

# ASX PRELIMINARY FINAL REPORT

## IRESS Limited

ABN 47 060 313 359

31 December 2013

Lodged with the ASX under Listing Rule 4.3A

### Contents

1.	Results For Announcement To The Market ( <i>Appendix 4E item 2</i> ) .....	3
2.	Explanation of revenue ( <i>Appendix 4E item 2.6</i> ) .....	3
3.	Explanation of profit/(loss) from ordinary activities after tax ( <i>Appendix 4E item 2.6</i> ) .....	4
4.	Explanation of net profit/(loss) ( <i>Appendix 4E item 2.6</i> ) .....	6
5.	Explanation of dividends ( <i>Appendix 4E item 2.6</i> ) .....	6
6.	Preliminary Consolidated Statement Of Comprehensive Income ( <i>Appendix 4E item 3</i> ) .....	6
7.	Preliminary Consolidated Balance Sheet ( <i>Appendix 4E item 4</i> ) .....	6
8.	Preliminary Consolidated Statement Of Cash Flows ( <i>Appendix 4E item 5</i> ) .....	6
9.	Preliminary Consolidated Statement Of Changes In Equity ( <i>Appendix 4E item 6</i> ) .....	6
10.	Additional Dividend Information ( <i>Appendix 4E item 7</i> ) .....	7
11.	Dividend Reinvestment Plans ( <i>Appendix 4E item 8</i> ) .....	7
12.	NTA Backing ( <i>Appendix 4E item 9</i> ) .....	7
13.	Controlled Entities Acquired or Disposed of ( <i>Appendix 4E item 10</i> ) .....	7
14.	Additional Information on Controlled Entities Acquired or Disposed of ( <i>Appendix 4E item 10.2</i> ) .....	7
15.	Associates and Joint Venture Entities ( <i>Appendix 4E item 11</i> ) .....	7
16.	Other Significant Information ( <i>Appendix 4E item 12</i> ) .....	8
17.	Accounting Standards ( <i>Appendix 4E item 13</i> ) .....	11
18.	Earnings Per Share ( <i>Appendix 4E item 14.1</i> ) .....	11
19.	Returns To Shareholders Including Distributions And Buy Backs ( <i>Appendix 4E item 14.2</i> ) .....	11

20.	Commentary On Results (Appendix 4E item 14.3) .....	11
21.	Material Factors Affecting The Economic Entity For The Current Period ( <i>Appendix 4E item 14.3</i> ) .....	11
22.	Reconciliation Of Underlying Earnings ( <i>Appendix 4E item 14.3</i> ) .....	11
23.	Segment Results (Appendix 4E item 14.4).....	13
24.	Trends In Performance (Appendix 4E item 14.5) .....	13
25.	Other Factors That Affected Results In The Period Or Which Are Likely To Affect Results In The Future (Appendix 4E item 14.6) .....	13
26.	Audit Status (Appendix 4E item 15).....	13
27.	Description of any likely dispute or Qualification ( <i>Appendix 4E item 16</i> ) .....	14

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

This report covers the consolidated entity consisting of IRESS Limited and its controlled entities. The financial report is presented in Australian dollars (unless otherwise stated).

The previous corresponding period is the year ended 31 December 2012.

This Appendix 4E should be read in conjunction with the Unaudited Consolidated Preliminary Financial Statements which have been issued concurrent with this announcement.

**1. RESULTS FOR ANNOUNCEMENT TO THE MARKET (APPENDIX 4E ITEM 2)**

				\$'000
Revenue from ordinary activities ( <i>Appendix 4E item 2.1</i> )	up	21.1%	To	251,132
Profit/(loss) after tax attributable to members ( <i>Appendix 4E item 2.2</i> )	down	38.2%	to	24,241
Dividends amount ( <i>Appendix 4E item 2.4</i> )		Amount per security		Franked per security at 30% tax
Final dividend		24.5 c		19.6 c
Interim dividend		13.5c		12.15c

Record date for determining entitlements to the final dividend 14 March 2014 (*Appendix 4E item 2.5*)

**2. EXPLANATION OF REVENUE (APPENDIX 4E ITEM 2.6)**

- 2.1. Total revenue from ordinary activities for the year ended 31 December 2013 is \$251.1 m up 21.1% against the last corresponding period.
- 2.2. The growth was driven largely by the acquisition of Avelo. This acquisition successfully achieved IRESS' objective of technology scale in the United Kingdom and provides a unique opportunity to establish scale, growth in revenue and relationship footprint in the United Kingdom, building significantly on IRESS' organic strength to date. The IRESS product suite has proven competitive in the United Kingdom. The combination of product strength and industry scale from Avelo offers the Group revenue growth opportunities in the medium term. Regulatory change and trends in the United Kingdom continue to be a key driver of technology demand which supports the relevance of acquired scale. Since joining the Group from 1 September, Avelo contributed \$35.3m in revenue.
- 2.3. Australia & New Zealand Wealth Management was another significant driver of revenue growth up \$9.1m or 16.9%. The result reflects heightened activity in response to regulatory needs and opportunities across the client base in Australia, strategic projects and new client implementations. A large driver of activity was the Future of Financial Advice key date in July, but this was surrounded by client activity that leveraged opportunities made available by our technology solutions.
- 2.4. These results were offset by minor declines in Australia and New Zealand Financial Markets (\$1.7)m, and Canada \$(1.4)m.

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

**3. EXPLANATION OF PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER TAX (APPENDIX 4E ITEM 2.6)**

- 3.1. The reported net profit after tax was \$24.2m, a 38.2% decrease on reported profits for the same period last year. Impacting on comparability of results for 2013 and 2012 are:
1. Revenue from ordinary activities which increased by \$43.8m or 21.1%. The growth was driven largely by the acquisition of Avelo. Since joining the Group from 1 September, Avelo contributed \$35.3m in revenue. Australia & New Zealand Wealth Management was another significant driver of revenue growth up \$9.1m or 16.9%.
  2. Business acquisition and restructure expenses increased by \$14.4m or 11,596.7% primarily due to acquisition expenses incurred in the current year associated with the purchase of Avelo (refer Note 5). These costs consist of:
    - i. \$9.846m acquisition and integration costs incurred in the current period including:
      - a) \$11.614m advisor fees directly associated with the acquisition;
      - b) \$6.513m debt arrangement costs (not including advisor fees);
      - c) \$4.938m underwriting and similar arrangement costs;
      - d) \$0.938m other costs such as government fees and charges, travel and staff project related incentive payments;
      - e) \$(6.535m) costs relating to debt raising capitalised as part of borrowing costs. These costs will be amortised over the life of the facility; and
      - f) \$(7.623m) costs relating to equity capitalised to equity.
    - ii. \$4.541m integration costs provided for activities commenced in 2013 and committed to occur in 2014. These costs consist of:
      - a) \$3.844m relates to integration activities being undertaken in the UK companies; and
      - b) \$0.697m relates to restructuring of the Executive team taking into account the corporate structure including Avelo.
  3. Depreciation and amortisation expense increased by \$0.6m or 3.0% primarily due to the amortisation of Avelo identifiable intangible assets of \$2.0 and increased depreciation on plant and equipment, \$0.5m relating to the United Kingdom business (\$0.3m related to Avelo), offset by a \$1.9m reduction in amortisation of computer software as they were fully amortised in 2012.
  4. Net interest and financing costs increased by \$18.7m or 1,870.8% primarily relating to:
    - i. \$10.6m financing expense representing the change in fair value of two GBP 33.0m swap liabilities for three years and five years respectively;
      - a) This movement in the fair value of the swaps has to be looked at in aggregate with the foreign exchange gain of \$10.8m as noted below.

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

- ii. \$3.8m interest expense and amortisation of debt raising costs incurred on the acquisition related debt facilities;
  - iii. \$2.7m interest cost of hedging the purchase price of Avelo;
  - iv. \$2.3m nonrecurring bank charges relating to amortisation of debt raising costs of the bridge to equity facility; net of
  - v. \$(0.7)m interest income primarily derived from term deposits.
5. Unrealised foreign exchange gains increased by \$11.6m or 1,478.6%. The main driver of this increase was the foreign exchange movement on the financing of Avelo. This movement has to be looked at in aggregate with the financing expense of \$10.6m.
6. Total customer data fees and communication and other technology expenses increased by \$1.5m or 4.4%.
7. Employee benefits expense increased by \$32.5m or 39.1% during the year. This increase arises from a number of factors including:
- i. A continued increase in total head count during the year to support existing clients and support growth. The full time equivalent (FTE) headcount for the Group increased by 612.7 staff to a total of 1,316.8 staff at the end of the year. This increase was driven by 583.5 staff joining the Group in September 2013 as a result of the acquisition of Avelo. The additional Avelo headcount resulted in a \$25.0m increase in employee benefit expense;
  - ii. In addition to the addition headcount from Avelo, there was also 25.2, 7.1 and 2.2 additional staff in Australia and New Zealand, the United Kingdom (excluding Avelo staff), and South Africa respectively. There was a small FTE reduction of 2.7 and 2.6 staff in Canada and Asia respectively; and
  - iii. Share based payments (SBP) expense declined by \$0.4m, due to cancellations and the favourable impact of moving substantially all grants made in 2013 to a three or more year term. Excluding the \$5.2m one-off share grants issued in 2012 in relation to the establishment of the United Kingdom business, the actual value of grants awarded in the year increased by \$7.0m of which \$6.4m related to a special once-off acquisition related incentive, retention and performance grants associated with the Avelo acquisition.
8. Other employee administration expenses which increased by \$4.3 or 59.1% during the year, mainly representing increase in travel and accommodation expenditure associated with supporting an increasingly global business.
9. Other expenses including general and administrative expenses increased by \$4.3m or 59.9%. This increase arises from a number of factors including:
- i. An increase of \$1.2m due to Avelo joining the Group from 1 September.
  - ii. An increase in professional services fees of \$1.2m and an increase of \$1.9m in general administrative expenses reflective of the growing complexity of an increasing global business; and

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

10. Facilities rent expense increased by \$1.9m or 53.8%, primarily due to an additional \$0.8m rental expense increase relating to the Australian and New Zealand businesses, and \$0.8m rental expense relating to the United Kingdom business (\$0.7m relates to the Avelo business).
11. Bad and Doubtful debts declined by \$0.5m despite an increase in the provision for doubtful debts of \$0.3m.
12. The Group's effective tax rate increased from 31.0% to 33.5% for the year ended 31 December 2013 primarily due to deferred tax assets arising from non-trading losses following the acquisition and financing of the Avelo group which are unable to be recognised as at 31 December 2013.

**4. EXPLANATION OF NET PROFIT/(LOSS) (APPENDIX 4E ITEM 2.6)**

- 4.1. Please refer to paragraph 3.

**5. EXPLANATION OF DIVIDENDS (APPENDIX 4E ITEM 2.6)**

- 5.1. The following dividends have been determined or paid since the end of the preceding financial year:

1. In respect of the financial year ended 31 December 2013, an interim dividend of 13.5 cents per share franked to 90.0% at 30.0% corporate tax rate was paid to holders of fully paid ordinary shares on 27 September 2013;
2. In respect of the financial year ended 31 December 2013, the Directors have determined to pay a final dividend of 24.5 cents per share franked to 80.0% at 30.0% corporate tax rate to be paid to the holders of fully paid ordinary shares on 31 March 2014. The record date to participate in the final dividend is 14 March 2014; and
3. In respect of the financial year ended 31 December 2012, an interim dividend of 13.5 cents per share franked to 90.0% at 30.0% corporate tax rate was paid to holders of fully paid ordinary shares on 28 September 2012, and a final dividend of 24.5 cents per share franked to 90.0% at 30.0% corporate tax rate was paid to holders of fully paid ordinary shares on 28 March 2013.

**6. PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (APPENDIX 4E ITEM 3)**

- 6.1. Refer to the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**7. PRELIMINARY CONSOLIDATED BALANCE SHEET (APPENDIX 4E ITEM 4)**

- 7.1. Refer to the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**8. PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS (APPENDIX 4E ITEM 5)**

- 8.1. Refer to the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**9. PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (APPENDIX 4E ITEM 6)**

- 9.1. Refer to the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

**10. ADDITIONAL DIVIDEND INFORMATION (APPENDIX 4E ITEM 7)**

10.1. The IRESS dividend policy is to maintain a payout ratio of not less than 80% of underlying group earnings subject to accounting limitations. The dividend policy may be modified by the Board in the future, where it is felt appropriate, including situations which may arise from the Company pursuing its strategy. Dividends continue to be franked to essentially the fullest extent possible.

10.2. Details of dividends determined or paid during or subsequent to the year ended 31 December 2013 are as follows:

Record Date	Payment Date	Type	Amount per security	Total Divided (\$'000)	Franked amount per security at 30% tax rate	Conduit Foreign Income amount per security
12 Mar 2013	28 Mar 2013	Final	24.5c	31,512	22.05c	Nil
19 Aug 2013	27 Sep 2013	Interim	13.5c	17,489	12.15c	Nil
14 Mar 2014	31 Mar 2014	Final	24.5c**	38,853*	19.6c	Nil

\* Based on 158,585,126 shares on issue as at 26 February 2014

\*\* Dividend franked to 80%

**11. DIVIDEND REINVESTMENT PLANS (APPENDIX 4E ITEM 8)**

11.1. IRESS does not operate a dividend reinvestment plan

**12. NTA BACKING (APPENDIX 4E ITEM 9)**

	2013	2012
Net tangible asset backing per ordinary share	\$(0.612)	\$0.656

**13. CONTROLLED ENTITIES ACQUIRED OR DISPOSED OF (APPENDIX 4E ITEM 10)**

13.1. Refer to the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**14. ADDITIONAL INFORMATION ON CONTROLLED ENTITIES ACQUIRED OR DISPOSED OF (APPENDIX 4E ITEM 10.2)**

14.1. Effective from 1 September 2013 the Group acquired Avelo FS Holdings Limited ('Avelo').

14.2. The impact of this transaction on the Group's results is included in paragraph 3, with additional details set out in Note 23 of the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**15. ASSOCIATES AND JOINT VENTURE ENTITIES (APPENDIX 4E ITEM 11)**

15.1. Refer to Note 24 of the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

**16. OTHER SIGNIFICANT INFORMATION (APPENDIX 4E ITEM 12)**

16.1. Overview

16.2. Key highlights for 2013 were:

1. The successful acquisition of Avelo FS Holdings Limited and its subsidiaries in the United Kingdom;
2. Step change in significance as global provider of wealth management technology through acquisition of Avelo:
  - i. The product differentiation of XPLAN combined with learnings from our organic wealth management operation in the United Kingdom provides the base on which to leverage acquired scale in the United Kingdom; and
  - ii. The acquisition provides a material addition to skilled employees with deep domain knowledge based in a time zone and location complementing existing resources to accommodate additional growth opportunities.
3. Resilience of IRESS' established business operations. Australia and New Zealand Wealth Management performed very strongly as clients continued to invest in technology in response to and in anticipation of regulatory change;
4. Organic investment in Asia and the United Kingdom Financial Markets built around key seed clients continues to develop. The Company is confident and committed to opportunities seeding medium term growth;
5. Continued focus on expansion of product offerings in response to market opportunities, regulatory change and technology;
6. Balance sheet and financial stability continue to provide investment capacity; and
7. Movements in currency rates continue to impact the underlying performance of the Group. The Australian dollar depreciated against the local currencies of the Group's off shore divisions during the year with the exception of the South African Rand.

16.3. The acquisition of Avelo

1. This acquisition successfully achieved IRESS' objective of technology scale in the United Kingdom and provides a unique opportunity to establish scale, growth in revenue and relationship footprint in the United Kingdom, building significantly on IRESS' organic strength to date.
2. The IRESS product suite has proven highly competitive in the United Kingdom. The combination of product strength and industry scale from Avelo offers the group attractive revenue growth opportunities in the medium term. Regulatory change and trends in the United Kingdom continue to be a key driver of technology demand which supports the relevance of acquired scale.
3. The acquisition also introduces mortgage sourcing and distribution technology strength to IRESS, a new capability for the Group.

16.4. Costs incurred in the acquisition of Avelo



**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

1. The acquisition of Avelo necessitated incurring significant costs to complete the transaction. The total costs incurred were \$30.509m and fell broadly into the following groupings:

Nature of cost	\$ (m)
Advisor fees directly associated with the acquisition	11.614
Debt arrangement costs (not including advisor fees)	6.514
Underwriting and similar arrangement costs	4.938
Costs associated with integration activities	3.844
Derivative cost	2.661
Other (a)	0.938
	30.509

- a) Comprises government fees and charges, travel and staff project related incentive payments.

2. These costs of \$30.509m have been allocated based on the nature of the item and will present to the Group's result as follows:

ITEM	\$ (m)	High level impact on financial statements
Cost of raising debt (including advisor fees)	6.535	Amortised over term of facilities (Note 14)
Derivative cost	2.661	Interest cost of hedging the purchase price of Avelo (Note 2)
Directly in equity	7.623	Recognised as a reduction in total Contributed Equity (Note 15)
Acquisition and integration costs incurred in the current period	9.846	Expensed in full in the current period (Note 5)
Costs associated with integration activities commenced in 2013 and committed to occur in 2014	3.844	A combination of expensed in current period and provided for in the current period with provision declining as actual costs incurred (Note 5)
	30.509	

3. Immediately following the acquisition there has been a material effort devoted to making the immediate changes required and identify and scope key tasks and activities associated with integration and related actions for 2013 and 2014. Reflecting this process, where appropriate, suitable accruals and provisions have been recognised in the 2013 results.

#### 16.5. The funding of the Avelo acquisition

1. The key funding components in the acquisition of Avelo were:
- i. Strong and broad participation from shareholders in the 2:9 Renounceable Rights issue completed in August 2013 ("AREO");
  - ii. Debt raised to provide both an initial bridge for the transaction to proceed ahead of the equity raising; which then cascaded down to an acceptable medium term debt profile; and

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

- iii. Cross currency swap arrangement entered into, which aligns with the underlying medium term debt profile and provides a natural offset to our GBP foreign exchange exposure.
2. The Company completed two stages of equity raising through an underwritten pro-rata AREO in 2013. The institutional component, completed on 9 August 2013, resulted in an issue of 21,321,727 additional shares, and raised \$152.450m from eligible institutional shareholders. The retail component completed, on 29 August 2013, resulted in an issue of 7,484,556 additional shares, and raised \$53.515m from eligible retail shareholders.
3. Concurrent with the acquisition, the Company entered into an Australian Dollar based syndicated facility agreement. The agreement provided the Company with the funding certainty required to execute the acquisition. In total a facility of \$370.0m was put in place, with \$190.0m repaid and cancelled upon completion of the AREO.
4. At 31 December 2013, the remaining \$180.0m of facilities are fully drawn, with \$90.0m tied to a 3 year facility and \$90.0m tied to a 5 year facility.
5. In establishing entities for the acquisition an additional Australian bilateral debt facility of \$0.495m was established. This facility is also fully drawn down.
6. Both the syndicated and bilateral facilities are secured over assets of the Group and contain covenants.
7. At year end, IRESS held cash reserves of \$71.4m (2012: \$56.0m).
8. Concurrent with the Avelo acquisition, a deal contingent cross currency swap arrangement was entered into which allowed the Group to fix an exchange rate at which the Group would be entitled to receive GBP 213.153m for a fixed AUD amount. The arrangement was deal contingent as the Avelo acquisition required approval from the Financial Services Authority (FSA) in the United Kingdom. The arrangement consisted of two elements, the short term deal contingent portion and the medium term cross currency swaps. Following FSA approval, the contingent component was satisfied and the medium term swaps became operative. Under the swap arrangement the Group has effectively converted GBP 66.000m (AUD 122.563m at year end rates) of its borrowings from referenced against BBSW to referenced against LIBOR. This arrangement provides an offset against the translation risk associated with the Group's expanded net assets based in the United Kingdom. It also allowed the Group to access favourable interest rates available in the United Kingdom. Additional arrangements were put in place to mitigate the P&L exposure to the consolidated results arising from the swap. Two swaps are in place for GBP 33.0m each, with terms of 3 years and 5 years respectively.

16.6. Internal cost allocations

1. Reflecting the increasingly global nature of IRESS' operations together with the increased use of global teams, where a cost is incurred in one region and the benefit accrues to other business units; a cost allocation exercise was completed in the second half of 2013. It is expected that this revised methodology will provide an appropriate basis for allocating these costs as the Group's operations expand. It does however impact to some extent on prior period comparability.
2. There were two areas of note impacted, firstly allocation of costs associated with the fixed cost component of provisioning market data for the Group. Historically, the Australian and New Zealand Financial Market division absorbed a sizeable portion of these costs. Recognising that many of the incremental costs incurred related to requirements for clients outside of Australian

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

and New Zealand Financial Markets, the cost allocation exercise sought to allocate costs based on weighting to the level of end user demand for the service.

3. The second principal area impacted was allocation of staff costs where the employees provide a shared service to the remainder of the Group.

**17. ACCOUNTING STANDARDS (APPENDIX 4E ITEM 13)**

17.1. Refer to the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**18. EARNINGS PER SHARE (APPENDIX 4E ITEM 14.1)**

18.1. Refer to Note 7 of the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**19. RETURNS TO SHAREHOLDERS INCLUDING DISTRIBUTIONS AND BUY BACKS (APPENDIX 4E ITEM 14.2)**

19.1. During the year the Company did not make any distributions other than the dividends listed under item 10 above. The Company did not buy back any shares during the period.

**20. COMMENTARY ON RESULTS (APPENDIX 4E ITEM 14.3)**

20.1. The above comments should be read in conjunction with the Unaudited Consolidated Preliminary Financial Statements and the Media Release released concurrent with this announcement.

**21. MATERIAL FACTORS AFFECTING THE ECONOMIC ENTITY FOR THE CURRENT PERIOD (APPENDIX 4E ITEM 14.3)**

21.1. Refer to comments made in paragraphs 16 and 20 above for discussion of the nature and amount of material items affecting revenue, expenses, assets, liabilities, equity or cash flows, where their disclosure is relevant in explaining the financial performance or position of the entity for the period.

**22. RECONCILIATION OF UNDERLYING EARNINGS (APPENDIX 4E ITEM 14.3)**

22.1. IRESS considers inter-period comparability of results is best presented as the underlying operating results of the relevant businesses calculated excluding share based payments, non-recurring items, and strategic amortisation charges and has presented results consistently in this way for the past 9 years.

22.2. For the year ended 31 December 2013 underlying Segment Profit presented as part of the Recurring Operational results aligns with Segment Profit as shown in Note 21 of the Unaudited Consolidated Preliminary Financial Statements.

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

22.3. Recurring Operational Profit after Tax, reconciles to the preliminary reported Profit after tax result as per the following:

	<b>2013(m)</b>	<b>2012(m)</b>
NPAT (Recurring Operations on an Underlying basis)(a)	53.156	54.384
Share Based Payments before tax (Core)	(6.245)	(6.798)
Share Based Payments before tax (Strategic)	(1.827)	(1.657)
Strategic Charges (before tax)	(11.797)	(12.692)
Non Recurring/Non-Core Items before tax (Avelo)	(17.510)	-
Non Recurring/Non-Core Items before tax (ex Avelo)	(2.324)	(0.261)
Tax (including Strategic charge items)	10.788	6.252
NPAT (Reported)	24.241	39.228

22.4. Below are the details of these reconciling items net of tax for the year ended 31 December 2013.

1. Share Based Payments
  - i. The Recurring Operational totals have been calculated before SBP expenses as inter-period comparability is affected by changes in the vesting period of share grants.
  - ii. Share Based Payments (Core). This represents the share based payments expense arising as part of the regular remuneration arrangements for IRESS Group employees.
  - iii. Share Based Payments (Strategic). This represents share based payment expenses arising on share grants outside of the typical award framework. The grants awarded on the establishment of operations in the UK are viewed as falling into this category, as was the retention and integration incentive award made to certain employee Avelo as part of the acquisition.
2. Strategic charges
  - i. Amortisation of identifiable intangible assets recognised under purchase price allocation exercises as part of an acquisition. Not all items in this grouping are deductible for tax purposes.
  - ii. The primary changes in 2013 relates to identifiable intangible assets of \$29.995m recognised as part of the Avelo acquisition. Amortising charges arising on these assets in the period amounted to £1.135m (\$2.107m). The amortisation expense of these strategic charges will not be deductible for tax purposes.
3. Non-Recurring/Non-Core items
  - i. Items falling into this grouping are either substantial amounts that are one-off or items which vary based on factors outside of the Group's capacity to influence, primarily forex gains or losses. These items are excluded from the recurring operations calculation of segment profits as they impact on the inter-period comparability of the segment / group's performance.

**IRESS LIMITED AND ITS CONTROLLED ENTITIES**  
**UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

- ii. In aggregate there were \$17.510m of Non-Recurring/Non-Core items arising from the acquisition of Avelo. These costs can be split as follows:
    - a) Acquisition and implementation costs incurred as part of the Avelo acquisition, of:
      - i. \$9.846m acquisition and integration costs expensed in full in the current period; and
      - ii. \$3.844m acquisition and integration costs commenced in 2013 and committed to occur in 2014.
    - b) \$2.661m of interest cost associated with the deal contingent cross currency forward entered into as a cash flow hedge on the Avelo purchase price;
    - c) Net effect of funding arrangements amounting to a gain of \$0.155m and comprising a gross forex gains of \$10.790m on GBP denominated inter-company loans; and a gross financing expense of \$10.635m arising from partially hedging the GBP cash flows via cross currency swap; and
    - d) Restructuring decisions implemented in the Group following the acquisition of Avelo \$1.314m.
  - iii. In addition, \$2.324m of Non-Recurring/Non-Core items arose from Group operations excluding Avelo. In the main this comprises forex gains and losses on inter-group cash or cash-like items.
4. Tax on share based payments, Strategic charges and Non-Recurring items
- i. This line item combines the difference between the tax rate applied to underlying results to derive Recurring Operational Profit after Tax and the tax impact arising on share based payments, Strategic charges and Non-Recurring/Non-Core items.

**23. SEGMENT RESULTS (APPENDIX 4E ITEM 14.4)**

Refer to Note 21 of the Unaudited Consolidated Preliminary Financial Statements released concurrent with this announcement.

**24. TRENDS IN PERFORMANCE (APPENDIX 4E ITEM 14.5)**

Refer to comments made in paragraph 20 above.

**25. OTHER FACTORS THAT AFFECTED RESULTS IN THE PERIOD OR WHICH ARE LIKELY TO AFFECT RESULTS IN THE FUTURE (APPENDIX 4E ITEM 14.6)**

Refer to comments made in paragraph 20 above.

**26. AUDIT STATUS (APPENDIX 4E ITEM 15)**

This report is based on accounts which are in the process of being audited.

IRESS LIMITED AND ITS CONTROLLED ENTITIES  
UNAUDITED CONSOLIDATED PRELIMINARY FINANCIAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2013

**27. DESCRIPTION OF ANY LIKELY DISPUTE OR QUALIFICATION (APPENDIX 4E ITEM 16)**

As at the date of this report the Directors are not aware of any audit item under dispute or item which would result in a qualification.

Sign here:



Date: 26 February 2014

(~~Director~~/Company secretary)

Print name:

Peter Ferguson