because Deferred Equity is a medium-term instrument that aligns executives' and shareholders' interests and gives the Board discretion to clawback remuneration for malus or poor performance over a further three years.
- **LTI:** As a result of changes to IRESS' executive remuneration framework outlined in Section 2, no Long-Term Incentive (LTI) will be issued to KMP in relation to 2018. However, the LTI that would have delivered under the current remuneration framework is shown for completeness.

	BASE	CASH STI			DEFERRED EQUITY			TOTAL REMUNERATION (EXCL. LTI)		
Executive	Actual [a]	Actual	Target	Actual as % of target	Actual	Target	Actual as % of target	Actual	Target	Actual as % of target
MD/CEO										
A Walsh	1,000,000	246,583	272,727	90%	550,000	545,455	101%	1,796,583	1,818,182	99%
Executive KMP										
P Ferguson	365,000	61,000	65,700	93%	129,000	131,400	98%	555,000	562,100	99%
J Harris	540,000	92,000	97,200	95%	192,000	194,400	99%	824,000	831,600	99%
A Knowles	571,435	98,215	102,858	95%	213,329	205,717	104%	882,979	880,010	100%
J McNeill	392,861	66,072	70,715	93%	136,886	141,430	97%	595,820	605,006	98%
S New	535,720	89,287	96,430	93%	181,329	192,859	90%	806,336	825,009	98%
A Todd	603,900	102,000	108,702	94%	216,000	217,404	99%	921,900	930,006	99%
Total	**4,008,916**	**755,157**	**814,332**	**93%**	**1,618,544**	**1,628,665**	**99%**	**6,382,618**	**6,451,913**	**99%**

(a) Target remuneration is based on Base Salary at 31 December 2018. It excludes allowances, non-monetary benefits and superannuation. Amounts therefore vary from the Fixed Remuneration disclosed elsewhere in this report.

2018 compared to 2017

The following table shows the remuneration outcomes awarded to Executive KMP for 2018 performance as compared to 2017.

- Fixed remuneration decreased by 11% in 2018 following the 2017 restructure of the executive team, partially offset by an increase in A. Knowles' fixed remuneration during the year.
- Excluding LTI, the total remuneration awarded to KMP in 2018 (fixed remuneration, cash STI and deferred equity) was, on average, 13% higher than 2017. This is primarily due to IRESS exceeding its financial targets in 2018 and the higher cash STI amounts that were awarded to executives as a result (93% of target on average). In 2017, cash STI was materially reduced (41% of target on average) as a result of financial targets not being met in that year.

Executive	Year	Fixed remuneration paid $	Cash STI $	Deferred Equity [a] $	Total remuneration (excl. LTI) $	LTI $	Total remuneration (incl. LTI) $
MD/CEO							
A Walsh [b]	2018	1,038,258	246,583	550,000	1,834,841	–	1,834,841
	2017	1,034,891	110,000	500,000	1,644,891	1,000,000	2,644,891
Other Executive KMP							
P Ferguson	2018	392,419	61,000	129,000	582,419	–	582,419
	2017	403,951	29,000	123,500	556,451	140,000	696,451
J Harris	2018	567,201	92,000	192,000	851,201	–	851,201
	2017	570,721	42,500	180,500	793,721	210,000	1,003,721
A Knowles [c,d]	2018	644,343	98,215	213,329	955,887	–	955,887
	2017	547,620	36,770	175,750	760,140	200,000	960,140
J McNeill [c]	2018	451,136	66,072	136,886	654,094	–	654,094
	2017	432,880	32,120	132,724	597,724	150,000	747,724
S New [c]	2018	593,873	89,287	181,329	864,489	–	864,489
	2017	562,398	32,120	165,968	760,486	175,000	935,486
A Todd [e]	2018	628,900	102,000	216,000	946,900	–	946,900
	2017	521,040	50,000	209,000	780,040	220,000	1,000,040
Prior KMP [f]	2017	769,275	–	–	769,275	–	769,275
Total Executive KMP	**2018**	**4,316,130**	**755,157**	**1,618,544**	**6,689,832**	**–**	**6,689,832**
	2017	**4,842,776**	**332,510**	**1,487,442**	**6,662,728**	**2,095,000**	**8,757,728**

(a) Deferred Equity is shown at grant value. The number of deferred share rights granted to each executive is based on the fair value of a deferred share right. For grant purposes, this is the five-trading-day volume weighted average share price in the week up to and including the grant date adjusted for ineligibility to receive dividends. The number of performance rights granted to each executive in May 2018 was based on the five-trading-day volume weighted average share price in the week up to and including the grant date.

(b) The value of A Walsh's 2017 non-monetary benefit and thus, his fixed remuneration, was understated in the 2017 remuneration report and has been restated above.

(c) Fixed remuneration and Cash STI of J McNeil, S New and (as of December 2017) A Knowles is denominated in British Pounds and is subject to foreign exchange movements. The Australian dollar amounts shown in the table have been converted at an average exchange rate of 0.5600 (2017: 0.5915).

(d) A Knowles had a salary increase effective August 2018 determined with consideration to the factors outlined in Section 4.2.

(e) A Todd became KMP effective 27 January 2017 and had a salary increase effective October 2017.

(f) S Barnes and M Rady ceased to be KMP effective 30 September 2017. Their 2017 remuneration is included for comparative purposes.

Cash STI amounts are subject to Board approval in February 2019 and payable in March 2019. Deferred Equity will be granted in May 2019 following shareholder approval for the MD/CEO and Board approval for other Executive KMP. The Board retains the discretion to increase or decrease the Cash STI and Deferred Equity amounts up to the approval date should the performance of the Group or of individual KMP vary materially.

Directors' Report continued

For the year ended 31 December 2018

SECTION 7 2018 ACTUAL REMUNERATION REALISED

Actual remuneration is provided in addition to awarded remuneration (refer to Section 6.4) and statutory remuneration (refer to Section 10.2) to increase transparency of the remuneration actually received by executives during the year. Actual remuneration realised by Executive KMP decreased by 21% in 2018, primarily due to a lower rate of LTI vesting in 2018. The components included in actual remuneration and the reasons for this decrease are summarised below:

Component	2018 Inclusions	Change on 2017	Key driver of change
Fixed remuneration	• Base salary, superannuation, and non-monetary benefits paid in 2018.	**(11%)**	An executive team restructure midway through 2017 reduced the number of KMP.
Cash STI	• 2018 Cash STI (which has been earned and is scheduled for payment in March 2019 following the release of financial results).	**127%**	Above target Segment Profit result in 2018 resulting in average Cash STI of 93% of target, versus a below target result in 2017, which resulted in average Cash STI of 41% of target.
Deferred Equity	• Deferred Equity that was granted May 2015 in relation to 2014 performance and vested May 2018. • Tranche 1 of the Avelo award (see Section 5.6).	**2%**	n/a
LTI	• LTI awards that vested in 2018, being the MD/CEO's four-year performance rights.	**(76%)**	Two of three LTI awards did not vest in 2018 (see Section 6.3); whereas in 2017, all three awards partially vested.

Position	Financial Year	Fixed remuneration $	Cash STI earned	Deferred Equity vested (a)	LTI vested (a) $	Total remuneration realised $
MD/CEO						
A Walsh (b)	2018	1,038,258	246,583	592,900	552,820	2,430,561
	2017	1,034,891	110,000	707,600	1,465,464	3,317,955
Other Executive KMP						
P Ferguson	2018	392,419	61,000	113,535	–	566,954
	2017	403,951	29,000	212,651	177,815	823,417
J Harris (c)	2018	567,201	92,000	–	–	659,201
	2017	570,721	42,500	–	–	613,221
A Knowles (d)	2018	644,343	98,215	197,199	–	939,757
	2017	547,620	36,770	244,000	291,751	1,120,141
J McNeill (d, e)	2018	451,136	66,072	567,535	–	1,084,743
	2017	432,880	32,120	58,926	97,210	621,136
S New (c, d)	2018	593,873	89,287	–	–	683,160
	2017	562,398	32,120	–	–	594,518
A Todd (c, f)	2018	628,900	102,000	–	–	730,900
	2017	521,040	50,000	–	–	571,040
Prior KMP (g)	2017	769,275	–	218,746	277,818	1,265,839
Total Executive KMP	**2018**	**4,316,130**	**755,157**	**1,471,169**	**552,820**	**7,095,276**
	2017	**4,842,776**	**332,510**	**1,441,923**	**2,310,058**	**8,927,267**

(a) The value of equity that vested is calculated as the share price at vesting date multiplied by the number of rights that vested.

(b) The value of A Walsh's 2017 non-monetary benefits and thus, his fixed remuneration, was understated in the 2017 remuneration report and has been restated above.

(c) Executive KMP who joined the Group after 2014 did not hold DSRs that were eligible for vesting in 2018.

(d) Fixed remuneration and Cash STI of J McNeil, S New, and (as of Dec 2017) A Knowles is denominated in British Pounds and is subject to foreign exchange movements. The Australian dollar amounts shown in the table have been converted at an average exchange rate of 0.5600 (2017: 0.5915). A Knowles had a salary increase effective August 2018.

(e) J McNeill did not hold PRs eligible for vesting in 2018 as her Tranche 1 Avelo award was eligible for vesting in the same year.

(f) A Todd joined the group and became KMP effective 27 January 2017 and had a salary increase effective October 2017.

(g) S Barnes and M Rady ceased to be KMP effective 30 September 2017. Their 2017 remuneration excluding termination payments is included for comparative purposes.

SECTION 8 REMUNERATION GOVERNANCE

The Board and People & Performance Committee (PPC) work closely to apply the Group's remuneration philosophy and ensure the company's remuneration strategy supports the creation of sustainable shareholder value.

HOW REMUNERATION DECISIONS ARE MADE – ROLES AND RESPONSIBILITIES

BOARD

- Oversees remuneration.
- Ultimately responsible for recommendations and decisions made by the PPC.
- Approves remuneration for NEDs and the CEO.
- Reviews PPC charter annually.

With advice from

PEOPLE AND PERFORMANCE COMMITTEE

- Reviews remuneration taking into account a wide variety of information including business strategy and culture, stakeholder interests, market practice and corporate governance principles.
- Makes recommendations to the Board on remuneration arrangements for Directors.
- Approves remuneration arrangements for direct reports to the MD/CEO.
- Governed by PPC charter.

Based on input from

EXTERNAL ADVISORS

- At IRESS' request, external advisors provide both information on current market practice and independent input into key remuneration decisions.
- The terms of engagement for external advisors include specific measures designed to protect independence.
- External advisors interact with members of IRESS' management team.

MANAGEMENT

- Management makes proposals to the PPC for consideration by the Board, taking into consideration market practice and external advice.

Individual executives, including the MD/CEO, do not participate in PPC meetings where their own remuneration is being discussed.

To ensure independence, IRESS' management team is precluded from requesting services from an external advisor that would be considered a 'remuneration recommendation' as defined by the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*.

No remuneration recommendations (as defined by the *Corporations Act 2001*) were provided to the IRESS Board during the reporting period.

Directors' Report continued

For the year ended 31 December 2018

SECTION 9 NON-EXECUTIVE DIRECTOR FEES

To ensure objective and independent oversight of the Group, Non-executive Directors (NEDs) do not participate in performance-based incentives or receive post-employment benefits.

9.1 APPROACH TO SETTING NED FEES

The Group's NEDs receive fees for their services plus the reimbursement of reasonable expenses. The NED fee structure considers the responsibilities of NEDs and the time spent by NEDs on IRESS matters.

NED fees are reviewed at appropriate intervals and are determined by the Board in consideration of fees paid to NEDs by comparable companies. The Board seeks external advice on this subject where considered necessary.

9.2 MAXIMUM AGGREGATE NED FEE POOL

The maximum aggregate pool available for NED fees is approved by the shareholders at the Annual General Meeting in accordance with the Group's Constitution. The maximum pool is set around the median level for comparable companies, to provide the ability for IRESS to attract and retain appropriately qualified and experienced directors.

The maximum aggregate fee pool of $1,200,000 per annum was approved at the Annual General Meeting held on 5 May 2016. The total amount of remuneration paid to NEDs in 2018 was $1,080,350 (2017: $903,342). The increase on 2017 was due to increases to the fee policy effective 1 July 2017 (and an additional NED joining the Board late in October 2017 (J Fahey).

9.3 NED FEE POLICY

The table below contains the fee policy for NEDs during 2018. Fees include statutory superannuation contributions or fees in lieu of statutory superannuation contributions paid by the Group.

Role	Fee ($)
IRESS Limited Board	
Board Chair [a]	240,000
Board member	130,000
Audit & Risk Committee	
Chair	24,000
Member	Nil
People and Performance Committee	
Chair	24,000
Member	Nil

(a) The Chairman is entitled to the Board Chair fee only (no additional Committee fees).

9.4 NON-EXECUTIVE DIRECTOR STATUTORY REMUNERATION

The total statutory remuneration paid to NEDs during 2018 and 2017 is as set out in the table below.

	FINANCIAL YEAR	SHORT-TERM BENEFITS	POST-EMPLOYMENT ENTITLE-MENTS	TOTAL $
Non-Executive Director		Fees $	Superannuation $	
A D'Aloisio	2018	219,178	20,822	240,000
	2017	200,913	19,087	220,000
N Beattie [(a)]	2018	130,000	12,350	142,350
	2017	120,000	6,175	126,175
J Cameron	2018	118,721	11,279	130,000
	2017	109,589	10,411	120,000
J Fahey [(b)]	2018	118,722	11,279	130,001
	2017	28,463	2,704	31,167
J Hayes	2018	140,639	13,361	154,000
	2017	130,594	12,406	143,000
J Seabrook	2018	140,639	13,361	154,000
	2017	130,594	12,406	143,000
G Tomlinson	2018	118,721	11,279	130,000
	2017	109,589	10,411	120,000
Total Non-Executive Director fees	**2018**	**986,620**	**93,731**	**1,080,351**
	2017	**829,742**	**73,600**	**903,342**

(a) NED fees are paid inclusive of superannuation for all NEDs except for N Beattie. N Beattie is paid superannuation on-top of fees based on the percentage of total fees relating to work performed in Australia.

(b) J Fahey was appointed 5 October 2017.

Directors’ Report continued

For the year ended 31 December 2018

SECTION 10 ADDITIONAL REQUIRED DISCLOSURES

10.1 EXECUTIVE KMP SERVICE AGREEMENTS

All IRESS Executive KMP have a formal contract, known as a service agreement. These agreements are of an ongoing nature and have no set term of service.

The key terms of the service agreements for the MD/CEO and other Executive KMP are summarised below. Executive KMP termination entitlements are limited to 12 months’ base salary unless shareholder approval is received.

MD/CEO

Criterion	Arrangements
Term of contract	Ongoing.
Notice period	Six months (from the employee and Group).
Resignation	The MD/CEO may resign by giving six months’ written notice.
Retirement	There are no additional financial entitlements due from IRESS on retirement.
Termination on notice by IRESS	IRESS may terminate the employment agreement by providing six months’ written notice, or payment in lieu of the notice period.
Redundancy	If IRESS terminates employment for reasons of bona fide redundancy, a severance payment will be made. The quantum of the payment will be determined subject to the Board’s discretion, considering matters such as statutory requirements, the executive’s contribution, position and length of service.
Termination for serious misconduct	IRESS may terminate the employment agreement at any time without notice.
Non-Compete	A non-compete arrangement exists during the MD/CEO’s employment and for a period of six months following his employment with the Group.

Executive KMP

Details of the contractual terms for the other Executive KMP members are aligned with the terms set out above for the MD/CEO, with the exception that J Harris, J McNeill, S New and A Todd have non-compete clauses for the 12-months following employment (in addition to the non-compete arrangements during employment).

10.2 EXECUTIVE KMP STATUTORY REMUNERATION

The table below presents details of Executive KMP remuneration prepared in accordance with statutory requirements and accounting standards. Under this standard deferred share rights and performance rights are expensed based on the grant date fair value over the vesting period.

		SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS					
Executive	YEAR	Salary and fees $ [a]	Non-monetary benefits $ [b]	STI $	Super-annuation $	Share-based payments Shares [c] $	Share-based payments DSRs $	Share-based payments PRs $	Long-service leave $	TOTAL REMUNERATION $	PERFORMANCE-RELATED REMUNERATION % OF TOTAL REMUNERATION
MD/CEO											
A Walsh [b]	2018	1,000,000	13,258	246,583	25,000	–	540,762	683,125	13,319	2,522,047	58%
	2017	1,000,000	9,891	110,000	25,000	–	529,590	668,554	20,741	2,363,776	55%
Executive KMP											
P Ferguson	2018	365,000	2,419	61,000	25,000	–	109,376	75,782	15,419	653,996	38%
	2017	365,000	2,289	29,000	36,662	300	100,343	75,462	17,708	626,764	33%
J Harris	2018	540,000	2,202	92,000	25,000	–	130,718	112,714	–	902,634	37%
	2017	540,000	1,370	42,500	29,350	–	71,185	102,422	–	786,827	27%
A Knowles [b,d]	2018	616,078	3,264	98,215	25,000	–	173,829	110,423	–	1,026,809	37%
	2017	506,231	11,388	36,770	30,000	–	168,054	111,343	8,847	872,633	36%
J McNeill [d]	2018	407,326	8,453	66,072	35,358	–	37,654	49,634	–	604,497	25%
	2017	385,605	13,803	32,120	33,472	262	58,008	30,994	–	554,264	22%
S New [d]	2018	535,720	4,581	89,287	53,572	–	80,987	51,415	–	815,562	27%
	2017	507,153	4,530	32,120	50,715	262	36,496	25,043	–	656,319	14%
A Todd [e]	2018	603,900	–	102,000	25,000	–	44,397	24,913	–	800,210	21%
	2017	476,513	–	50,000	44,526	–	–	–	–	571,039	41%
Total	**2018**	**4,068,024**	**34,177**	**755,157**	**213,930**	**–**	**1,117,723**	**1,108,006**	**28,738**	**7,325,755**	**41%**
	2017	**3,780,502**	**43,271**	**332,510**	**249,725**	**824**	**963,676**	**1,013,818**	**47,296**	**6,431,622**	**36%**

(a) Salary includes allowances and short-term compensated absences paid during the 2017 and 2018 years.

(b) Non-monetary benefits include health and life insurance subsidies. Additionally for A Walsh, this includes the market value of his/IRESS' arrangement for settling UK tax and insurance obligations on equity awards that were on foot during his 2013-2015 secondment to the UK (the 2017 figures have been restated to include the equivalent 2017 amount). For A Knowles, this includes $9,156 in temporary accommodation and furnishings related to his relocation to the UK in 2017.

(c) Share-based payments in Shares relate to matching shares delivered under Employee Share Plans (see Section 5.5).

(d) Remuneration of J McNeill, S New, and (from December 2017) A Knowles, is denominated in British Pounds and is subject to FX movements. The Australian dollar amounts shown in the table were converted at an average foreign exchange rate of 0.5600 (2017: 0.5915).

(e) A Todd joined the group and became KMP effective 27 January 2017.

Directors' Report continued

For the year ended 31 December 2018

10.3 RIGHTS HELD DURING THE FINANCIAL YEAR

The number of deferred shares (Employee Share Plans), deferred share rights (Deferred Equity and Avelo awards) and performance rights (LTI) held in the Company by each Executive KMP is set out below. No rights are granted to NEDs or related parties.

Deferred Shares and Deferred Share Rights

Executive	Balance as at 1 January 2018	Granted as compensation	Vested during the year (a)	Forfeited/lapsed during the year	Balance as at 31 December 2018
MD/CEO					
A Walsh	162,575	51,707	(55,000)	–	159,282
Executive KMP					
P Ferguson	31,067	12,772	(10,532)	–	33,307
J Harris	26,081	18,666	–	–	44,747
A Knowles (a)	51,691	18,175	(18,293)	–	51,573
J McNeill	73,569	13,731	(49,583)	(5,443)	32,274
S New	13,014	17,164	–	–	30,178
A Todd	–	21,614	–	–	21,614
Total	**357,997**	**153,829**	**(133,408)**	**(5,443)**	**372,975**

(a) All deferred share rights that vested during the year were exercisable. A Knowles has 18,293 vested deferred share rights which have not yet been exercised.

Performance Rights

Executive	Balance as at 1 January 2018	Granted as compensation	Vested during the year (a)	Forfeited/lapsed during the year	Balance as at 31 December 2018
MD/CEO					
A Walsh	475,478	91,210	(51,282)	(74,718)	440,688
Executive KMP					
P Ferguson	33,797	12,770	–	(14,151)	32,416
J Harris	51,512	19,154	–	(22,642)	48,024
A Knowles	49,625	18,242	–	(20,755)	47,112
J McNeill	12,613	13,682	–	–	26,295
S New	12,398	15,962	–	–	28,360
A Todd	–	20,067	–	–	20,067
Total	**635,423**	**191,087**	**(51,282)**	**(132,266)**	**642,962**

(a) All performance rights that vested during the year are exercisable. No performance rights were, as at 31 December 2018, vested and not yet exercised.

10.4 DEFERRED SHARE RIGHTS AND PERFORMANCE RIGHTS AWARDED DURING THE YEAR

The table below discloses deferred share rights and performance rights granted to the Executive KMP during 2018, in relation to performance in 2017.

No rights vest if the conditions are not satisfied, hence the minimum value yet to vest is nil. Rights granted in 2018 that subsequently vest will be automatically exercised on or around the time IRESS notifies them that their rights have vested. The maximum value of the grants yet to vest has been determined as the fair value of awards at grant date. Deferred share rights and performance rights are granted for no consideration, and upon vesting, can be exercised at no cost.

Executive	Vehicle	Grant date	Number of rights granted	Fair value at grant date ($)	Vesting date	Expiry date
A Walsh	Deferred share rights	10–May–18	51,707	$9.58	10–May–21	10–May–21
	Performance rights	10–May–18	45,605	$5.75	10–May–22	10–May–22
		10–May–18	45,605	$5.78	10–May–22	10–May–22
P Ferguson	Deferred share rights	10–May–18	12,772	$9.58	10–May–21	10–May–21
	Performance rights	10–May–18	12,770	$5.79	10–May–21	10–May–21
J Harris	Deferred share rights	10–May–18	18,666	$9.58	10–May–21	10–May–21
	Performance rights	10–May–18	19,154	$5.79	10–May–21	10–May–21
A Knowles	Deferred share rights	10–May–18	18,175	$9.58	10–May–21	10–May–21
	Performance rights	10–May–18	18,242	$5.79	10–May–21	10–May–21
J McNeill	Deferred share rights	10–May–18	13,731	$9.58	10–May–21	10–May–21
	Performance rights	10–May–18	13,682	$5.79	10–May–21	10–May–21
S New	Deferred share rights	10–May–18	17,164	$9.58	10–May–21	10–May–21
	Performance rights	10–May–18	15,962	$5.79	10–May–21	10–May–21
A Todd	Deferred share rights	10–May–18	21,614	$9.58	10–May–21	10–May–21
	Performance rights	10–May–18	20,067	$5.79	10–May–21	10–May–21

10.5 DEFERRED SHARE RIGHTS AND PERFORMANCE RIGHTS VESTED AND LAPSED DURING THE YEAR

The table below discloses deferred share rights and performance rights that had vesting determinations made during the year for the Executive KMP. One ordinary share is provided for each vested right on exercise, subject to adjustment for certain capital actions. Shares provided on vesting of rights are fully paid and accordingly there is no unpaid amount

Executive	Vehicle	Grant date	Number of rights granted	Fair value at grant date	Vesting date	Expiry date	Number of rights vested	Number of rights lapsed/ forfeited	Proportion rights vested	Proportion lapsed/ forfeited
A Walsh	Deferred share rights	7–May–15	55,000	$9.02	7–May–18	7–May–18	55,000	–	100.0%	0.0%
	Performance rights	7–May–14	63,000	$4.05	7–May–18	7–May–18	51,282	11,718	81.4%	18.6%
		7–May–14	63,000	$3.89	7–May–18	7–May–18	–	63,000	0.0%	100.0%
P Ferguson	Deferred share rights	7–May–15	10,532	$9.02	7–May–18	7–May–18	10,532	–	100.0%	0.0%
	Performance rights	7–May–15	14,151	$5.30	7–May–18	7–May–18	–	14,151	0.0%	100.0%
J Harris	Deferred share rights	–	–	–	–	–	–	–	–	–
	Performance rights	7–May–15	22,642	$5.30	7–May–18	7–May–18	–	22,642	0.0%	100.0%
A Knowles	Deferred share rights	7–May–15	18,293	$9.02	7–May–18	7–May–18	18,293	–	100.0%	0.0%
	Performance rights	7–May–15	20,755	$5.30	7–May–18	7–May–18	–	20,755	0.0%	100.0%
J McNeill[a]	Deferred share rights	1–Jan–14	49,483	$7.73	2–Jan–18	2–Jan–18	44,040	5,443	89.0%	11.0%
		7–May–15	5,543	$9.02	7–May–18	7–May–18	5,543	–	100.0%	0.0%
	Performance rights	–	–	–	–	–	–	–	–	–
S New	Deferred share rights	–	–	–	–	–	–	–	–	–
	Performance rights	–	–	–	–	–	–	–	–	–
A Todd	Deferred share rights	–	–	–	–	–	–	–	–	–
	Performance rights	–	–	–	–	–	–	–	–	–

(a) J McNeill did not hold PRs eligible for vesting in 2018 as her Tranche 1 Avelo award was eligible for vesting in the same year.

Directors' Report continued

For the year ended 31 December 2018

10.6 SHAREHOLDINGS

The number of ordinary shares held in the Company during the financial year by each KMP is set out below. Included are shares held on their behalf by the trustee of the IRESS Limited Equity Plans Trust and their personally related parties is set out below.

KMP	Balance as at 1 Jan 2018	Shares acquired during the year [b]	Other changes	Balance as at 31 Dec 2018
NEDs				
A D'Aloisio	47,484	1,918	–	49,402
N Beattie	–	6,000	–	6,000
J Cameron	36,668	–	–	36,668
J Fahey	–	–	–	–
J Hayes	13,788	–	–	13,788
J Seabrook	38,498	1,555	–	40,053
G Tomlinson	8,000	–	–	8,000
Executive KMP				
A Walsh	412,345	119,112	(154,590)	376,867
P Ferguson[a]	27,156	10,532	(27,517)	10,171
J Harris	–	–	–	–
A Knowles	32,264	–	(19,100)	13,164
J McNeill[a]	6,603	49,583	(27,068)	29,118
S New	608	–	–	608
A Todd	–	–	–	–
Total	**623,414**	**188,700**	**(228,275)**	**583,839**

(a) Opening balances have been restated for P Ferguson and J McNeill to correct errors in the 2017 report.

(b) Shares acquired by Executive KMP during the year were acquired on the exercise of deferred share rights and performance rights. Additionally, A Walsh acquired 12,830 shares as disclosed in the 8 March 2018 Appendix 3Y.

The aggregate number of shares, deferred share rights and performance rights held by each executive is shown below.

Executive	Shareholdings at 31 Dec 2018	Vested but unexercised rights at 31 Dec 2018[a]	Unvested deferred share rights at 31 Dec 2018	Unvested performance rights at 31 Dec 2018	Total shares/rights at 31 Dec 2018
A Walsh	376,867	–	159,282	440,688	976,837
P Ferguson	10,171	–	33,256	32,416	75,843
J Harris	–	–	44,747	48,024	92,771
A Knowles	13,164	18,293	51,573	47,112	130,142
J McNeill	29,118	–	32,197	26,295	87,610
S New	608	–	30,132	28,360	59,100
A Todd	–	–	21,614	20,067	41,681
Total	**429,928**	**18,293**	**372,801**	**642,962**	**1,463,984**

(a) In the UK, vested DSRs granted prior to 2017 are retained as rights (i.e not converted to shares) until the executive requests for them to be exercised. Until exercise is complete, the DSRs will not be eligible to receive dividends and cannot be sold or transferred.

10.7 TRANSACTIONS WITH KMP

No transactions (excluding share-based payment compensation) occurred between KMP and the Company during 2018.

10.8 LOANS TO KMP OR RELATED PARTIES

No loans to KMP or related parties were provided during 2018.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001 (Cth).

TONY D'ALOISIO
CHAIRMAN

ANDREW WALSH
CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Melbourne
20 February 2019

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Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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Melbourne VIC 3000
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The Board of Directors
IRESS Limited
Level 16, 385 Bourke Street
MELBOURNE VIC 3000

20 February 2019

Dear Board Members

Auditor's Independence Declaration to 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 audit of the financial statements of IRESS Limited for the financial year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Partner
Chartered Accountants

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Financial Statements

For the year ended 31 December 2018

This is the financial report for IRESS Limited (the ‘Company’) and its controlled entities (collectively referred to as the ‘Group’ or ‘IRESS’) for the year ended 31 December 2018.

CONTENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Revenue from contracts with customers	1.3(a)	464,624	429,952
Customer data fees		(35,127)	(33,333)
Communication and other technology expenses		(28,653)	(24,516)
Employee benefit expenses	1.4	(241,652)	(232,838)
Other expenses	1.6	(40,871)	(31,880)
Share of loss of equity-accounted investees, net of tax	4.2	(459)	(100)
Profit before depreciation, amortisation, interest and income tax expense		**117,862**	**107,285**
Depreciation and amortisation expense	1.7	(26,773)	(25,075)
Profit before interest and income tax expense		**91,089**	**82,210**
Interest revenue		370	382
Interest expense and financing costs		(6,490)	(4,827)
Net interest expense and financing costs	3.1(e)	(6,120)	(4,445)
Profit before income tax expense		**84,969**	**77,765**
Income tax expense	4.1(a)	(20,873)	(18,010)
Profit after income tax expense		**64,096**	**59,755**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		9,765	10,089
Tax related to exchange differences recognised directly in foreign currency translation reserve [1]		(20)	88
Total other comprehensive income for the period		**9,745**	**10,177**
Total comprehensive income for the period		**73,841**	**69,932**
		Cents per share	Cents per share
Earnings per share			
Basic earnings per share	1.2	37.6	35.4
Diluted earnings per share	1.2	37.3	34.9

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 the exchange differences arising from intercompany monetary items that are treated as part of a net investment in a foreign operation. Under the accounting standard, the foreign exchange gains or losses on these monetary items are recognised directly in other comprehensive income rather than the profit or loss.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		30,190	28,615
Receivables and other assets	2.2	59,693	55,802
Current taxation receivables		1,959	37
Derivative assets	3.1(c)	–	306
Total current assets		**91,842**	**84,760**
Non-current assets			
Intangible assets	2.1	555,190	547,285
Plant and equipment	1.7	30,851	19,773
Investment in associate	4.2	–	1,400
Deferred tax assets	4.1(c)	17,800	18,337
Derivative assets	3.1(c)	783	–
Total non-current assets		**604,624**	**586,795**
Total assets		**696,466**	**671,555**
LIABILITIES			
Current liabilities			
Payables and other liabilities	2.3	42,005	37,649
Current taxation payables		–	661
Provisions	2.4	16,122	12,893
Total current liabilities		**58,127**	**51,203**
Non-current liabilities			
Payables and other liabilities	2.3	1,600	4,205
Provisions	2.4	5,222	6,854
Borrowings	3.1	204,389	192,865
Deferred tax liabilities	4.1(c)	7,697	8,881
Total non-current liabilities		**218,908**	**212,805**
Total liabilities		**277,035**	**264,008**
Net assets		**419,431**	**407,547**
EQUITY			
Issued capital	3.2	378,577	376,309
Share based payments reserve		24,683	24,213
Foreign currency translation reserve		3,319	(6,426)
Retained earnings		12,852	13,451
Total equity		**419,431**	**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 year ended 31 December 2018

	Issued capital $'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 year	–	–	–	59,755	59,755
Other comprehensive income	–	–	10,177	–	10,177
Total comprehensive income	**–**	**–**	**10,177**	**59,755**	**69,932**
Transactions with owners in their capacity as owners:					
Shares issued during the year (1)	486	–	–	–	486
Dividends declared (2)	536	–	–	(74,990)	(74,454)
Share-based payment expense, net of tax (3)	–	10,757	–	–	10,757
Transfer of share-based payments reserve (4)	–	(9,550)	–	9,550	–
Balance at 31 December 2017	**376,309**	**24,213**	**(6,426)**	**13,451**	**407,547**

	Issued capital $'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 year	–	–	–	64,096	64,096
Other comprehensive income	–	–	9,745	–	9,745
Total comprehensive income	**–**	**–**	**9,745**	**64,096**	**73,841**
Transactions with owners in their capacity as owners:					
Shares issued during the year (1)	887	–	–	–	887
Dividends declared (2)	1,381	–	–	(75,744)	(74,363)
Share-based payment expense, net of tax (3)	–	11,519	–	–	11,519
Transfer of share-based payments reserve (4)	–	(11,049)	–	11,049	–
Balance at 31 December 2018	**378,577**	**24,683**	**3,319**	**12,852**	**419,431**

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

(1) Shares issued to satisfy Employee Share Plan obligations. Refer to Note 3.2.

(2) Shares issued under the Dividend Reinvestment Plan. Refer to Note 3.2 and for Dividends declared refer to 1.2(c).

(3) Share-based payment expense includes the tax impact of $1.2 million (2017: $1.4 million) on vesting of employees' share-based payments.

(4) The movement from share-based payment reserves to retained earnings represents the grant date fair value of share-based payments that have vested or lapsed during the year. The amount has been recognised as a share-based payment expense over the vesting period. Details of share-based payment arrangements are provided in Note 1.5.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash generated from operating activities	1.8	129,721	110,754
Interest received		370	382
Interest and borrowing costs paid		(5,726)	(6,043)
Income taxes paid		(23,104)	(21,350)
Net cash inflow from operating activities		**101,261**	**83,743**
Cash flows from investing activities			
Net payments for plant and equipment		(22,814)	(18,945)
Payments for intangible assets	2.1	(2,610)	(3,279)
Proceeds from sale of intangible assets		–	3,250
Payment of deferred consideration (1)	2.4	(1,905)	(1,132)
Acquisition and integration costs paid		(87)	(1,500)
Net cash outflow from investing activities		**(27,416)**	**(21,606)**
Cash flows from financing activities			
Proceeds from borrowings	3.1(b)	89,000	167,156
Repayments of borrowings	3.1(b)	(82,500)	(154,175)
Consideration paid towards an equity accounted investment (2)		(1,308)	–
Proceeds from employee share plan repayments		1,235	487
Dividends paid		(75,359)	(74,644)
Net cash outflow from financing activities		**(68,932)**	**(61,176)**
Net increase in cash and cash equivalents		**4,913**	**961**
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		(3,338)	4,703
Cash and cash equivalents at the end of the year		**30,190**	**28,615**

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

(1) A deferred consideration payment in relation to the 2015 Pulse Software Systems Limited acquisition. Refer to Note 2.4.

(2) This investment has subsequently become a wholly-owned subsidiary of the Group. Refer to Note 4.2.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

SECTION 1. FINANCIAL RESULTS

1.1 SEGMENT INFORMATION

IRESS has a global presence, with the Managing Director and Chief Executive Officer, who is IRESS' Chief Operating Decision Maker, receiving internal reporting split by the segments listed below. Any transactions directly between segments are charged on an arm's length basis.

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 market 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, and other lending institutions.

South Africa

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

(b) Cost segments

Product and Technology

All costs associated with product and technology are 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 year ended 31 December 2018

1.1 SEGMENT INFORMATION CONTINUED

The revenue, segment profit and reconciliation to the Group results are shown below:

		OPERATING REVENUE		DIRECT CONTRIBUTION	
		2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
CLIENT SEGMENTS	APAC Financial Markets	115,577	115,059	81,678	83,763
	ANZ Wealth Management	136,420	125,131	100,651	93,935
	Total APAC	**251,997**	**240,190**	**182,329**	**177,698**
	UK	118,960	105,526	78,370	67,323
	Lending	28,638	23,759	21,591	18,590
	Total UK	**147,598**	**129,285**	**99,961**	**85,913**
	South Africa	46,522	42,754	35,311	32,784
	Canada	18,507	17,723	9,557	8,987
	Total Group	**464,624**	**429,952**	**327,158**	**305,382**
COST SEGMENTS	Product and Technology			(114,149)	(108,323)
	Operations			(39,671)	(38,707)
	Corporate			(35,636)	(32,969)
	Total indirect costs			**(189,456)**	**(179,999)**
GROUP RESULTS	**Segment Profit**			**137,702**	**125,383**
	Share-based payment expense			(10,365)	(9,327)
	Segment Profit after share-based payment expense			**127,337**	**116,056**
	Other non-operating expenses [(1)]			(9,475)	(8,771)
	Profit before depreciation, amortisation, interest and income tax expense			**117,862**	**107,285**
	Depreciation and amortisation			(26,773)	(25,075)
	Profit before interest and income tax expense			**91,089**	**82,210**
	Net interest and financing costs			(6,120)	(4,445)
	Income tax expense			(20,873)	(18,010)
	Profit after income tax expense			**64,096**	**59,755**

(1) Predominantly relates to office move costs, team restructure expenses, business acquisition and integration expenses, and unrealised foreign exchange gains and losses.

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The below table outlines operating revenue and non-current assets by geographical area, being Australia and New Zealand, Asia, United Kingdom, South Africa and Canada.

	OPERATING REVENUE		NON-CURRENT ASSETS [1]	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Australia and New Zealand	248,566	237,416	145,133	135,717
Asia	3,431	2,774	100	30
Total APAC	**251,997**	**240,190**	**145,233**	**135,747**
United Kingdom	147,598	129,285	415,190	405,673
South Africa	46,522	42,754	15,950	17,019
Canada	18,507	17,723	9,668	10,019
Grand total	**464,624**	**429,952**	**586,041**	**568,458**

(1) Excludes financial instruments and deferred taxes, and predominantly relates to intangible assets (refer to Note 2.1).

1.2 EARNINGS PER SHARE AND DIVIDENDS PER SHARE

(a) Basic and diluted earnings per share, and dividends per share for the year are:

	Cents per share 2018	Cents per share 2017
Earnings per share	37.6	35.4
Diluted earnings per share	37.3	34.9
Dividends per share:		
Interim dividend franked to 60% (2017: 60%)	16.0	16.0
Final dividend declared after the Statement of Financial Position date franked to 40% (2017: 60%)	30.0	28.0

(b) The weighted average number of shares used to calculate earnings per share is as follows:

	Number of shares 2018 '000	Number of shares 2017 '000
Weighted average number of ordinary shares used in basic earnings per share	170,467	168,800
Effect of potentially dilutive shares	1,494	2,535
Weighted average number of ordinary shares used in diluted earnings per share	**171,961**	**171,335**

(c) Dividends recognised during the year and after the Statement of Financial Position date were as follows:

	2018 $'000	2017 $'000
Dividends paid during the year		
Final dividend for 2017 28.0 cents per share franked to 60% (2016: 28.0 cents per share franked to 60%) [1]	48,074	47,588
Interim dividend for 2018 16.0 cents per share franked to 60% (2017: 16.0 cents per share franked to 60%) [1]	27,670	27,402
	75,744	**74,990**
Dividends declared after balance date		
Since the end of the year, the directors declared a final dividend of 30.0 cents per share franked to 40% (2017: 28.0 cents per share franked to 60%)	51,975	48,022
Franking credit balance		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2017: 30%)	23	3,141

(1) Dividends declared at the end of 2017 were based on the number of shares on issue as at 31 December 2017, while the dividends paid in 2018 were based on the number of shares on issue as at 1 March 2018.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

1.3 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 they may be governed by a single legal contract with the customer.

Revenue recognition for each of the above revenue streams are as follows:

Revenue stream	Performance obligation	Timing of recognition
Software licence revenue	Access to software.	Software licence revenue is recognised over time as the customer simultaneously receives and consumes the benefit of accessing the software. Revenue is calculated based on the number of licences used and rate per licence, or as a negotiated package for large customers. Software licence revenue is recognised as the amount to which the Group has a right to invoice. Customers are typically invoiced monthly, and consideration is payable when invoiced, which corresponds directly with the performance completed to date in respect of this stream.
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.	Revenue is recognised over time as services are delivered. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is calculated based on time and materials. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period. Recognition is determined based on the actual labour hours spent as a proportion of total expected hours. 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.
Royalties revenue	Provision of financial market information.	Royalties revenue is recognised over time as the customer simultaneously receives and consumes the benefit of accessing the information. Royalties revenue is recognised in the amount to which the Group has a right to invoice. Customers are typically invoiced monthly, and consideration is payable when invoiced, which corresponds directly with the performance completed to date in respect of this stream.
Other ancillary fees	Provision of hosting services, cloud services, support and maintenance services.	Over time, depending on circumstances.

Some contracts include multiple deliverables, such as 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.

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 at the amount to which the Group has a right to invoice. Customers are invoiced monthly and consideration is payable when invoiced.

(a) 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**
For the year ended 31 December 2017								
Software licence revenue	Over time	84,031	110,244	91,720	1,857	39,819	12,992	340,663
Implementation and consulting revenue	Over time	–	11,027	2,505	20,771	–	–	34,303
Royalties revenue	Over time	22,788	234	3,023	–	1,597	1,590	29,232
Other ancillary fees	Over time	8,240	3,626	8,278	1,131	1,338	3,141	25,754
Total revenue		**115,059**	**125,131**	**105,526**	**23,759**	**42,754**	**17,723**	**429,952**
Contract assets		2,299	492	2,616	6,058	–	–	11,465
Contract liabilities		(95)	(2,892)	(2,613)	(983)	355	–	(6,228)

Revenue stream	Revenue recognition	APAC Financial Markets $'000	ANZ Wealth Mngt $'000	UK $'000	Lending $'000	South Africa $'000	Canada $'000	**Total $'000**
For the year ended 31 December 2018								
Software licence revenue	Over time	85,046	119,172	100,997	4,604	43,512	13,517	366,848
Implementation and consulting revenue	Over time	197	14,161	1,903	22,086	–	–	38,347
Royalties revenue	Over time	22,719	267	3,191	–	1,828	1,797	29,802
Other ancillary fees	Over time	7,615	2,820	12,869	1,948	1,182	3,193	29,627
Total revenue		**115,577**	**136,420**	**118,960**	**28,638**	**46,522**	**18,507**	**464,624**
Contract assets		776	1,671	3,009	2,467	379	–	8,302
Contract liabilities		(89)	(794)	(3,023)	(950)	(55)	(4)	(4,915)

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

1.3 REVENUE FROM CONTRACTS WITH CUSTOMERS CONTINUED

(b) Transaction price allocated to the remaining performance obligations

The following table includes the revenue on existing contracts expected to be recognised in the future which relates to performance obligations that are unsatisfied (or partially satisfied) at the reporting date:

Year in which transaction price is expected to be realised	Revenue stream	APAC Financial Markets $'000	ANZ Wealth Mngt $'000	UK $'000	Lending $'000	South Africa $'000	Total $'000
2019	Software licence revenue	–	–	725	5,007	48	5,780
	Implementation and consulting revenue	860	1,740	2,321	5,780	–	10,701
	Other ancillary fees	–	–	–	1,041	–	1,041
	Total revenue	**860**	**1,740**	**3,046**	**11,828**	**48**	**17,522**
2020	Software licence revenue	–	–	864	492	–	1,356
	Total revenue	**–**	**–**	**864**	**492**	**–**	**1,356**
2021	Software licence revenue	–	–	864	–	–	864
	Total revenue	**–**	**–**	**864**	**–**	**–**	**864**
2022	Software licence revenue	–	–	882	–	–	882
	Total revenue	**–**	**–**	**882**	**–**	**–**	**882**
2023	Software licence revenue	–	–	828	–	–	828
	Total revenue	**–**	**–**	**828**	**–**	**–**	**828**
TOTAL	Software licence revenue	–	–	4,163	5,499	48	9,710
	Implementation and consulting revenue	860	1,740	2,321	5,780	–	10,701
	Other ancillary fees	–	–	–	1,041	–	1,041
	Total revenue	**860**	**1,740**	**6,484**	**12,320**	**48**	**21,452**

The Group applies the practical expedient in the revenue standard and does not disclose information about the remaining performance obligation on contracts that have an original expected duration of one year or less or where the Group has the right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's performance to date.

The table above, therefore, does not include revenue expected to be recognised in future years on software licence, royalties and other ongoing contracts where the Group will recognise revenue in the amount to which the entity has a right to invoice.

1.4 EMPLOYEE BENEFIT EXPENSES

Short-term employee benefits, mainly comprising of base salary, bonus payments and annual leave costs are expensed as the employee renders services.

Post employment benefits which comprise IRESS' contribution to defined contribution retirement plans are expensed as the service is received from the employee.

Termination benefits are amounts paid to employees when their employment is terminated. These are expensed when IRESS can no longer withdraw the offer of the termination benefit.

	Notes	2018 $'000	2017 $'000
Short term and other employee benefits		207,816	197,177
Post employment benefits		15,291	14,183
Termination benefits(1)		68	2,433
Share-based payment expense	1.5	10,365	9,327
Employee administration expense		8,112	9,718
		241,652	**232,838**

(1) Other termination benefits of $1.7 million in 2018 are included in other non-operating expenses. Refer to Note 1.6.

Key Management Personnel

Key Management Personnel compensation included in total employee benefits for the year is set out below:

	2018 $'000	2017 $'000
Short term and other employee benefits	5,844	5,673
Long term employee benefits	29	41
Post employment benefits	308	395
Share-based payment expense	2,226	2,254
Termination benefits	–	667
	8,407	**9,030**

Detailed remuneration disclosures are provided in the Audited Remuneration Report.

There were no material changes in the composition of Key Management Personnel during the year.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

1.5 SHARE BASED PAYMENTS

The grant date fair value of equity settled share based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(a) Details of share plans

To assist in the attraction, retention and motivation of employees, the Group operates the following share based payment plans:

Plan	Key terms	Performance condition	Performance/ Restriction period	Dividends received before vesting	If participant leaves before end of performance period
Executive LTI Plan – CEO	CEO receives performance rights at no cost.	Total shareholder return (TSR) against peer group	3 years and 4 years	No	Generally forfeited (Board discretion may apply)
Executive LTI Plan	Eligible participants receive performance rights at no cost.		3 years	No	
Employee Deferred Share Plan	Eligible participants receive deferred shares at no cost.	Individual performance criteria	3 years	Yes	Generally forfeited (Board discretion may apply)
Employee Deferred Share Rights Plan	Eligible participants receive deferred rights at no cost.		3 years	No	
General Employee Share Plan/ UK Share Incentive Plan	Eligible participants are invited to acquire IRESS shares, IRESS matches this participation to a set value.	Nil	3 years	Yes	Matched shares are forfeited under the UK Share Incentive Plan and granted under the General Employee Share Plan.

As at 31 December 2018, the total unvested shares in the General Employee Share Plan / UK Share Incentive Plan were 39,089 (2017: 37,768).

(b) Grant date fair value

The grant date fair value of the Executive LTI Plans and the Employee Deferred Share Rights Plan are independently determined using a Monte Carlo simulation option pricing model using standard option pricing inputs such as the underlying share price, exercise price, expected dividends, expected risk free rates and expected share price volatility. Key inputs are summarised below:

Grant date fair value

Key inputs in determining grant date fair value	Executive LTI Plan	Employee Deferred Share Rights Plan
Model used	Monte Carlo	Monte Carlo
Risk free rate	1.68 – 3%	1.68 – 3%
Share price volatility	22.5 – 30%	22.5 – 30%
Dividend yield	4 – 5%	4 – 5%

As the vesting conditions of the Employee Deferred Share Plan grants are not linked to company performance and participants receive dividends during the vesting period, the grant date fair value approximates the share price at the date of grant.

(c) Details of shares or rights on issue during the year is shown below:

Type	Grant date	Vesting date	At 1 Jan 2018	Granted	Forfeited	Vested	At 31 Dec 2018	Share price $	Fair value $	2018 $'000
			NUMBER OF SHARES					AT GRANT DATE		
Executive LTI Plan – CEO										
2014 Grant – 3 year	7/5/14	7/11/18	63,000	–	(11,718)	(51,282)	–	8.27	4.05	22
2014 Grant – 4 year	7/5/14	7/11/18	63,000	–	(63,000)	–	–	8.27	3.89	21
2015 Grant – 3 year	7/5/15	7/5/19	60,000	–	–	–	60,000	10.15	5.17	77
2015 Grant – 4 year	7/5/15	7/5/19	60,000	–	–	–	60,000	10.15	5.13	77
2016 Grant – 3 year	5/5/16	5/5/20	60,000	–	–	–	60,000	11.87	8.00	120
2016 Grant – 4 year	5/5/16	5/5/20	60,000	–	–	–	60,000	11.87	6.24	94
2017 Grant – 3 year	11/5/17	11/5/21	54,739	–	–	–	54,739	12.24	6.64	91
2017 Grant – 4 year	11/5/17	11/5/21	54,739	–	–	–	54,739	12.24	7.05	96
2018 Grant – 4 year	10/5/18	10/5/22	–	45,605	–	–	45,605	10.86	5.75	42
2018 Grant – 4 year	10/5/18	10/5/22	–	45,605	–	–	45,605	10.86	5.78	42
			475,478	**91,210**	**(74,718)**	**(51,282)**	**440,688**			**682**
Executive LTI Plan										
2015 Grant	7/5/15	7/11/18	210,921	–	(210,921)	–	–	10.15	5.30	130
2016 Grant	5/5/16	5/5/19	143,087	–	–	–	143,087	11.87	8.50	405
2017 Grant	11/5/17	11/5/20	116,758	–	–	–	116,758	12.24	7.13	277
2018 Grant	10/5/18	10/5/21	–	194,919	–	–	194,919	10.86	5.79	242
			470,766	**194,919**	**(210,921)**	**–**	**454,764**			**1,054**
Employee Deferred Share Plan										
2015 Grant (1)	7/5/15	7/5/18	517,660	–	(11,178)	(506,482)	–	10.15	10.15	495
2016 Grant (1)	5/5/16	5/5/19	511,307	–	(33,718)	(2,485)	475,104	11.87	11.87	1,674
2017 Grant – Special	11/5/17	11/5/19	44,181	–	–	–	44,181	12.24	12.39	274
2017 Grant (1)	11/5/17	11/5/20	622,929	–	(51,341)	(3,224)	568,364	12.24	12.39	2,233
2018 Grant	10/5/18	10/5/21	–	897,617	(33,292)	(54)	864,271	10.86	10.86	2,013
			1,696,077	**897,617**	**(129,529)**	**(512,245)**	**1,951,920**			**6,689**
Employee Deferred Share Rights Plan										
2012 Grant – Special	7/5/12	7/12/17	97,413	–	(19,482)	(77,931)	–	6.18	5.26	(99)
2014 Grant – Special (2)	1/1/14	31/12/17	459,152	–	(50,490)	(408,662)	–	8.27	7.73	(390)
2014 Grant – Special (3)	1/1/14	31/12/18	57,244	–	–	–	57,244	8.27	7.73	–
2015 Grant	7/5/15	7/5/18	225,682	–	–	(225,682)	–	10.15	9.02	236
2016 Grant	5/5/16	5/5/19	232,188	–	(390)	–	231,798	11.87	10.25	790
2017 Grant (1)	11/5/17	11/5/20	224,592	–	(853)	–	223,739	12.24	10.86	808
2018 Grant	10/5/18	10/5/21	–	291,436	(1,772)	–	289,664	10.86	9.58	595
			1,296,271	**291,436**	**(72,987)**	**(712,275)**	**802,445**			**1,940**
Total										**10,365**

The weighted average of the above grants' remaining contractual life is 1.6 years (2017: 1.2 years).

(1) The opening balances have been restated to correct an error in the 2017 opening and closing balance.

(2) Testing of the non-market based vesting conditions was completed early in 2018, resulting in a partial forfeiture and negative expense.

(3) Testing of the non-market based vesting conditions will be completed early in 2019 in order to determine the number of vested and forfeited shares. Any forfeiture will result in a negative expense in 2019.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

1.6 OTHER EXPENSES

(a) Included in other operating and other non-operating expenses are the following items:

	Notes	2018 $'000	2017 $'000
Other operating expenses			
General operating expenses		19,559	13,428
Increase/(reversal) of credit loss allowances		1,001	(502)
Rental expenses relating to operating leases		10,090	9,352
Fees to auditors	1.6(b)	746	831
		31,396	**23,109**
Other non-operating expenses			
Unrealised losses/(gains) on foreign balances		670	(426)
Business acquisition and restructure expenses		2,660	1,305
Other non-operating expenses (1)		6,145	7,892
		9,475	**8,771**
Other expenses		**40,871**	**31,880**

(1) Comprises all other project related expenses.

(b) Fees to auditors, Deloitte Touche Tohmatsu, for services rendered are as follows:

	2018 $	2017 $
Auditors of the parent entity		
Audit or review of the financial report	363,619	374,418
Other non-audit services (1)	–	83,625
	363,619	**458,043**
Network firms of the parent entity auditor		
Audit or review of the financial report	363,991	372,773
Other non-audit services (1)	18,495	–
	382,486	**372,773**
Total fees to auditors	**746,105**	**830,816**

(1) Other services comprise assurance and other compliance reviews.

1.7 DEPRECIATION AND AMORTISATION

Computer and other plant and equipment are measured at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis over its expected useful life of between 3 to 10 years.

	Notes	2018 $'000	2017 $'000
Depreciation and amortisation expense			
Amortisation	2.1	17,557	17,119
Depreciation – computer equipment (1)		6,104	5,195
Depreciation – other plant and equipment (2)		3,112	2,761
		26,773	**25,075**

(1) Cost of computer equipment as at 31 December 2018 was $44.8 million (2017: $40.4 million) and accumulated depreciation was $34.6 million (2017: $30.3 million).

(2) Cost of other plant and equipment as at 31 December 2018 was $31.2 million (2017: $18.2 million) and accumulated depreciation was $10.6 million (2017: $8.7 million).

1.8 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit attributable to members of the parent entity to cash generated from operating activities.

	2018 $'000	2017 $'000
Profit for the financial year	64,096	59,755
Adjustments for non-cash items and non-operating cash flow items:		
Depreciation and amortisation	26,773	25,075
Share based payment expense	10,365	9,327
Foreign exchange loss/(gain)	670	(426)
Amortisation of financing charges	651	751
Fair value of cross currency swap	110	1,216
Fair value of investment on acquisition	(897)	–
Share of profit of equity-accounted investees, net of tax	459	100
Tax on share based payment	1,156	1,430
Interest received	(370)	(382)
Interest paid	5,726	4,827
Taxation expense	19,718	16,580
Changes in working capital, net of effects from acquisition of controlled entities:		
Increase in receivables	(3,629)	(5,736)
Increase/(decrease) in payables	2,388	(922)
Increase/(decrease) in provisions	2,505	(118)
Decrease in derivatives	–	(723)
Cash generated from operating activities	**129,721**	**110,754**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

SECTION 2. CORE ASSETS AND WORKING CAPITAL

2.1 INTANGIBLE ASSETS

Intangible assets for the Group comprises goodwill arising from business combinations, customer relationships, computer software and other intangibles (mainly acquired databases and brands). Intangible assets with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Goodwill recognised arose from business combinations where the fair value of the consideration paid exceeded the fair value of the assets acquired. Goodwill is considered to have an indefinite life and is not amortised as it represents the synergistic benefits of bringing the businesses together.

Customer relationships, some computer software and other intangibles were acquired as part of business combinations. These intangible assets are initially recognised at their fair value at the acquisition date. Some of the computer software was separately acquired, and initially recognised at cost. Subsequent to initial recognition, intangible assets other than goodwill are amortised over the expected useful lives noted below.

Internally generated assets will be recognised where the cost of actual development can be reliably measured and clearly distinguished from research and ongoing operating and maintenance activities. Given software development occurs contemporaneously with the research phase and operating and maintenance activities, the separation of the cost of development can be imprecise and difficult to reliably measure. Accordingly, where the expenditure related to the development activity cannot be reliably measured, the Group expenses the amounts in the period they are incurred. No internally generated computer software assets have been recognised during the period.

(a) The carrying value of intangibles is shown below:

	GOODWILL		CUSTOMER RELATIONSHIPS		COMPUTER SOFTWARE		OTHER INTANGIBLES		TOTAL	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Cost	458,144	442,802	54,368	52,873	210,756	200,179	8,257	7,834	731,525	703,688
Accumulated amortisation	–	–	(24,882)	(18,867)	(147,266)	(133,397)	(4,187)	(4,139)	(176,335)	(156,403)
Carrying value	**458,144**	**442,802**	**29,486**	**34,006**	**63,490**	**66,782**	**4,070**	**3,695**	**555,190**	**547,285**
Opening carrying value	442,802	435,300	34,006	40,047	66,782	75,994	3,695	2,269	547,285	553,610
Separately acquired	–	–	–	–	3,660	1,778	597	1,501	4,257	3,279
Acquired through business combinations (1)	395	–	–	–	4,700	–	–	–	5,095	–
Divestment of goodwill (2)	–	(3,250)	–	–	–	–	–	–	–	(3,250)
Amortisation	–	–	(5,256)	(6,181)	(12,062)	(10,859)	(239)	(79)	(17,557)	(17,119)
Foreign currency translation	14,947	10,752	736	140	410	(131)	17	4	16,110	10,765
Closing carrying value	**458,144**	**442,802**	**29,486**	**34,006**	**63,490**	**66,782**	**4,070**	**3,695**	**555,190**	**547,285**
Expected useful life (years)			1 to 10		3 to 20		1 to 10			

(1) Acquisition of Lucsan Capital Pty Ltd on 18 April 2018. Refer to Note 4.2.

(2) On 13 July 2017, IRESS entered into an agreement with Mainstream BPO to divest part of its superannuation administration business that provides services to customer-owned banks for $3.3 million. The transaction was completed on 9 November 2017, with the sale proceeds received in full during the 2017 year. No gain or loss (before transaction costs) was recognised on the transaction.

(b) Impairment testing for goodwill

Goodwill is tested for impairment annually or more frequently whenever indicators of impairment are identified. In testing for impairment, the carrying amount of each Cash Generating Unit (CGU) is compared against the recoverable amount.

The recoverable amount has been calculated based on the value in use, using a Discounted Cash Flow (DCF) approach. The DCF uses post-tax cash flow projections that are based on the most recent five year financial plan approved by the Board, 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.

Terminal growth rates applied in the DCF take into account historic growth trends, future strategy and the long term outlook of the business.

The allocation of goodwill to each cash generating unit and assumptions applied in calculating the recoverable amounts of the goodwill in testing for impairment are as follows:

	ALLOCATED GOODWILL		POST-TAX DISCOUNT RATES		LONG TERM GROWTH RATES	
Cash generating unit	**2018 $'000**	2017 $'000	**2018 %**	2017 %	**2018 %**	2017 %
Australia Wealth Management	45,767	45,486	9.1	8.6	2.7	2.7
UK	311,751	299,258	9.6	8.5	2.7	2.7
UK Lending	79,511	76,325	9.6	8.5	2.7	2.7
South Africa	12,423	13,041	16.5	15.5	4.7	4.7
Canada	8,692	8,692	8.6	8.1	0.5	0.5
	458,144	**442,802**				

Canada – significant judgements and estimates associated with impairment testing of goodwill

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 is stalled, or unsuccessful, it could result in reduced headroom or impairment of the goodwill allocated to the Canada CGU.

UK Lending – significant judgements and estimates associated with impairment testing of goodwill

The cashflow projections used in impairment testing in the prior year included significant assumptions around the future financial performance of a new version of an existing product that was being rolled out to UK Lending customers.

A number of clients were successfully secured and implementations commenced during 2018. Financial performance has been in line with expectations during 2018. Therefore, whilst the cashflow projections used in the impairment test continue to include significant assumptions as to the revenue growth potential of this product, those assumptions are based on actual product performance to date.

If the product is unsuccessful, or is unable to realise forecast growth targets, it could result in reduced headroom or impairment of the goodwill allocated to the UK Lending CGU.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

2.2 RECEIVABLES AND OTHER ASSETS

Receivables arise from revenue that has been billed, but not yet settled by the customer.

Revenue arises from providing access to IRESS software, rendering of services or recharging for access to capital markets data. Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised over time as the relevant performance obligations identified in a customer contract are satisfied. Refer to Note 1.3 for further details of revenue recognition.

Where revenue recognised exceeds billings it results in a contract asset as disclosed in the table below, and where cash amounts are received in advance of revenue recognition it results in a contract liability as disclosed in Note 2.3.

IRESS' credit terms are generally 30 days from the date of invoice. As such, the carrying amount of receivables approximates their fair value.

(a) Receivables and other assets comprises:

	Notes	2018 $'000	2017 $'000
Trade receivables		39,162	34,058
Credit loss allowance	2.2(b)	(1,553)	(668)
		37,609	**33,390**
Contract assets	1.3(a)	8,302	11,465
Prepayments		9,116	8,374
Deposits		685	692
Other assets		3,981	1,881
		59,693	**55,802**

(b) Credit Loss Allowance

The Group has adopted AASB 9 Financial Instruments from 1 January 2018. The main change arising from initial adoption of AASB 9 is how IRESS calculates the bad debts provision, now termed the credit loss allowance. The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Expected credit losses are measured by grouping trade receivables and contract assets 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 then determined based on the historic credit loss rate for each group of customers, adjusted for any material expected changes to the future credit risk for that customer group.

As permitted by AASB 9, comparatives have not been restated. In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Had AASB 9 been applied retrospectively, the difference between the credit loss allowance under AASB 9 and the provision for doubtful debts under AASB 139 would have been nil.

The credit loss allowance as at 31 December 2018 is determined as follows:

Provision matrix As at 31 December 2018	Australia	United Kingdom	South Africa	Canada
Current	0.1%	0.1%	0.1%	0.3%
1 to 30 days	0.3%	0.4%	0.3%	0.7%
30 to 60 days	0.6%	0.8%	0.5%	1.5%
60 to 90 days	1.4%	1.9%	1.3%	3.7%
Over 90 days	1.5%	2.0%	1.3%	3.8%
Contract assets	0.1%	0.1%	0.1%	0.3%

Ageing of receivables As at 31 December 2018	Australia $'000	United Kingdom $'000	South Africa $'000	Canada $'000	**Group $'000**
1 to 30 days	17,267	9,410	2,143	984	29,804
30 to 60 days	1,072	2,427	386	155	4,040
60 to 90 days	854	314	361	70	1,599
Over 90 days	669	1,806	1,027	217	3,719
Total receivables	**19,862**	**13,957**	**3,917**	**1,426**	**39,162**
Contract assets	2,447	5,476	379	–	8,302
Allowance based on historic credit losses	87	112	27	22	248
Adjustment for expected changes in credit risk (1)	140	714	331	120	1,305
Credit loss allowance	**227**	**826**	**358**	**142**	**1,553**

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

(c) Movement in credit loss allowance

The movement in the credit loss allowance during the year is as follows:

	2018 $'000	2017 $'000
Balance at the beginning of the year	668	1,086
Increase/(decrease) in credit loss allowance during the year	885	(418)
Balance at the end of the year	**1,553**	**668**

(d) Quality of trade receivables

The quality of trade receivables is monitored by the ageing of invoiced amounts yet to be received. The ageing at the end of the year is as follows:

	Notes	**2018 $'000**	2017 $'000
Neither past due nor impaired – less than 30 days		29,696	20,479
Past due but not impaired:			
+31 to 90 days		5,581	6,847
+91 days		2,332	6,064
Impaired		1,553	668
	2.2(b)	**39,162**	**34,058**

Receivables that are neither past due nor impaired comprise customers with a long term record of timely payments and/or no recent history of default arising from financial difficulty.

Receivables that are not impaired comprise customers which do not have any objective evidence that the receivable may be impaired. IRESS has actively engaged these customers and reasons for the invoices remaining outstanding are being actively resolved. A credit loss allowance is recognised where IRESS has identified objective evidence that an amount owing may not be recoverable, mainly arising from observed financial difficulty of a customer, or IRESS has identified a risk of expected credit loss based on historical trend of credit losses.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

2.3 PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are initially measured at fair value. Subsequent to initial measurement, these are recognised at amortised cost. Contract liabilities represent amounts received from customers for which revenue has not been earned or recognised.

Finance arrangements relate to the acquisition of software licences.

Liabilities are classified as current where IRESS does not have an unconditional right to defer settlement beyond 12 months.

Due to the short term nature of current liabilities, the carrying amount approximates fair value.

	Notes	2018 $'000	2017 $'000
Current			
Trade payables		3,407	6,736
General accruals		16,806	13,079
Contract liabilities	1.3(a)	4,915	6,228
GST/VAT payable		3,967	2,713
Finance arrangements		2,605	3,076
Employee related liabilities		8,223	5,211
Accrued interest		285	598
Other liabilities		1,797	8
		42,005	**37,649**

	2018 $'000	2017 $'000
Non-current		
Finance arrangements	1,600	4,205
	1,600	**4,205**

The Group's exposure to foreign currency risk arising from translating payables and other liabilities to the Group's functional currency is not considered material. The exposure is monitored on a net working capital basis as disclosed in Note 3.3.

Liquidity risk arises from current payables and other liabilities that are payable in less than one year, as well as the finance arrangements with certain software providers that have an average annual contractual payment of $2.6 million per annum, over the life of the arrangements of 3 to 5 years. The Group manages this liquidity risk by maintaining sufficient cash and current assets to meet the contractual obligations as they arise.

2.4 PROVISIONS

Provisions are measured at the present value of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Employee benefits mainly comprise annual leave and long service leave entitlements of employees.

Deferred consideration represents purchase consideration payable for acquisitions once certain conditions are met as stipulated in the contracts. These are measured at the discounted value of the best estimate of the cash payable based on conditions existing at the balance date.

Onerous losses represent the expected losses on non-cancellable property lease commitments which the Group no longer utilises. These leases will expire in 2020. The amount provided for represents the present value of the future payments on the leases, net of expected income from subleasing the properties.

The Make-Good provision relates to restoration expenses which will be incurred upon termination of property leases in order to reinstate the leased properties to their original condition.

	2018 $'000	2017 $'000
Current provisions		
Employee benefits	13,865	8,766
Deferred consideration (1)	1,360	3,265
Onerous losses provision	611	–
Make good provision	109	–
Other provisions (2)	177	862
	16,122	**12,893**
Non-current provisions		
Employee benefits	2,387	6,267
Make good provision	1,647	–
Other provisions (2)	1,188	587
	5,222	**6,854**

(1) The decrease in deferred consideration is due to the payment in January 2018 of GBP1.1 million relating to the Pulse acquisition in 2015, as the required conditions were fulfilled, as well as foreign currency movements. The remaining deferred consideration relates to the Innergi acquisition and is expected to be settled in 2019.

(2) Other provisions include straight-line lease and incentive liabilities of $1.2 million (2017: $0.6 million).

The carrying value of provisions are reconciled as follows:

	EMPLOYEE BENEFITS		DEFERRED CONSIDERATION		ONEROUS LOSSES PROVISION		MAKE GOOD PROVISION		OTHER PROVISIONS		TOTAL	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Opening carrying value	15,033	15,625	3,265	4,246	–	–	–	–	1,449	685	19,747	20,556
Provision raised during the year	1,239	–	–	–	822	–	1,756	–	672	764	4,489	764
Provision utilised during the year	–	(592)	(1,905)	(981)	(211)	–	–	–	(727)	–	(2,843)	(1,573)
Foreign currency translation	(20)	–	–	–	–	–	–	–	(29)	–	(49)	–
Closing carrying value	**16,252**	**15,033**	**1,360**	**3,265**	**611**	**–**	**1,756**	**–**	**1,365**	**1,449**	**21,344**	**19,747**

2.5 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

IRESS leases office facilities with lease terms between 2 to 10 years of which some are supported by bank guarantees of $6.4 million (2017: $8.2 million).

On renewal, the terms of the leases are negotiated. The below summarises IRESS' commitments for minimum lease payments in relation to non-cancellable operating leases.

	2018 $'000	2017 $'000
Payable within one year	11,317	11,175
Payable later than one year, no later than five years	33,925	32,762
Payable later than five years	14,946	19,960
	60,188	**63,897**

The adoption of AASB 16 Leases will have an impact on the accounting for operating leases. Refer to Note 4.6.

(b) Capital commitments

No capital expenditure has been contracted or provided for at balance date (2017: Nil).

(c) Contingencies

There are no material contingent liabilities or capital expenditure that have been contracted or provided for at the reporting date (2017: Nil).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

SECTION 3. DEBT AND EQUITY

3.1 DEBT FACILITIES AND DERIVATIVES

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any gains or losses are recognised in the Statement of Profit or Loss in the event the borrowings are derecognised.

(a) Details of borrowings held by the Group are as follows:

	2018 $'000	2017 $'000
Non-current		
4 year $300 million bank facility to November 2021		
AUD	96,500	90,000
GBP	109,126	104,753
Total amount drawn	**205,626**	**194,753**
Borrowing costs capitalised	(1,237)	(1,888)
Total borrowings	**204,389**	**192,865**

The bank facilities allow multi-currency drawdowns and are at variable interest rates based on LIBOR and BBSY benchmark rates plus a market margin. As such, the amount drawn approximates fair value.

Not included in the table above is a $10 million multi-currency guarantee facility that is used for any bank guarantees required by the Group. The borrowings are unsecured, and the Group has complied with the financial covenants of its borrowing facilities during the year.

(b) Reconciliation of the movement in borrowings to the financing cash flows is shown as follows:

	2018 $'000	2017 $'000
Opening balance	192,865	177,805
Proceeds from borrowings	89,000	167,156
Repayments of borrowings	(82,500)	(154,175)
Net borrowing costs amortised/(capitalised)	651	751
Foreign exchange rate movements	4,373	1,328
Closing balance	**204,389**	**192,865**

(c) Derivatives

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently revalued to fair value at the end of each reporting period.

The fair value of the derivatives is determined by first calculating the future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, and then discounting the future cash flows at a rate that reflects the credit risk of various counterparties.

IRESS has the following cross currency swaps:

	2018 $'000	2017 $'000
Assets at fair value		
5 year receive AUD/pay GBP to September 2018	–	306
3 year receive AUD/pay GBP to September 2021	783	–

On 14 September 2018, the Group entered into a new GBP/AUD 3-year cross currency swap upon maturity of the pre-existing 5–year cross currency swap. As an Australian dollar denominated Group, IRESS is exposed to foreign exchange rate volatility on its net GBP investment in the UK. The cross currency swap minimises unfavourable foreign exchange rate movements by reducing the net GBP investment and provides a translation hedge against revaluation of the underlying GBP assets. The cross currency swap also provides a lower cost of funding as LIBOR interest rates are lower than BBSY interest rates.

The fair value is classified as Level 2 as the calculation is based on observable inputs. The change in the fair value during the year is due to the impact of the depreciation of the British pound against the Australian dollar. No credit risk adjustments have been recognised on the fair value of the derivative assets as these are not material.

(d) Contractual maturity analysis

Contractual cash outflow maturity analysis is shown based on undiscounted cash flows. An estimate, based on forward interest rates and foreign currency rates, has been applied in determining interest and foreign cash outflows and inflows. The actual contractual outflow may vary to the amounts disclosed.

31 December 2017 Outflows/(inflows)	Within 1 year $'000	1–3 years $'000	Greater than 3 years $'000
4 year facilities – principal	–	–	194,753
Interest on borrowings	3,938	11,814	3,610
5 year cross currency swap – principal exchange (1)	(249)	–	–
5 year cross currency swap – interest (1)	(288)	–	–

31 December 2018 Outflows/(inflows)	Within 1 year $'000	1–3 years $'000	Greater than 3 years $'000
4 year facilities – principal	–	205,626	–
Interest on borrowings	5,943	11,390	–
3 year cross currency swap – principal exchange (1)	–	(462)	–
3 year cross currency swap – interest (1)	(823)	(1,440)	–

(1) Represents expected net cash exchange in AUD that occurs at settlement. Under the terms of the swap, the settlements are on a gross basis where IRESS receives AUD and pays GBP.

(e) Interest expense and financing costs

Interest expenses are recognised using the effective interest rate method. Interest expense includes exchange differences arising from foreign currency borrowings to the extent they are regarded as adjustments to interest costs.

Net interest expense and financing costs for the year comprise the following:

	2018 $'000	2017 $'000
Interest revenue	370	382
Interest expense	(5,729)	(4,799)
Other financing costs comprising:		
Amortisation of borrowing costs	(651)	(751)
Translation (losses)/gains on intra-group financing arrangements	(561)	621
Fair value changes on cross currency swaps	451	102
Net interest expense and financing costs	**(6,120)**	**(4,445)**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

3.2 ISSUED CAPITAL

The number of ordinary shares outstanding at the end of the year is as follows:

	NUMBER OF SHARES	
	2018 '000	2017 '000
Balance at 1 January	171,507	169,957
Shares issued under the Employee Share Plan (1)	1,615	1,505
Shares issued (2)	129	45
	173,251	**171,507**
Less Treasury Shares (3)	(2,183)	(1,964)
Number of shares on issue	**171,068**	**169,543**

(1) New shares issued to meet obligations in relation to Performance Rights, Deferred Shares and Deferred Share Rights for employees.
(2) Shares issued during the current year for the Dividend Reinvestment Plan.
(3) The change is due to the net movement in shares issued and shares vested under the Employee Share Plan.

3.3 MANAGING FINANCIAL RISKS

(a) Market risks

Interest rate risk

The Group's exposure to interest rate risk mainly arises from its variable rate borrowings and cross currency swaps. A decrease in the benchmark interest rates of 50 basis points (0.5%), with all other factors held constant, would result in a decrease in the annual interest cost of the Group by $1.0 million (2017: $0.9 million decrease).

Foreign currency risk

GBP borrowings do not give rise to foreign currency risk to the Group as they are ultimately held in entities that have a GBP functional currency.

However, the Group is also exposed to foreign currency risk mainly from intercompany balances denominated in foreign currency, the majority of which is mitigated by GBP/AUD cross currency derivatives. Additional foreign currency risk arises from cash balances, receivables and payables denominated in foreign currency.

The Group's exposures to foreign currency arise from monetary balances in a currency other than the functional currency of each of the Group's subsidiary (assessed from the context of that subsidiary). The material exposure to foreign currency movements arises from working capital balances as summarised below:

	2018 $'000	2017 $'000
Working capital denominated in foreign currency		
GBP	47,289	25,158
ZAR	5,758	58,248
AUD impact on profit or loss of a 1% change in foreign currency rates		
GBP	(845)	(431)
ZAR	(6)	(60)

The above excludes the exposure of the Group from translating its foreign operations to the Group presentation currency.

(b) Capital risk management

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group is not subject to any regulatory capital requirements.

Management reviews the capital structure of the Group on a regular basis. As part of this review, the cost of capital and the risks associated with each class of capital is considered.

The Group's year end gearing ratio is outlined below:

	2018 $'000	2017 $'000
Net debt (1)	174,653	165,832
Net debt plus total equity	594,084	573,379
Gearing ratio	**29.4%**	**28.9%**

(1) Measured as borrowings and net derivatives liabilities/assets less cash and cash equivalents.

SECTION 4. OTHER DISCLOSURES

4.1 TAXATION

Total income tax expense or revenue comprises current and deferred tax recognised in the Statement of Profit or Loss during the year. Current and deferred tax has also been recognised directly in equity, and not in the Statement of Profit or Loss, to the extent it is attributable to amounts and movements which have also been recognised directly in equity.

Current tax

Current tax comprises expected tax payable/receivable on the businesses taxable income/loss which is recognised in the Statement of Profit or Loss in the current year, as well as any adjustments to tax payable/receivable recognised in the current year which relate to taxable income/loss recognised in the Statement of Profit or Loss in prior years.

Current tax is measured using the applicable income tax rates which are enacted, or substantively enacted, at the reporting date in the countries where the company's subsidiaries and associates operate.

Deferred tax

Deferred tax represents the movements in deferred tax assets and liabilities which have been recognised during the year and which are attributable to amounts recognised in the Statement of Profit or Loss in the current year, as well as amounts recognised in the Statement of Profit or Loss in prior years. Deferred tax assets and liabilities are attributable to temporary timing differences between the carrying amount of assets and liabilities recognised for financial reporting purposes and the tax base of assets and liabilities recognised for tax purposes.

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent it is probable that future taxable profits will be available against which they can be realised.

Deferred tax liabilities are recognised for all assessable temporary differences as required by accounting standards.

Deferred tax is determined using tax rates which are expected to apply when the deferred tax asset/liability is expected to be realised/settled based on laws which have been enacted or substantively enacted at the reporting date. The measurement of deferred tax also reflects the tax consequences flowing from the manner in which the Group expects, at the reporting date, to realise or settle the carrying amount of its assets and liabilities.

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax consolidated group under Australian Taxation Law. IRESS Limited is the head entity of the tax consolidated group. Tax expense, tax revenue, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial accounts of the members of the tax consolidated group using the 'stand-alone taxpayer' approach. Current and deferred tax assets and liabilities arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity of the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

4.1 TAXATION CONTINUED

(a) Income tax expense for the year including current and deferred tax is as follows:

	2018 $'000	2017 $'000
Income tax expense recognised in profit or loss		
Current income tax		
Current income tax charge	23,748	18,547
Adjustments in respect of current income tax of the previous year	(2,093)	(1,371)
	21,655	**17,176**
Deferred income tax		
Origination and reversal of temporary differences	204	2,538
Adjustments in respect of deferred income tax of the previous year	(986)	(1,704)
	(782)	**834**
Total income tax expense recognised in Statement of Profit or Loss	**20,873**	**18,010**
Income tax expense recognised in other comprehensive income		
Arising from gains or losses on long term monetary intercompany balances	(20)	(88)
Income tax expense recognised directly in equity		
Arising from the vesting of share based payments and share raising costs	(1,156)	(1,430)
Total income tax expense recognised in Other Comprehensive Income and Equity	**(1,176)**	**(1,518)**

(b) The reconciliation of income tax expense at the Australian tax rate to total income tax expense is as follows:

	2018 $'000	2017 $'000
Profit from continuing operations before income tax expense	84,969	77,765
Tax at the Australian tax rate of 30% (2017: 30%)	25,491	23,330
Income tax expense adjustments:		
Effect of different tax rates in foreign jurisdictions	(2,806)	(91)
Effect of non-assessable income and non-deductible expenses	1,727	(403)
Adjustments for current and deferred tax of prior periods	(3,079)	(3,075)
Employee share plan	(637)	(221)
Previously unrecognised tax losses	–	(1,530)
Previously recognised tax losses now unrecognised	177	–
Income tax expense	**20,873**	**18,010**

(c) Deferred income tax assets and liabilities recognised in the Statement of Financial Position are as follows:

For the year ended 31 December 2017	Opening balance $'000	Charged to income $'000	Charged to OCI/Equity $'000	Exchange differences $'000	Closing balance $'000
Deferred tax assets					
Trade and other receivables	159	(67)	–	(2)	90
Plant and equipment	5,121	(1,064)	–	(123)	3,934
Computer software	4,443	(2,656)	–	–	1,787
Trade and other payables	823	171	–	–	994
Provisions and accruals	4,249	496	–	16	4,761
Derivative liabilities	61	(31)	–	–	30
Carry forward tax losses	4,036	(26)	–	64	4,074
Capital transaction costs	3,186	(1,354)	(121)	–	1,711
Share based payments	1,130	(662)	–	(6)	462
Other	68	426	–	–	494
Total deferred tax assets	**23,276**	**(4,767)**	**(121)**	**(51)**	**18,337**
Deferred tax liabilities					
Computer software	(3,652)	3,028	–	114	(510)
Intangibles	(9,174)	936	–	(24)	(8,262)
Other financial assets	(79)	(31)	–	1	(109)
Total deferred tax liabilities	**(12,905)**	**3,933**	**–**	**91**	**(8,881)**

For the year ended 31 December 2018	**Opening balance $'000**	**Charged to income $'000**	**Charged to OCI/Equity $'000**	**Exchange differences $'000**	**Closing balance $'000**
Deferred tax assets					
Trade and other receivables	90	87	–	(1)	176
Plant and equipment	3,934	790	–	129	4,853
Computer software	1,787	(480)	–	–	1,307
Trade and other payables	995	1,050	–	–	2,045
Provisions and accruals	4,760	189	–	(18)	4,931
Derivative liabilities	31	139	–	–	170
Carry forward tax losses	4,073	(1,717)	–	6	2,362
Capital transaction costs	1,712	(458)	(121)	–	1,133
Share based payments	462	(118)	22	–	366
Other	493	(35)	–	(1)	457
Total deferred tax assets	**18,337**	**(553)**	**(99)**	**115**	**17,800**
Deferred tax liabilities					
Computer software	(510)	149	–	(19)	(380)
Intangibles	(8,262)	1,325	–	(132)	(7,069)
Other financial assets	(109)	(139)	–	–	(248)
Total deferred tax liabilities	**(8,881)**	**1,335**	**–**	**(151)**	**(7,697)**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

4.1 TAXATION CONTINUED

(d) Unused tax losses for which no deferred tax asset has been recognised are outlined below:

	2018 $'000	2017 $'000
Singapore (Tax rate 17.0%, 2017: 17.0%)	1,143	–
Hong Kong (Tax rate 16.5%, 2017: 16.5%)	128	–
Potential tax benefit	**215**	**–**

4.2 BUSINESSES AND INVESTMENTS ACQUIRED AND DIVESTED

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If any obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Acquisition of subsidiary

During 2017, IRESS acquired a 15% interest in Lucsan Capital Pty Ltd ("Lucsan"). Lucsan is an established data analytics company providing leading technology solutions to a wide range of companies.

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 amounts previously paid for the 30% investment were fair valued on obtaining control for the purpose of the acquisition. The transaction was executed at market prices. During the period to 18 April 2018 when completing the acquisition as part of the consolidation process, the share of the associate's losses were $0.5 million.

Identifiable assets acquired were the Lumen software recognised on acquisition at $4.7 million, and net operating liabilities (mainly employee entitlements and intercompany payables of $3.1 million). Goodwill was calculated as $0.4 million subject to the finalisation of the tax acquisition accounting.

4.3 IRESS LIMITED – PARENT ENTITY FINANCIAL INFORMATION

The ultimate controlling entity of the Group is IRESS Limited, which is a for profit entity listed on the Australian Securities Exchange.

(a) Summary financial information

The individual financial statements for the parent entity, IRESS Limited, show the following aggregate amounts:

	2018 $'000	2017 $'000
Current assets	185,566	34,246
Non-current assets	733,700	746,488
Total assets	**919,266**	**780,734**
Current liabilities	119,700	31,803
Non-current liabilities	217,940	207,994
Total liabilities	**337,640**	**239,797**
Net assets	**581,626**	**540,937**
Equity		
Issued capital	378,577	376,309
Reserves	24,714	24,213
Retained earnings	178,335	140,415
Total equity	**581,626**	**540,937**
Profit for the year	102,615	160,470
Total comprehensive income	**102,615**	**160,470**

(b) Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2018 (2017: Nil).

4.4 SUBSIDIARIES

Details of the Group's wholly-owned subsidiaries at the end of the year are as follows:

Australia

IRESS International Holding Pty Ltd [1][2]
Apollo II Australia Pty Ltd [1]
Financial Synergy Pty Ltd [1]
Financial Synergy Actuarial Pty Ltd [1]
Financial Synergy Holdings Pty Ltd [1]
Lucsan Capital Pty Ltd [3]
Innergi Pty Ltd
IRESS (AUS) Limited Partnership
IRESS Data Pty Ltd [1]
IRESS Information Pty Ltd
IRESS Wealth Management Pty Ltd [1]
IRESS South Africa (Australia) Pty Ltd [1]
IRESS Spotlight Wealth Management Solutions (RSA) Pty Ltd [1]
Planning Resources Group Pty Ltd [1]
Top Quartile Management Pty Ltd

Canada

IRESS (LP) Holdings Corp.
IRESS (Ontario) Limited
IRESS Canada Holdings Limited
IRESS Market Technology Canada LP
KTG Technologies Corp.

South Africa

Advicenet Advisory Services (Proprietary) Limited
IRESS Hosting (Pty) Ltd (formerly: EDM Solutions Pty Ltd)
IRESS MD RSA (Pty) Ltd (formerly: INET BFA Pty Ltd)
IRESS Financial Markets (Pty) Ltd
IRESS Wealth MNGT (Pty) Ltd
IRESS Wealth Management (RSA) (Proprietary) Ltd

United Kingdom

Apollo III (UK) Limited
Apollo III UK Holdings Limited
IRESS (UK) Limited
IRESS FS Group Limited
IRESS FS Limited
IRESS Mortgage Services Limited
IRESS Portal Limited
IRESS Solutions Limited
IRESS Technology Limited
IRESS UK Holdings Limited
IRESS Web Limited
Proquote Limited
Pulse Software Systems Limited
Pulse Software Management Limited
TrigoldCrystal Limited

Other countries

IRESS Asia Holdings Limited (Hong Kong)
Peresys Software Limited (Ireland)
IRESS Malaysia Holdings Sdn Bhd (Malaysia)
IRESS (NZ) Limited (New Zealand)
IRESS Market Technology (Singapore) Pte Ltd (Singapore)

(1) IRESS Limited and its Australian subsidiaries entered into an ASIC Class Order and Deed of Cross Guarantee with IRESS Limited in December 2014.
(2) Change of name for this entity occurred on 17 January 2018. Was formerly known as Apollo I Australia Pty Ltd.
(3) Group acquired this entity on 18 April 2018.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

4.5 DEED OF CROSS GUARANTEE

IRESS Limited, and some Australian wholly-owned subsidiaries as specified in the Subsidiaries note, are party to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the deed, the relevant wholly-owned subsidiaries have been relieved from the requirement to prepare the financial report and Directors' Report under ASIC Corporations (wholly-owned companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission.

(a) Consolidated statement of profit or loss and retained earnings

	2018 $'000	2017 $'000
Profit before tax	52,643	62,493
Income tax expense	(17,404)	(20,842)
Net profit after tax	**35,239**	**41,651**
Retained earnings at beginning of the year	18,977	42,766
Transfers from reserves	11,049	9,550
Dividends declared	(75,744)	(74,990)
Retained earnings at end of the year	**(10,479)**	**18,977**

(b) Consolidated statement of financial position

	2018 $'000	2017 $'000
ASSETS		
Current assets		
Cash and cash equivalents	14,566	14,696
Receivables and other assets	17,446	29,364
Derivative assets	–	306
Total current assets	**32,012**	**44,366**
Non current assets		
Intangible assets	112,834	120,551
Plant and equipment	24,406	12,828
Investment in associate	–	1,400
Deferred tax assets	10,659	12,667
Derivative assets	770	–
Investment in subsidiaries	345,490	343,461
Other financial assets	168,336	161,809
Total non-current assets	**662,495**	**652,716**
Total assets	**694,507**	**697,082**
LIABILITIES		
Current liabilities		
Payables and other liabilities	9,631	24,458
Provisions	9,947	8,611
Total current liabilities	**19,578**	**33,069**
Non-current liabilities		
Payables and other liabilities	52,451	55,057
Payables to IRESS Group companies outside the Deed	12,708	–
Provisions	9,802	6,444
Borrowings	205,159	193,171
Deferred tax liabilities	2,028	4,262
Total non-current liabilities	**282,148**	**258,934**
Total liabilities	**301,726**	**292,003**
Net assets	**392,781**	**405,079**
EQUITY		
Issued capital	378,577	376,309
Share based payments reserve	24,683	9,793
Retained earnings	(10,479)	18,977
Total equity	**392,781**	**405,079**

4.6 BASIS OF PREPARATION

IRESS Limited (the 'Company') is a for profit company domiciled in Australia. The full 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 year ended 31 December 2018. It:

- has been prepared in accordance with the *Corporations Act 2001 (Cth)*, Australian Accounting Standards and Interpretations, and International Financial Reporting Standards (IFRS);
- was authorised for issue by the Directors on 20 February 2019;
- has been prepared on a historical cost basis, except for derivative financial instruments and investments in financial assets which have been measured at fair value;
- has all amounts presented in Australian dollars, unless otherwise stated; and
- has amounts 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).

(a) Adoption of new standards

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods on or after 1 January 2018. None of these standards have had a material impact on IRESS in the current or future reporting periods or on foreseeable future transactions.

(i) 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.

Refer to Note 1.3 *Revenue from Contracts with Customers* for the impact of adoption of AASB 15 on the Group.

(ii) AASB 9 *Financial Instruments*

The Group has adopted AASB 9 *Financial Instruments* from 1 January 2018.

Classification and Measurement

AASB 9 changed the classification of complex financial instruments, calculation of impairment losses in financial assets, and hedge accounting. The Group assessed which business models apply to the financial instruments held by the Group and have classified them into the appropriate AASB 9 categories.

On the adoption of AASB 9, the Group classified financial assets and liabilities as subsequently measured at either amortised cost or fair value, depending on the business model for those assets and on the asset's contractual cash flow characteristics. There were no changes in the measurement of the Group financial instruments.

The main effects resulting from this classification are shown in the table below:

Presented in the Statement of Financial Position	Financial Instrument	IAS 39		AASB 9	
		IAS 39 classification	Subsequent measurement	Impact	Rationale
Cash and cash equivalents	Bank deposits	Loans and receivables – Amortised cost	Measured at amortised cost using the effective interest method	No changes Measured at amortised cost	It is the Group's business model to hold financial assets in order to collect contractual cash flows. The contractual terms of the short term deposits give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount.
Trade and other receivables	Loans and receivables	Loans and receivables – Amortised cost	Measured at amortised cost using the effective interest method	No changes Measured at amortised cost	It is the Group's business model to hold financial assets in order to collect contractual cash flows. The contractual terms of trade and other receivables give rise to cash flows that are payments of the principal amount.
Borrowings	Interest bearing liabilities	Financial liabilities – Amortised cost	Measured at amortised cost using the effective interest method	No changes Measured at amortised cost	All financial liabilities should be classified as subsequently measured at amortised cost, except for the noted exceptions. No exceptions apply in this case.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

4.6 BASIS OF PREPARATION CONTINUED

(a) Adoption of new standards continued

(ii) AASB 9 *Financial Instruments* continued

Changes to Hedge Accounting

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

Impairment

The calculation of impairment losses impacts the way IRESS calculates the bad debts provision, now termed the credit loss allowance. The Group applies the AASB 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 rate for each group of customers, adjusted for any material expected changes to the customers future credit risk.

Refer to Note 2.2 *Receivables and other assets* for the impact of adoption of AASB 9 on the Group.

(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 31 December 2018 reporting periods and have not yet been applied by IRESS within this financial report.

AASB Interpretation 23 *Uncertainty over Income Tax Treatments* is effective for annual periods beginning on or after 1 January 2019 and clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ('tax amounts'), when there is uncertainty over income tax treatments under AASB 112 *Income Taxes*. IRESS does not have uncertainty around its income tax treatment under AASB 112 and as such it is not considered the new interpretation could have a material impact for IRESS.

In March 2018, the International Accounting Standards Board released a new conceptual framework. Amendments were made to international financial reporting standards to apply new definition and recognition criteria for assets, liabilities, income and expenses in the framework. The changes will apply for financial years commencing 1 January 2020 where the criteria are not inconsistent with the specific requirement of an accounting standard.

The Australian Accounting Standards Board have yet to amend the Australian equivalent standards. IRESS have conducted an initial assessment and do not believe the changes will have a material impact in future periods on the financial statements of the Group. However, management will perform further analysis as the Australian equivalent standards are amended.

With the exception of AASB 16 *Leases*, IRESS do not believe any other 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 performed 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 Statement of Profit or Loss.

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 operating leases that have a lease end date of 31 December 2019 or later (as per the transition periods). The impact on the Statement of Financial Position as at 1 January 2019 for contractual arrangements currently in effect is expected to be as follows:

Statement of Financial Position impact	$'000
Increase in non-current asset (recognition of lease assets)	44,087
Increase in deferred tax asset	(810)
Decrease from the de-recognition of lease incentives and straight lining liabilities	1,799
Increase in liabilities from recognition of lease liabilities	(48,587)
Decrease in retained earnings (higher expense recognised under AASB 16)	**(3,511)**

The estimated impact to the 2019 Statement of Profit or Loss is estimated as follows:

Statement of Profit or Loss impact	$'000
Decrease in rent expense resulting in an increase in segment profit	6,072
Increase in interest expense	(1,506)
Increase in depreciation expense	(5,110)
Decrease in net profit before tax	**(544)**

The net effect of the new lease liabilities and right-of-use assets, adjusted for deferred tax and the reversal of the existing straight-line lease and incentive liability will be recognised against retained earnings.

(c) Summary of general accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(i) Consolidation

The consolidated financial statements include the financial statements of the Company, and the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

An entity is controlled when IRESS is exposed to, or has rights to, variable returns from involvement with the entity and has the ability to affect those returns through power over the entity.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

In reporting the consolidated financial statements, all intercompany balances and transactions, and unrealised profits or losses within the Group are eliminated in full.

(ii) Foreign currency translation

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve in the consolidated financial statements and are recognised in profit or loss on disposal of the net investment.

Foreign operations

Assets and liabilities of foreign operations are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Any exchange differences are recognised in equity. On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

4.7 TRANSACTIONS WITH RELATED PARTIES

ASX Limited ("ASX") owns 18.58% (2017: 18.76%) ordinary shares in IRESS. ASX is a major supplier of Australian equity market data to the Group. All transactions with the ASX are conducted on an arm's length basis. Fees charged by ASX $10,771,644 (2017: $9,661,438), balances outstanding at the end of the year total $1,518,318 (2017: $2,262,630).

4.8 SUBSEQUENT EVENTS

On 20 February 2019, the Directors declared a final dividend of 30.0 cents per share franked to 40% totalling $52.0 million.

Other than the dividend declared, there has been no other matter or circumstance which has arisen since the end of the financial year 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 years.

Directors' Declaration

31 December 2018

In the Directors' opinion:

(a) the financial statements and notes set out on pages 52 to 85 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date; and

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

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 4.4 will be able to meet any obligations or liabilities to which they are, or may become subject by virtue of the deed of cross guarantees described in Note 4.5.

Note 4.6 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

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

TONY D'ALOISIO
CHAIRMAN

ANDREW WALSH
CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Melbourne
20 February 2019

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Independent Auditor's Report to the members of IRESS Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of IRESS Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the consolidated financial statements, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying value of goodwill and non-current assets *Refer to Note 2.1 - Impairment assessment.* As at 31 December 2018, the Group's goodwill and intangible assets totalled $555.2 million which is allocated to the relevant Cash Generating Units (CGUs). Goodwill is required to be assessed for impairment on an annual basis or when any indicators of impairment exist. At the beginning of the year, the Canadian and UK Lending CGU's were identified as having a higher risk of impairment due to their dependency on securing key contracts and the achievement of forecast growth rates which require judgement. Included within these CGU's at 31 December 2018 is goodwill of $8.7 million and $79.5 million respectively. The Group has prepared value in use models to determine the recoverable amounts of the Canada and UK Lending CGUs.	Our procedures included but were not limited to: • Obtaining an understanding of the key controls associated with the preparation of the value in use models and critically evaluating management's methodologies. With the assistance of our internal experts, we: • Assessed key assumptions, including forecast growth rates by comparing to economic and industry growth rates • Challenged the forecasted revenue for each CGU with reference to: - review of the historical accuracy of forecasting of the Group - evaluation of current pipeline and historical pipeline conversion rate - in respect to the UK Lending we reviewed new contracts secured by IRESS supporting forecast revenue • Evaluated discount rates used to assess the cost of capital for each CGU against comparable organisations • Agreed the cash flow forecast with the latest Board approved five year financial plan for each CGU • Tested on a sample basis the mathematical accuracy of the cash flow models • Assessed the net present value of each CGU in local currency to their respective carrying values in local currency. We also performed a sensitivity analysis to stress test the key assumptions used in the value in use models, including revenue growth, terminal growth rates and discount rates used. We have assessed the appropriateness of the disclosures included in Note 2.1 to the financial statements.

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Other Information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the

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related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 50 of the Directors' Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of IRESS Limited, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi

Tom Imbesi
Partner
Chartered Accountants
Melbourne [20 February 2019]

Shareholder Information

SHAREHOLDER INFORMATION

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

Distribution of members and their holdings

	Number of shareholders	Number of shares	% of issued capital
1 to 1,000	3,149	1,377,707	0.80
1,001 to 5,000	2,755	6,603,253	3.81
5,001 to 10,000	530	3,758,953	2.17
10,001 to 100,000	304	7,198,513	4.15
100,001 and over	36	154,311,781	89.07
Total	**6,774**	**173,250,207**	**100.00**

Substantial shareholders

	Number held	%
ASX LIMITED	32,181,994	18.58
HYPERION ASSET MANAGEMENT LIMITED	18,267,617	10.54
GREENCAPE CAPITAL PTY LIMITED	10,208,432	5.89
Total substantial shareholders	**60,658,043**	**35.01**
Balance of register	112,592,164	64.99
Total	**173,250,207**	**100.00**

20 largest shareholders of quoted equity securities

Rank	Name	Number held	% of issued shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	48,791,849	28.16
2	ASX LIMITED	32,181,994	18.58
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	25,604,927	14.78
4	CITICORP NOMINEES PTY LIMITED	11,760,460	6.79
5	NATIONAL NOMINEES LIMITED	9,961,236	5.75
6	BNP PARIBAS NOMINEES PTY LTD	5,047,568	2.91
7	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	4,637,295	2.68
8	PACIFIC CUSTODIANS PTY LIMITED	2,731,877	1.58
9	BNP PARIBAS NOMS PTY LTD	2,468,083	1.42
10	PACIFIC CUSTODIANS PTY LIMITED	1,411,790	0.81
11	NETWEALTH INVESTMENTS LIMITED	1,322,415	0.76
12	AVANTEOS INVESTMENTS LIMITED	900,747	0.52
13	CITICORP NOMINEES PTY LIMITED	841,292	0.49
14	ARGO INVESTMENTS LIMITED	791,884	0.46
15	MIRRABOOKA INVESTMENTS LIMITED	775,000	0.45
16	DJERRIWARRH INVESTMENTS LIMITED	655,000	0.38
17	SANDHURST TRUSTEES LIMITED	610,820	0.35
18	AMCIL LIMITED	450,000	0.26
19	AVANTEOS INVESTMENTS LIMITED	359,634	0.21
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED [NT-COMNWLTH SUPER CORP]	318,257	0.18
Total top twenty shareholders		**151,622,128**	**87.52**
Balance of register		21,628,079	12.48
Total		**173,250,207**	**100.00**

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Corporate Directory

Directors	A D'Aloisio – Chairman A Walsh – Chief Executive Officer and Managing Director N Beattie J Cameron J Fahey J Hayes J Seabrook G Tomlinson
Company Secretary	P Ferguson
Registered Office	Level 16, 385 Bourke Street Melbourne VIC 3000 Phone: +61 3 9018 5800 Fax: +61 3 9018 5844
Share Registry	Link Market Services Limited Level 1, 333 Collins Street Melbourne VIC 3000
Stock Exchange Listings	IRESS Limited shares are quoted on the Australian Securities Exchange under the code: IRE
Auditor	Deloitte Touche Tohmatsu

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