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# ASX Announcement

14 October 2020

## Annual Report for the year ended 30 June 2020

Attached is a copy of the IPH Limited Annual Report for the year ended 30 June 2020. The Annual Report is being sent to shareholders today.

*For more information, please contact:*
**Martin Cole**
Managing Director
Capital Markets Communications
Tel: +61 403 332 977

***Authorised for release to the ASX by:***
The Board of Directors

**About IPH Limited**

IPH Limited ("IPH", ASX:IPH), the holding company of AJ Park, Griffith Hack, Pizzeys, Practice Insight, Shelston IP and Spruson & Ferguson, is the leading intellectual property ("IP") services group in the Asia-Pacific region offering a wide range of IP services and products. These services are provided across Australia, New Zealand, Papua New Guinea, the Pacific Islands and Asia from offices in Sydney, Brisbane, Melbourne, Canberra, Perth, Auckland, Wellington, Singapore, Kuala Lumpur, Jakarta, Beijing, Hong Kong and Bangkok. The group comprises a multidisciplinary team of approximately 900 people, including some of the most highly regarded IP professionals in the Asia-Pacific region. The team services a diverse client base of Fortune Global 500 companies and other multinationals, public sector research organisations, foreign associates and local clients. IPH was the first IP services group to list on the Australian Securities Exchange.



IPH LIMITED

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# ANNUAL REPORT

YEAR ENDED 30TH JUNE

# 2020

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# Contents


02 The IPH Group

04 FY20 Year In Review

14 Corporate Directory

16 Directors' Report

45 Financial Statements

105 Independent Auditor's Report

111 Shareholder Information

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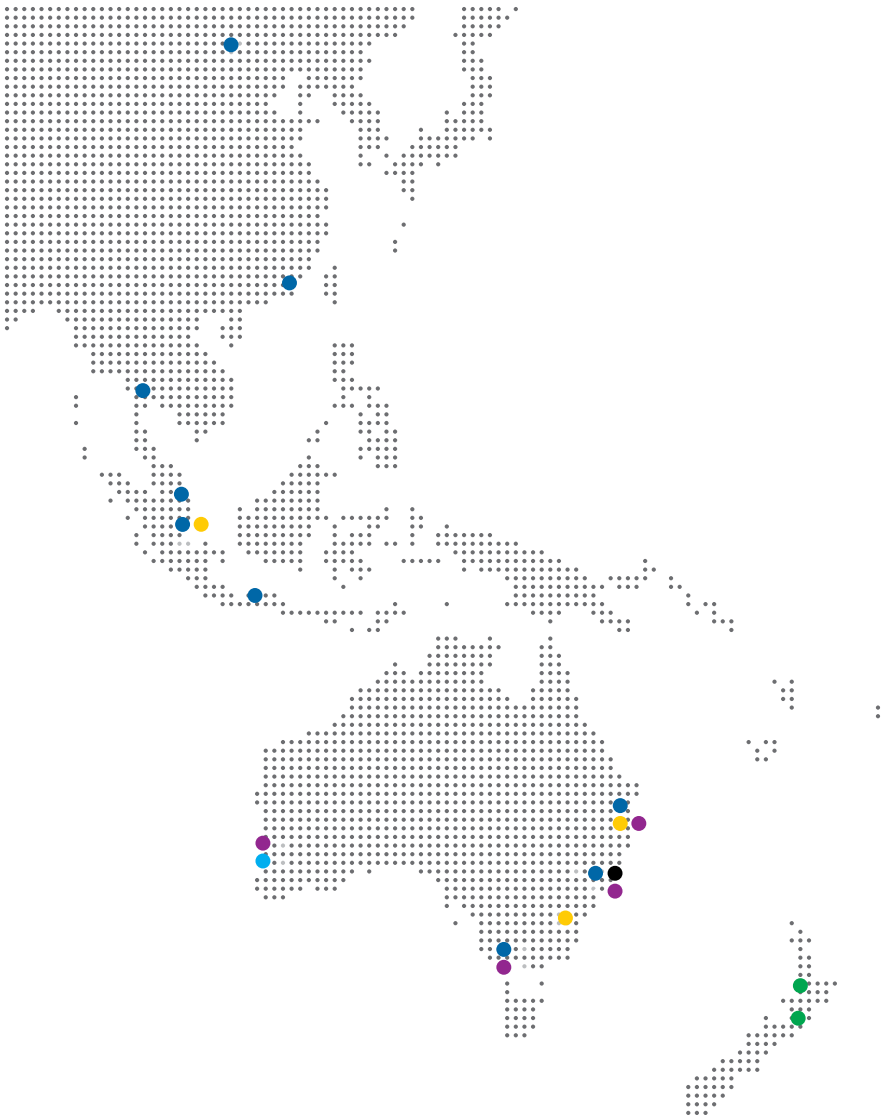
# The IPH Group



- AJ Park
- Griffith Hack
- Shelston IP
- Spruson & Ferguson
- Pizzeys
- WiseTime

**8**
IP Jurisdictions

**20**
Offices[1]

**900+**
Employees[2]

Servicing more than 25 countries across the region.

AJPark intellectual property

griffith hack IP Amplified

SHELSTON INTELLECTUAL PROPERTY

SPRUSON & FERGUSON INTELLECTUAL PROPERTY

PIZZEYS Patent and Trade Mark Attorneys

WiseTime TIME FOR MORE

1. Refers to number of primary offices of IPH group businesses in the Asia-Pacific region
2. Approximate employee numbers as at 30 June 2020

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# The IPH Story

## About our business

IPH is the leading intellectual property (IP) professional services group in the Asia-Pacific region and was the first IP services group to list on the Australian Securities Exchange (ASX) in 2014.

Our vision is to be the leading IP services group in secondary IP markets and adjacent areas of IP.

We are always looking at ways to strengthen our network offering for our clients, career opportunities for our people and return on investment for our shareholders.

In FY20, we grew and consolidated our portfolio of businesses and our group now includes more than 900 employees working across five leading IP firms servicing a broad range of clients, including some of the world's leading companies, multinationals, universities, public sector research organisations, foreign associates and other corporate and individual clients.

Through the IPH network, we provide services for the protection, commercialisation, enforcement and management of all forms of intellectual property including patents, trade marks and designs with offices in eight IP jurisdictions in the Asia Pacific servicing more than 25 countries across the region. We also operate in adjacent areas of IP through our WiseTime business.

### Consolidating our business for future growth

Following five years of significant growth for the group, we have been focused on consolidating our businesses and strengthening our Asia-Pacific platform to better service our clients.

In FY20, we successfully completed the integration of Xenith IP into the IPH group. The acquisition of this business in August 2019 was our largest since listing, and the integration of these businesses was a large programme of work for the group. This included the integration of Watermark into Griffith Hack to create one firm operating under the Griffith Hack brand and the divestment of the R&D tax and incentives business of Glasshouse Advisory to Grant Thornton in May 2020.

We have also undertaken consolidation of corporate services across the group, allowing us to offer enhanced career opportunities for our people in these functions, while ensuring our group businesses have the capabilities, resources and systems to deliver the highest quality services to their clients.

Through our group of leading IP firms, we are well positioned for future growth and to continue to deliver on our strategic priorities for the year ahead.

## Growth and consolidation at IPH

| | |
|---|---|
| Nov 2014 | IPH lists on the ASX with Spruson & Ferguson as the founding business |
| Apr 2015 | IPH acquires IP data analysis & software applications businesses Practice Insight and WiseTime |
| May 2015 | IPH acquires Australian IP firm Fisher Adams Kelly |
| Sep 2015 | IPH acquires Australian IP firm Pizzeys |
| Nov 2015 | IPH firm Fisher Adams Kelly acquires the business of Australian IP firm Callinans |
| Mar 2016 | Opening of Spruson & Ferguson Indonesia |
| May 2016 | Opening of Spruson & Ferguson Thailand |
| Jun 2016 | IPH acquires Australian IP firm Cullens |
| Nov 2016 | IPH acquires Ella Cheong Hong Kong and Beijing |
| Jun 2017 | Opening of Spruson & Ferguson Melbourne |
| Oct 2017 | IPH acquires AJ Park in New Zealand |
| Jul 2018 | Merger of Fisher Adams Kelly Callinans and Cullens with Spruson & Ferguson |
| Aug 2019 | IPH acquires Xenith IP Group Limited |
| May 2020 | Divestment of Glasshouse Advisory R&D tax and EMDG practices to Grant Thornton |
| Jul 2020 | Integration of IPH Group businesses Watermark and Griffith Hack completed |
| Sep 2020 | IPH Group business AJ Park acquires Baldwins IP |

# FY20 Year in Review



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# Chairman's Letter

Dear Shareholder,

**IPH's results in FY20 demonstrated the ongoing resilience of our business despite the difficult environment in the second half of the year due to the COVID-19 pandemic.**

With a solid balance sheet and continued strong cash flow generation, the company remains well placed to manage the short term business disruption while ensuring we can deliver sustainable returns to our shareholders over the medium term.

## FY20 results

For FY20, the company delivered a 3 per cent increase in Statutory Net Profit After Tax (NPAT) to $54.8 million, equating to Diluted Earnings Per Share of 25.8 cents, down 3 per cent on the prior year.

The Directors declared a final dividend of 15 cents per share, 100 per cent franked, bringing the full year dividend to 28.5 cents per share, up 14 per cent on the prior year. The full year dividend is in line with the Board's dividend policy to pay 80-90 per cent of cash NPAT as dividends. More detail on our financial results is contained within the CEO Report and Operating and Financial Review.

## Strong financial position

IPH retains a strong balance sheet to manage through the current environment while maintaining investments which support our strategy for medium term growth.

The Company's net debt at 30 June 2020 was $68.3 million with a conservative leverage ratio (Net Debt / EBITDA) of 0.6 times. IPH has no refinancing commitments until February 2022.

## Implementing our growth strategy

The acquisition of Xenith IP Group was successfully implemented on 15 August 2019. This acquisition was the largest transaction in IPH's history since listing and marked a major milestone in the continued implementation of our vision to be the leading IP group in secondary IP markets and adjacent areas of IP.

During FY20, Xenith IP has been successfully integrated into IPH with the delivery of net cost and revenue synergies of $3.5 million which was in line with the guidance provided at the time of the acquisition.

Meanwhile, IPH's New Zealand business, AJ Park, reached an agreement to acquire the New Zealand intellectual property firm, Baldwins Intellectual Property (Baldwins) for a total consideration of approximately NZ$7.9 million. This transaction is expected to be completed in mid-October 2020.

We continue to evaluate potential international acquisition opportunities in secondary core IP services markets.

## Sustainability

IPH is committed to sustainable practices throughout our business. We recognise that a sustainable business is one that provides a safe, rewarding and diverse environment for our people, while operating in an environmentally and socially responsible manner.

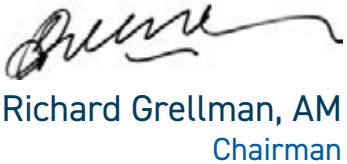
Last year we produced our first stand-alone sustainability report to provide shareholders and other stakeholders with further information on our approach to sustainability across our business.

We continue to engage with our stakeholders on sustainability issues and will shortly produce our second report which will be available on the IPH website prior to the 2020 Annual General Meeting.

## Conclusion

I would like to acknowledge IPH's Managing Director and CEO, Dr Andrew Blattman, his leadership team, and all our people across the IPH group for their hard work in FY20. In particular, I want to thank our employees for their ongoing efforts during the COVID-19 pandemic in supporting each other and continuing to provide outstanding service to our clients.

On behalf of the Board of Directors, I would like to thank our shareholders for your ongoing support of IPH Limited.



Richard Grellman, AM
Chairman



# Operational Highlights[1]

| Strategic priorities for FY20 | Results in FY20 |
|---|---|
| 1 Successful Xenith IP integration | ✓ Xenith integration successfully completed, including integration of Watermark business into Griffith Hack and divestment of Glasshouse Advisory practice. |
| 2 Maintain market leading position in Australia / New Zealand and continued margin expansion | ✓ IPH group maintains the number one patent position in Australia, New Zealand and Singapore. Margin expansion achieved within Xenith IP group. |
| 3 Continued focus on Asia to develop the network effect | ✓ Increased referrals into Asia business from the expanded group. Griffith Hack is now a top 10 client of IPH Beijing and Hong Kong practice. |
| 4 WiseTime growth in sales | ✓ WiseTime revenue growth and growing customer base. |
| 5 Digital platform development | ↻ Digital platform development is in progress, with multiple streams of work underway. Due to COVID-19, IT resources have been focused on ensuring business continuity. |
| 6 Continued focus on potential overseas acquisitions in secondary IP markets | ✓ Acquisition of Baldwins IP in New Zealand. Continue to assess other potential opportunities in overseas markets. |

1. IPH Limited 2020 Full Year Results Investor Presentation, 20 August 2020

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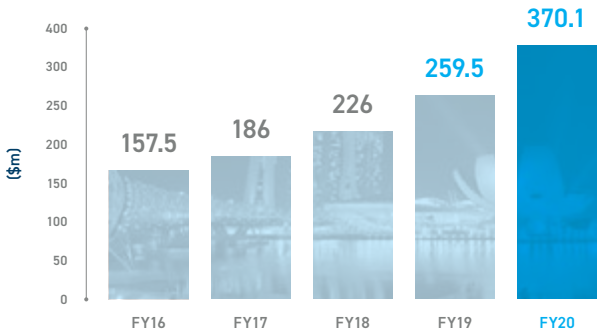
# Financial Highlights

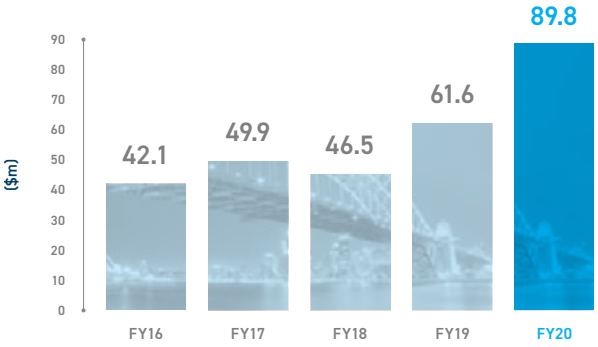
## Revenue [1]

**A$370.1m**



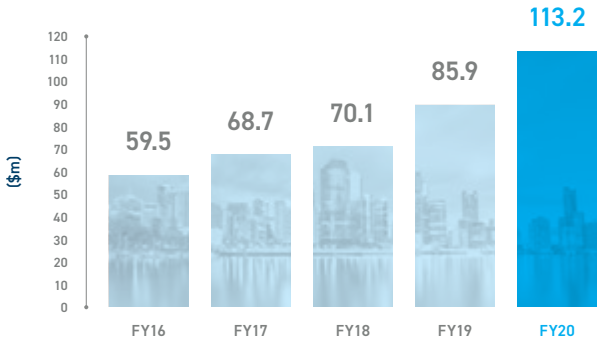

## Operating Cashflow

**A$89.8m**



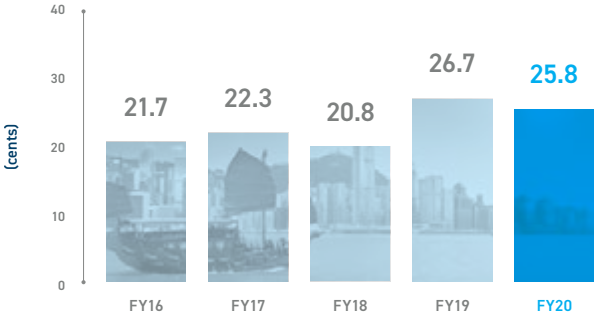

## EBITDA [2]

**A$113.2m**



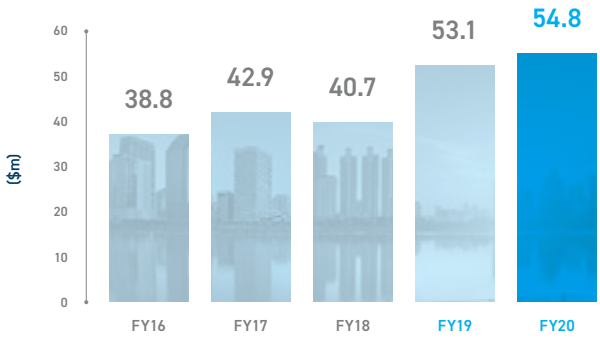

## Earnings Per Share [3]

**25.8c**



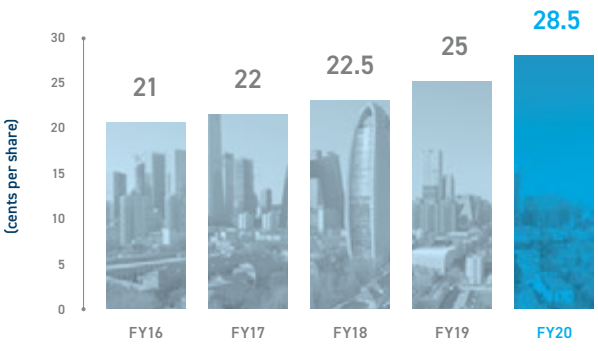

## NPAT

**A$54.8m**




## Full Year Dividend

**28.5c**




1. FY16 revenue has been restated to include recognition of filing fee revenue per change in the FY17 accounting policy
2. Earnings before interest, tax, depreciation and amortisation
3. Diluted earnings per share

# CEO's Report



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In what was an unprecedented year for the IPH group due to the global pandemic, we continued to deliver successfully on our strategic priorities to achieve our vision to be the leading IP group in secondary IP markets.

## Financial results

IPH delivered a solid result in FY20 despite some impact to our business caused by COVID-19 and the integration of the Xenith businesses into the IPH group.

Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was $126.0 million compared to $89.7 million for the prior year. Underlying revenue for the year increased by 44 per cent to $369.6 million while Underlying Net Profit After Tax (NPAT) lifted by 24 per cent to $77.7 million. These results included adoption of the accounting standard, AASB16.

Pre adoption of this standard, Underlying EBITDA increased by 28 per cent to $114.5 million.

Like-for-like[1] revenue decreased by 3 per cent with like-for-like EBITDA declining by 1 per cent.

In IPH's Asian IP business, like-for-like revenue increased by 6 per cent and like-for-like EBITDA improved by 8 per cent. EBITDA margin increased from 41.3 per cent to 42.2 per cent.

Like-for-like revenue in IPH's Australian and New Zealand IP businesses declined by 5 per cent.

Despite the weaker market conditions in the second half, the pre-existing IPH business delivered a solid result with revenue declining by 1 per cent and EBITDA down 2 per cent on the prior year.

The integration of Griffith Hack into Watermark was successfully completed during the year. As anticipated in an integration programme of this size, the level of merger activity caused some disruption to those former Xenith IP businesses during the second half of the year. Griffith Hack (including the former Watermark business) is also predominantly Melbourne-based and has also been more impacted by the COVID-19 restrictions. Together with reduced client filing activity, previous Xenith IP business like-for-like revenue declined by 5 per cent. However, the delivery of corporate cost synergies resulted in like-for-like EBITDA increasing by 7 per cent.

## Managing our response to COVID-19

Following the escalation of the pandemic, we implemented comprehensive COVID-19 response plans across all offices with our primary focus being on the safety and wellbeing of our people, our clients and our communities. Our robust IT systems enabled all IPH employees to work remotely, while still delivering the high quality IP services that our clients know and expect. We did experience some slowdown in workflow (new filings and instructions on existing matters) due to disruption amongst some clients and the general economic and market uncertainty, as well as the temporary closure of IP Offices in some of the jurisdictions our group businesses service.

However, the flow-on effect of previous filings and the level of new filings enabled IPH to avoid making any redundancies, stand-downs or pay reductions for our staff as a result of the pandemic itself.

While we did not access any government assistance in Australia or New Zealand, approximately A$1.1 million in government assistance was received in various forms in Singapore, China and Hong Kong Special Administrative Region, China.

We continue to closely monitor and adjust our business operations as required and in accordance with the latest Government and regulatory health and safety advice.

## Market conditions

IPH maintains its leading patent market share positions in Australia, New Zealand and Singapore.

In Australia, total patent filings were generally steady for the first nine months of 2020 but declined by 2.6 per cent in the final quarter as a result of COVID-19. Total Australian market patent filings decreased by 0.6 per cent for the year, however if Innovation Patents (to be phased out in August 2021) are removed from this total, the market declined by 1.5 per cent. IPH group's patent filings (including Xenith on a pro forma basis) in Australia declined by 5.3 per cent. The reduction in filings reflect IPH's group client mix and filing activity compared to the prior period. There were no major client losses during the period.

IPH remains the patent market leader in Australia with combined group patent market share (including Xenith IP on a pro forma basis) of 36.5 per cent to 30 June 2020.

1 The 'like-for-like' basis is before adoption of the accounting standard, AASB16, and adjusts for the impact of foreign exchange movements and also for the acquisition of the Xenith IP businesses, which was effective 15 August 2019.

# CEO's Report

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In Singapore, IPH Group patent filings for the calendar year ended 31 December 2019 increased by 22.2 per cent compared to the prior corresponding period, with the IPH Group maintaining its number one patent market share of 23.3 per cent.

Filing activity in other key Asian jurisdictions (excluding Singapore), declined in the second half compared to a very strong 2HFY19, which included one client undertaking a significant filing programme across multiple jurisdictions. Removing the effect of the filing activity of this single client, we still achieved growth in Asian filings in the first three quarters of the year. This is due to a number of other large filers across the network and reinforces the sustainability of our network effect across the region.

Our acquisition strategy is also supporting this growth in client referrals. For example, AJ Park is now the number one client by revenue in our trade mark business in Beijing and Hong Kong, while Griffith Hack is now one of the top ten clients by revenue of our patent business in Beijing and Hong Kong. Patent filings in China increased by almost 7 per cent on the prior year.

Although the overall trade mark market in Australia increased by 0.7 per cent for the year, a significant proportion of this growth was accounted for by 'self-filers'. If these are excluded, the market declined by 3 per cent for the year.

IPH remains the leading Australian trade mark group by market share of the top 50 agents with market share of 21.3 per cent (including Xenith IP on a pro forma basis).

## Delivering our strategy

IPH continued to successfully implement our growth strategy during the year.

### Xenith IP integration

We successfully completed the integration of Xenith IP into the IPH group.

A major initiative as part of this acquisition was the integration of Watermark into Griffith Hack to create one firm operating under the Griffith Hack brand.

Full integration, including IT systems, was achieved on schedule in July 2020, with both businesses now operating as Griffith Hack. Due to COVID-19, teams have been virtually integrated with physical offices retained.

We continue to expect financial benefits of approximately $2 million per annum from FY21, primarily through the consolidation of leased office space and corporate, administrative and operational efficiencies and improvements.

Following a detailed review of the Glasshouse Advisory business, IPH concluded that this business would be better placed within a specialist group, more closely aligned to its service offering. IPH divested the R&D tax and incentives business of Glasshouse Advisory to Grant Thornton in May 2020 and the remaining aspects of the business ceased operation by 30 June 2020.

### Strengthening our New Zealand presence

Our New Zealand business, AJ Park, continues to hold the number 1 position for patents and trade marks in New Zealand. We also further strengthened our client service offering in New Zealand through AJ Park's acquisition of intellectual property firm Baldwins Intellectual Property (Baldwins).

Baldwins is a well-known New Zealand IP firm, with high quality IP professional staff working from Auckland and Wellington offices. Clients include large multi-national corporations, universities, government agencies, start-ups and individual inventors. This acquisition, which is expected to complete in mid-October, will give the merged businesses greater depth of expertise, enhanced career opportunities for their people and provide clients with access to a complementary team of experienced IP professionals.

## WiseTime

Following the disposal of three of the four products from the Practice Insight business last year, we remain focused on developing autonomous time-keeping technology, WiseTime.

WiseTime achieved revenue growth in FY20 from a growing customer base. This included early adopter growth from small to medium sized firms following the version 2 launch in September and in Q4 FY20, several large IP practices deployed or committed to deploy WiseTime to their firms.

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## Focusing on our people

We continue to focus on attracting, motivating, developing and retaining our people across the group.

In FY20 key activities included ongoing investment in leadership capability, identifying talent and developing our pipeline for succession planning.

In May 2020 a new Managing Director was appointed in our New Zealand business, AJ Park, and in Australia, a new Managing Director was appointed to Spruson & Ferguson Australia in August 2020. Both of these appointments came from within the IPH group, demonstrating our ability to provide career progression and retaining leadership talent within the group.

In FY20 our employee incentive plan was implemented for eligible staff across the group, including former Xenith IP businesses. We are pleased to note that 97 per cent of fee earning employees eligible for the incentive plan received an award for FY20. This has been a key priority for the group and we are very pleased to have been able deliver on this opportunity in a difficult business climate.

Despite the uncertain conditions, we were also pleased to make nine Principal promotions across the group for FY21, reinforcing our commitment to create an environment where our people can flourish, and supporting our leadership capability.

## Strategic priorities FY21

Looking ahead to FY21, IPH's strategic priorities include maintaining our leading market positions in Australia/New Zealand and Singapore and seeking to expand in other secondary jurisdictions.

With the integration of Watermark into Griffith Hack and divestment of the Glasshouse Advisory business complete, we will continue to focus on harnessing the growth potential of the remaining Xenith IP brands within IPH.

In New Zealand, the restructuring of management in AJ Park and the acquisition of Baldwins provides us with a strong opportunity to leverage our position in that market.

The company will continue to build on our positive momentum in leveraging our Asian network to expand organic revenue opportunities and grow market share in high growth markets across the region.

We continue to evaluate potential international acquisition opportunities in secondary core IP services markets.

I would like to acknowledge and thank all our people across the businesses for their hard work in FY20, and their adaptability and continued focus on client service as we have navigated through these unprecedented times.

Finally, thank you to our shareholders for your continuing support of IPH.



Dr. Andrew Blattman
CEO and Managing Director



# Board of Directors

The Board of Directors bring relevant experience and skills to the governance of IPH, including professional services, financial management, legal services and corporate governance.



## Richard Grellman, AM

### Independent Non-executive Chairman

**FCA**

Richard was appointed independent Non-executive Chairman in September 2014.

Richard worked for KPMG for 32 years, mostly within the Corporate Recovery Division and was a Partner from 1982 to 2000. Richard is currently the Tribunal of the Statutory and Other Officers Remuneration Tribunal (SOORT), appointed by the Governor of NSW. Richard is also Chairman of Fastbrick Robotics Ltd, Bisalloy Steel Group Limited and lead Independent Director of Salvation Army Australia.

Richard was also formerly Chairman of Genworth Mortgage Insurance Limited, Chairman of the AMP Foundation, Chairman of SuperConcepts Pty Ltd (AMP) and Director of the National Health and Medical Research Council Institute for Dementia Research.



## Dr Andrew Blattman

### CEO and Managing Director

**BScAgr (Hons 1), PhD, GraDipIP**

Andrew was appointed as Managing Director & Chief Executive Officer of IPH in November 2017.

Andrew has more than 20 years' experience in the intellectual property profession. Previously he was CEO of Spruson & Ferguson, the largest entity in the IPH Group. Andrew joined Spruson & Ferguson in 1995 and in 1999 he was appointed as a Principal of the firm.

In 2015 Andrew was appointed CEO of Spruson & Ferguson. Under his leadership Spruson & Ferguson significantly expanded its footprint in the Australian and Asian IP markets – opening new offices in Melbourne, Beijing, Hong Kong SAR, Jakarta and Bangkok.

Since Spruson & Ferguson's incorporation and the listing of IPH on the ASX in 2014, Andrew has played a key role in the development and growth of the IPH Group.

He has a deep knowledge and understanding of the IPH business and the environment in which the company operates.

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## John Atkin

### Independent Non-executive Director

**LLB (1st Class Hons), BA (Pure Mathematics) (1st Class Hons), FAICD**

John was appointed as a Non-executive Director in September 2014.

John is Chairman of the Australian Institute of Company Directors, and Qantas Superannuation Limited. He is a Director of Integral Diagnostics Limited, Commonwealth Bank Officers Superannuation Corporation Pty Limited, and Outward Bound International Inc.

John is a former Chief Executive Officer and Managing Director of The Trust Company Limited (2009-2013) prior to its successful merger with Perpetual Limited, a former non-executive director of Aurizon Holdings Limited (2010-2016), and former Chairman of GPT Metro Office Fund (2014-2016). John was also Managing Partner and Chief Executive of Blake Dawson (2002-2008). He also worked at Mallesons Stephen Jaques as a Mergers & Acquisitions Partner for 15 years (1987-2002).



## Robin Low

### Independent Non-executive Director

**BCom, FCA, GAICD**

Robin was appointed as a Non-executive Director in September 2014.

Robin is a Director of AUB Group Limited, Appen Limited, Marley Spoon AG, Primary Ethics, the Public Education Foundation, Australian Reinsurance Pool Corporation, Gordian Runoff Limited/Enstar Australia Holdings Pty Ltd (part of the NASDAQ listed Enstar Group) and Guide Dogs NSW/ACT. Robin is also on the University of New South Wales audit committee and was formerly Deputy Chairman of the Auditing and Assurance Standards Board.

Robin was with Pricewaterhouse Coopers for 28 years and was a partner from 1996 to 2013, specialising in audit and risk.



## Jingmin Qian

### Independent Non-executive Director

**BEc, MBA, CFA, FAICD**

Jingmin was appointed as a Non-executive Director in April 2019.

Jingmin is a Director of Abacus Property Group, Trustee of Club Plus Super, a member of Macquarie University Council, a Director of the Australia China Business Council, Director of the Foundation for Australian Studies in China and a Director of the CFA Society of Beijing. She is also a senior advisor to leading global and Australian organisations and Director of Jing Meridian Advisory Pty Ltd.

Jingmin previously held senior roles with L.E.K. Consulting, Boral Limited and Leighton Holdings, and brings a broad range of commercial experience covering strategy, mergers and acquisitions, capital planning, investment review and Asian expansion.

Note: Directors' profiles as at 28 September 2020

# Corporate Directory



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# Corporate Directory

| | |
|---|---|
| **Directors** | Mr Richard Grellman AM - Chairman<br>Dr Andrew Blattman<br>Mr John Atkin<br>Ms Robin Low<br>Ms Jingmin Qian |
| **Company Secretary** | Mr Philip Heuzenroeder |
| **Notice of Annual General Meeting** | IPH will hold its 2020 Annual General Meeting as a virtual meeting on Thursday, 19 November 2020, commencing at 10.30am (AEDT). Shareholders can attend the virtual Annual General Meeting through the online platform: https://agmlive.link/IPH20. |
| **Registered office** | Level 24, Darling Park Tower 2<br>201 Sussex Street, Sydney NSW 2000<br>Tel: 02 9393 0301<br>Fax: 02 9261 5486 |
| **Principal place of business** | Level 24, Darling Park Tower 2<br>201 Sussex Street, Sydney NSW 2000 |
| **Share register** | Link Market Services Limited<br>Level 12, 680 George Street, Sydney NSW 2000<br>Tel: 1300 554 474 |
| **Auditor** | Deloitte Touche Tohmatsu<br>Level 9, Grosvenor Place<br>225 George Street, Sydney NSW 2000 |
| **Solicitors** | Watson Mangioni Lawyers Pty Limited<br>Level 23, 85 Castlereagh Street, Sydney NSW 2000 |
| **Stock exchange listing** | IPH Limited shares are listed on the Australian Securities Exchange (ASX code: IPH) |
| **Website** | www.iphltd.com.au |
| **Corporate Governance Statement** | The Corporate Governance Statement has been approved by the Board of Directors and can be found at www.iphltd.com.au |

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# Directors' Report



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The Directors present their report, together with the financial statements, of the consolidated entity (referred to hereafter as the 'Group') consisting of IPH Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

IPH is the leading intellectual property ("IP") services group in the Asia-Pacific region offering a wide range of IP services and products to a diverse client base of Fortune Global 500 companies, multinationals, public sector research organisations, SMEs and professional services firms worldwide.

IPH was the first IP services group to list on the Australian Securities Exchange.

## 1. Directors

The following persons were Directors of IPH Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

| Name | Office |
|---|---|
| Mr Richard Grellman, AM | Non-executive Chairman |
| Dr Andrew Blattman | Managing Director and Chief Executive Officer |
| Mr John Atkin | Non-executive Director |
| Ms Robin Low | Non-executive Director |
| Ms Jingmin Qian | Non-executive Director |

### 1.1 Information on Directors

The skills, experience, and expertise of each person who is a director of the Company at the end of the financial year is provided below, together with details of the company secretary as at year end.

| Name: | Richard Grellman, AM |
|---|---|
| Title: | Non-executive Chairman (appointed 23 September 2014) |
| Qualifications: | FCA |
| Experience and expertise: | Richard worked for KPMG for 32 years, mostly within the Corporate Recovery Division and was a Partner from 1982 to 2000. Richard is currently the Tribunal of The Statutory and other Officers Remuneration Tribunal (SOORT), appointed by the Governor of NSW. Richard was also formerly Chairman of Genworth Mortgage Insurance Limited (2012-2016). |
| Other current directorships: | Richard is also Chairman of Fastbrick Robotics Ltd and SuperConcepts Pty Ltd (AMP). Richard is a Director of Bisalloy Steel Group Limited and the National Health and Medical Research Council Institute for Dementia Research, and lead Independent Director of Salvation Army Australia. |
| Former directorships (last 3 years) | Chairman of the AMP Foundation (2012-2018) |
| Interests in shares: | 51,773 |
| Special responsibilities: | Chairman. Member – Nominations and Remuneration Committee |

# Directors' Report

| Name: | Dr. Andrew Blattman |
|---|---|
| Title: | Managing Director and Chief Executive Officer (appointed 20 November 2017) |
| Qualifications: | BScAgr (Hons 1), PhD, GraDipIP |
| Experience and expertise: | Andrew has more than 20 years' experience in the intellectual property profession. Previously he was CEO of Spruson & Ferguson, the largest entity in the IPH Limited group. Andrew joined Spruson & Ferguson in 1995 and in 1999 he was appointed as a Principal of the firm.<br>In 2015 Andrew was appointed CEO of Spruson & Ferguson. Under his leadership Spruson & Ferguson significantly expanded its footprint in the Australian and Asian IP markets – opening new offices in Melbourne, Beijing, Hong Kong SAR, Jakarta and Bangkok.<br>Since Spruson & Ferguson's incorporation and the listing of IPH on the Australian Securities Exchange in 2014, Andrew has played a key role in the development and growth of the IPH group. He has a deep knowledge and understanding of the IPH business and the environment in which the company operates. |
| Memberships of Professional Associations: | FIPTA, APAA, AIPPI, FICPI and IPSANZ |
| Other current directorships: | St Paul's College Foundation |
| Interests in shares: | 2,206,166 |
| Special responsibilities: | CEO |

| Name: | John Atkin |
|---|---|
| Title: | Non-executive Director (appointed 23 September 2014) |
| Qualifications: | LLB (1st Class Hons), BA (Pure Mathematics) (1st Class Hons) |
| Experience and expertise: | John is a former Chief Executive Officer and Managing Director of The Trust Company Limited (2009-2013) prior to its successful merger with Perpetual Limited, a former non-executive director of Aurizon Holdings Limited (2010-2016), and former Chairman of GPT Metro Office Fund (2014-2016). John was also Managing Partner and Chief Executive of Blake Dawson (2002-2008). He also worked at Mallesons Stephen Jaques as a Mergers & Acquisitions Partner for 15 years (1987-2002). |
| Other current directorships: | John is Chairman of the Australian Institute of Company Directors, and Qantas Superannuation Limited. He is a Director of Integral Diagnostics Limited, Commonwealth Bank Officers Superannuation Corporation Pty Limited, and Outward Bound International Inc. |
| Interests in shares: | 115,829 |
| Special responsibilities: | Chairman - Nominations and Remuneration Committee.<br>Member - Audit Committee, Risk Committee |

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| Name: | Robin Low |
|---|---|
| Title: | Non-executive Director (appointed 23 September 2014) |
| Qualifications: | BCom, FCA, GAICD |
| Experience and expertise: | Robin was with PricewaterhouseCoopers for 28 years and was a Partner from 1996 to 2013, specialising in audit and risk. |
| Other current directorships: | Robin is a Director of AUB Group Limited, Appen Limited, Marley Spoon AG, Primary Ethics, the Public Education Foundation, Australian Reinsurance Pool Corporation, Gordian Runoff Limited/Enstar Australia Holdings Pty Ltd (part of the NASDAQ listed Enstar Group) and Guide Dogs NSW/ACT. Robin is also on the University of New South Wales audit committee and was a former Deputy Chairman of the Auditing and Assurance Standards Board. |
| Former directorships (last 3 years): | CSG Limited |
| Interests in shares: | 74,214 |
| Special responsibilities: | Chairman - Audit Committee<br>Member - Nominations and Remuneration Committee, Risk Committee |

| Name: | Jingmin Qian |
|---|---|
| Title: | Non-executive Director (appointed 1 April 2019) |
| Qualifications: | BEc, MBA, CFA, FAICD |
| Experience and expertise: | Jingmin previously held senior roles with L.E.K. Consulting, Boral Limited and Leighton Holdings, and brings a broad range of commercial experience covering strategy, mergers and acquisitions, capital planning, investment review and Asian expansion. |
| Other current directorships: | Jingmin is a Director of Abacus Property Group, Trustee of Club Plus Super, a member of Macquarie University Council, a Director of the Australia China Business Council and a Director of the Foundation for Australian Studies in China. She is also a senior advisor to leading global and Australian organisations and Director of Jing Meridian Advisory Pty Ltd. |
| Interests in shares: | Nil |
| Special responsibilities: | Chairman - Risk Committee<br>Member - Audit Committee, Nominations and Remuneration Committee |

The non-executive directors hold no interest in options, performance rights or contractual rights to the securities of IPH Limited as at the date of this report.

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## 1.2 Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

| | Full Board | | Nominations and Remuneration Committee | | Audit Committee | | Risk Committee | |
|---|---|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held | Attended | Held |
| Richard Grellman AM | 7 | 7 | 3 | 3 | - | - | - | - |
| Andrew Blattman | 7 | 7 | - | - | - | - | - | - |
| John Atkin | 7 | 7 | 3 | 3 | 5 | 5 | 2 | 2 |
| Robin Low | 7 | 7 | 3 | 3 | 5 | 5 | 2 | 2 |
| Jingmin Qian | 7 | 7 | 3 | 3 | 5 | 5 | 2 | 2 |

Held: represents the number of meetings held during the time the Director held office. Whilst not a member of the committees Andrew Blattman was in attendance except in circumstances of a conflict of interest.

## 2. Company Secretary

Philip Heuzenroeder, BEc, LLB, LLM, GAICD (Order of Merit). Mr Heuzenroeder was appointed Group General Counsel and Company Secretary on 29 April 2016. He is a solicitor with over 25 years' professional experience working in private practice and in-house, with experience in a broad range of areas of law including commercial law, competition law, ICT, intellectual property and litigation. Philip was formerly a Principal of Spruson & Ferguson Lawyers and was a director of the Cure Brain Cancer Foundation from 2013 to 2017.

## 3. Principal activities

During the year the principal activities of the Group consisted of:

- IP services related to provision of filing, prosecution, enforcement and management of patents, designs, trade marks and other IP in Australia, New Zealand, Asia and other countries;
- the development of autonomous timekeeping software under a subscription licence model whereby the software is licensed and paid for on a recurring basis; and
- the provision of R&D taxation and other government incentives advice. This service line was transferred to Grant Thornton in May 2020.

There were otherwise no significant changes in the nature of activities of the Group during that period.

## 4. Operational and financial review

### 4.1 Operations and financial performance

The summary financial analysis below shows the results on a statutory and underlying basis. Results commentary below reflects the adoption of the Accounting Standard, AASB16. Financial results for the prior corresponding period do not include the adoption of this accounting standard as any transition impact has been taken through retained earnings as permitted by the Accounting Standard. The impact of this treatment is to increase reported EBITDA on a year on year basis, but an immaterial difference at the NPAT line.

The Directors believe it is important to include the financial information on an underlying basis as this reflects the ongoing or underlying activities of the Group and excludes items that are not expected to occur frequently and do not form part of the core activities of the Group.

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| $'000 | Revenue FY20 | Revenue FY19 | Chg% | EBITDA FY20 | EBITDA FY19 | Chg% |
|---|---|---|---|---|---|---|
| Australian & New Zealand IP | 277,649 | 171,646 | 62% | 95,583 | 61,819 | 55% |
| Asian IP | 102,709 | 93,460 | 10% | 46,087 | 38,617 | 19% |
| | 380,358 | 265,106 | 43% | 141,670 | 100,436 | 41% |
| Data and Analytics Software | 2,743 | 477 | | (1,869) | (1,427) | |
| Corporate Office | 2,040 | (19) | | (13,178) | (10,039) | |
| Eliminations | (15,509) | (8,915) | | (587) | 723 | |
| Underlying Revenue / EBITDA | 369,632 | 256,649 | 44% | 126,036 | 89,693 | 41% |
| Business acquisition costs | | | | (1,202) | (3,476) | |
| New business establishment costs | | | | - | (31) | |
| Restructuring expenses | 452 | | | (4,127) | (986) | |
| Share based payments | | | | (2,180) | (2,200) | |
| Onerous lease provisions and asset writeoffs | | | | (3,704) | | |
| Impairment of Watermark brand | | | | (1,600) | | |
| Disposal of Practice Insight businesses | | 2.857 | | | 2,857 | |
| Statutory Revenue / EBITDA | 370,084 | 259,506 | 43% | 113,223 | 85,856 | 32% |
| Interest Income | | | | 75 | 92 | |
| Interest Expense | | | | (7,125) | (2,661) | |
| Depreciation and amortisation | | | | (34,481) | (12,654) | |
| Net Profit Before Tax | | | | 71,692 | 70,632 | 2% |
| Tax | | | | (16,940) | (17,521) | |
| Net Profit After Tax | | | | 54,752 | 53,111 | 3% |

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## 4.1 Operations and financial performance Continued >

The FY20 underlying earnings of the Group have been determined by adjusting statutory earnings amounts to eliminate the effect of amortisation of intangible assets, business acquisition costs, new business establishment costs, restructuring expenses and non-cash share based payments expenses. The current year items also included the impairment of the Watermark brand as a result of its merger into Griffith Hack, transfer and close down of Glasshouse Advisory business, and the creation of onerous lease provisions of additional leased space which also resulted from the merger and business closure. A summary of adjustments is outlined in section 4.1.1.

Reported balances include the consolidation of Xenith IP which was acquired on 15 August 2019. In the 10.5 months of ownership the group contributed $106.9m in underlying revenue and $21.2m in underlying EBITDA (pre AASB16).

Revenue increased by 43% to $370.1m, driven by the impact of organic growth, the acquisition of Xenith IP, and also the positive impact of a weaker Australian dollar compared to the prior year.

Statutory EBITDA increased by 32% to $113.2m, from $85.9m in FY19. Underlying EBITDA increased by 41% to $126.0m from $89.7m for the prior year.

The Group achieved a statutory net profit after tax of $54.8m; an increase of 3% on the prior year's result of $53.1m. Underlying net profit after tax increased by 24% to $77.7m compared to the prior year.

### Pre Adoption of AASB16

Pre adoption of the accounting standard AASB16, Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (Underlying EBITDA) increased by 28 per cent to $114.5m.

### Australian and New Zealand IP

Underlying revenue in the Australia and New Zealand IP segment increased by 62.0% to $277.7m. This includes $106.9m in revenue attributable to the Xenith IP businesses which were acquired on effective 15 August 2019.

Total Australian market patent filings decreased by 0.6% for the year or, if Innovation Patents (to be phased out 25 August 2021) are removed, the market declined 1.5%. Total patent filings declined by 2.6% in the 4th quarter compared to the corresponding quarter in the prior year. For FY20 IPH Group's filings (including Xenith IP) declined by 5.3%. The reduction in filings reflect IPH's client mix and filing activity.

The Group has maintained its number one patent market share position (all patent applications filed in Australia) for the year at 36.5% (including Xenith IP).

Underlying EBITDA increased by 55% to $95.6m which includes the contribution from Xenith IP and the impact of favourable foreign exchange movements.

On a like for like basis (pre AASB16), Underlying EBITDA decreased by 8%. Despite the weaker market conditions in the second half, the pre-existing IPH business delivered a solid result with like for like revenue declining by 2% and EBITDA down by 3% on the prior year. Amongst the Xenith IP acquired businesses, Griffith Hack, including the former Watermark business were more impacted in Q4 with the possible impact of COVID-19, in part due to their larger Victorian presence and integration activities, contributing to a like-for-like revenue decline of 6%.

### Asian IP

The Asian IP segment achieved sales revenue growth of 10% to $102.7m. On a like for like basis (pre AASB16) revenue increased by 6%. Like for Like (pre AASB16) Underlying EBITDA was up by 8%.

Removing the effect of one significant client filing across several jurisdictions, filing activity across other key Asian jurisdictions, excluding Singapore, moderated in the second half compared to a very strong 2HFY19.

As at 3 August 2020, the Group has maintained its number one patent market share position in Singapore (all patent applications filed in Singapore).

The China and Hong Kong practice performed well in achieving "like for like" revenue growth of 10% and EBITDA growth of 14%.

### Adjacent Businesses

The Group continues to invest in WiseTime, an autonomous time-keeping software application. This business should benefit from the increase in "working from home" and has seen an increase in interest.

The Group acquired Glasshouse Advisory as part of its acquisition of Xenith IP. After a strategic review, the R&D tax incentive and Export Market Development Grant practice was divested to Grant Thornton Australia in May 2020, and the balance of the business ceased.

### Impact and response to COVID-19

IPH disclosed during the final quarter that it had seen some disruption to the business as a result of COVID-19.

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The Group was initially impacted in Beijing and Hong Kong from late January. With the escalation of the pandemic in March, the business implemented comprehensive COVID-19 response plans across all offices with the primary focus on the safety and wellbeing of its people, clients and communities.

The Group's IT systems have enabled all IPH staff to work remotely. Most Patent and Trade Mark Offices have remained open during the pandemic with the exception of some smaller IP offices in SE Asia.

In the second half of the year, IPH experienced some slowdown in workflow (new filings and instructions on existing matters) due to disruption amongst some clients and the general economic and market uncertainty, as well as the temporary closure of Patent Offices in some of the jurisdictions IPH group companies service. However, the flow-on effect of previous filings and the level of new filings maintained enabled IPH to avoid making any redundancies, stand-downs or pay reductions for its staff as a result of the pandemic itself.

Government assistance was not accessed in Australia or New Zealand, however approximately $1 million in government assistance was received in various forms in Singapore, China and Hong Kong SAR, China.

No significant deterioration in collection of debtors has been identified.

### Movements in FX rates

Foreign exchange rates used to translate earnings throughout the period were:

| | AUD/USD | | AUD/EUR | | AUD/SGD | |
|---|---|---|---|---|---|---|
| | Year End | Average | Year End | Average | Year End | Average |
| FY18 | 0.7407 | 0.7754 | 0.6420 | 0.6498 | 1.0095 | 1.0404 |
| FY19 | 0.7022 | 0.7153 | 0.6176 | 0.6270 | 0.9500 | 0.9765 |
| Movement | | 7.8% | | 3.5% | | 6.1% |
| FY20 | 0.6877 | 0.6712 | 0.6124 | 0.6069 | 0.9591 | 0.9283 |
| Movement | | 6.2% | | 3.2% | | 4.9% |

The average exchange rates incurred in FY20 were favourable to the reported results compared to those incurred during FY19. A one cent movement in the AUD/USD equates to a c$1.9m movement in service charges (revenue), the majority of which falls to the EBITDA line.

## 4.1.1 Adjustments to statutory results

The internal reporting that is regularly provided to the chief operating decision makers includes financial information prepared on both a statutory and underlying basis. It is considered important to include the financial information on an underlying basis as this reflects the ongoing or underlying activities of the Group and excludes items that are not expected to occur frequently and do not form part of the core activities of the Group.

Adjustments to the statutory EBITDA for FY20 have been made for:

» Business acquisition costs – costs incurred in the pursuit of acquisitions which have been completed, not ultimately pursued or are currently in progress.

» New business establishment costs – costs of establishing new offices.

» Restructuring expenses – costs of restructuring across the Group. In the current year these predominately related to the integration of Xenith IP businesses.

» Onerous lease provisions and asset write-offs – costs associated with the rationalisation of office premises following the merger of Watermark and Griffith Hack and the transfer and close down of Glasshouse Advisory.

» Impairment of Watermark brand – the Watermark brand is no longer in use following the merger with Griffith Hack.

» Share-based payments – accounting charges for the share-based incentive plans.

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## 4.2 Statement of financial position

| $'m | Balance Sheet as at 30 Jun 2020 | Balance Sheet as at 30 Jun 2019 |
|---|---|---|
| Cash and cash equivalents | 82.9 | 35.3 |
| Trade and other receivables | 89.1 | 63.4 |
| Investments | - | 39.2 |
| Other current assets | 9.1 | 7.3 |
| Total current assets | 181.1 | 145.2 |
| Property, plant and equipment | 13.3 | 6.7 |
| Right-of-use assets | 38.8 | - |
| Acquisition intangibles and goodwill | 483.3 | 255.1 |
| Deferred tax asset | 22.6 | 7.8 |
| Other non-current assets | - | 0.2 |
| Total assets | 739.1 | 414.9 |
| Trade and other payables | 24.7 | 19.1 |
| Tax provisions | 3.3 | 10.2 |
| Lease liabilities | 53.7 | - |
| Deferred tax liability | 60.4 | 22.4 |
| Borrowings | 151.2 | 65.5 |
| Other liabilities | 23.1 | 12.9 |
| Total liabilites | 316.4 | 130.1 |
| Net assets | 422.7 | 284.8 |
| Equity | | |
| Issued capital | 402.2 | 262.8 |
| Reserves | 0.5 | (2.0) |
| Retained profits | 20.0 | 24.0 |
| Total equity | 422.7 | 284.8 |

Overall the Group maintains a sound balance sheet position with a gearing level of c0.6 times (Net debt/Underlying EBITDA), and with re-financing not due until February 2022.

As a prudent measure, the Company drew down $20m from its debt facilities in March. Subsequent to year-end, $12.7m of this balance was repaid in August 2020.

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A summary of specific key movements are as follows:

### Cash & cash equivalents

» The cash flow statement within the financial report provides details of the cash movements during the year. The Group generated positive cash flows from operating activities of $89.8m.

» The Group derives the majority of its revenue in USD and as such carries a significant amount of cash in USD. As at 30 June 2020 the cash balance was denominated in AUD (46%), USD (40%) and other (14%).

» Cash conversion for the year was in excess of 100% which includes the collection of cash from a strong 4th quarter in earnings in FY19.

### Investments

» At 30 June 2019 this balance represented the investment in 19.9% of Xenith from February 2019. Following the acquisition of the remaining shares in Xenith, this amount has been transferred to the cost of acquisition.

### Trade & other receivables

» As at 30 June 2020 the trade receivables balance was denominated in AUD (25%), USD (53%) and other (22%).

### Right-of-use asset & interest bearing lease liabilities

» This is the recognition of lease assets and liabilities in accordance with AASB16 from 1 July 2019.

### Acquisition intangibles & goodwill

» The increase in intangible assets arises from the recognition of goodwill $113.9m, customer relationships $120.1m and trademarks $14.6m following the acquisition of Xenith, less amortisation costs during the period.

» Identifiable intangible assets, net of amortisation, consist of: customer relationships $163.2m; trademarks $17.2m and internally developed software $4.8m.

» Goodwill resulting from current year and historic acquisitions is $298m.

### Liabilities

» Group borrowings of $151.2m have increased from the comparative period due to the drawdown of debt for the acquisition of Xenith ($46.1m) and repayment of Xenith outstanding debt ($21m), and a drawdown and repayment of a further $20m and $5m respectively during the period.

» Deferred tax liabilities have increased significantly due to the recognition of deferred taxes on customer relationships and trademarks from the acquisition of Xenith and the tax treatment upon implementation of AASB16.

### Equity

» Approximately 15.6m new shares ($130.7m) were issued during the period to partially fund the acquisition of Xenith. Additional equity movements relate to shares issued under the dividend reinvestment plan and the vesting of performance rights.

## 4.3 Business model, strategy and outlook

### 4.3.1 Business model

IPH Limited is an intellectual property group operating a number of professional services businesses providing intellectual property services (“IP Services”). In FY20 it also operated in areas which support our IP businesses, through Glasshouse Advisory (now ceased operations) and the WiseTime business, an autonomous time-keeping software application.

In IPH’s IP Services businesses in Australia, New Zealand and Asia, revenue is derived from fees charged for the provision of professional IP Services by each firm as related to securing, enforcing and managing IP rights in the country (directly or through an agent) in which registration is sought by the client. The business model allows IPH to generate recurring revenue streams throughout all stages of the IP lifecycle from its long-standing and diverse client base.

Factors that affect the performance of the business include, amongst others, the performance of the global and Australian economies, client activity levels, competitor activity, and the regulatory environment in which the services are provided.

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## 4.3.2 Strategy

### IPH vision, mission and values

From the Company's foundation and listing on the ASX in November 2014, IPH has been pursuing its vision of becoming the leading IP group in IP secondary[1] markets and adjacent areas of IP.

From its origins in 1887 as Spruson & Ferguson, IPH's success continues to be underpinned by the key drivers and values at the core of our businesses, which remain unchanged:

- Excellence in service delivery to our clients
- Innovation in value creation
- Integrity in business practices
- Efficiency and effectiveness in operations
- Empowerment and engagement of our people

### Value creating growth strategies

IPH's seeks to achieve its goals through implementation of strategic initiatives in five key areas:

- Australian and New Zealand IP businesses
- Asia IP businesses
- Other secondary IP markets
- Adjacent to IP markets
- Business improvements and operations

### Australian and New Zealand IP businesses

A key objective of all IPH's Australia and New Zealand businesses is to continue to organically grow the volume of filings, market share and revenue across all disciplines, and to invest in providing superior service to global customers consistent with the longstanding strength and reputation of its brands, AJ Park, Griffith Hack, Pizzeys, Shelston IP and Spruson & Ferguson.

IPH's Australia and New Zealand businesses are also an important part of the Asian growth strategy in that they are a valuable source of filings and revenue into IPH's Asian business. The successful acquisition of the Xenith IP businesses in August 2019 and subsequent integration provides an additional opportunity for professionals in these businesses to offer a pan-Asian filing solution to their clients.

### Asian IP businesses

Asia has been a key part of the Group's strategy since the opening of the Singapore office in 1997. In recent years IPH has supported its Asian growth strategy with the opening of offices in Thailand and Indonesia and expanding into China and Hong Kong through the acquisition of Ella Cheong Hong Kong and Beijing (re-branded Spruson & Ferguson). The expansion provides a strong platform to extend the provision of IP services to new geographical areas for existing clients and an improved multi-country service offering for potential new clients. The key focus for IPH's Asian business is to leverage existing infrastructure for further organic growth. IPH will continue to assess potential organic and M&A opportunities in Asia as they arise.

### Other secondary IP markets

IPH has adopted a strategic and disciplined approach to the assessment of any potential M&A opportunities in Asia-Pacific and other secondary IP markets. First and foremost, the growth opportunities are evaluated on the extent to which they help to achieve IPH's strategic objectives. IPH continues to evaluate potential acquisition opportunities in international secondary markets.

### Business improvements and operations

The Group will continue to focus on the optimisation of all IPH's businesses with a view to extract operational efficiencies and improve the quality of service for our clients.

1. The primary IP markets of USA, Japan Western, Europe and the Republic of Korea generate the majority of IP rights and clients by value. The secondary markets are all countries outside of USA, Japan, Western Europe and the Republic of Korea.

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### 4.3.3 FY21 priorities

IPH's strategic priorities include maintaining its leading positions in Australia, New Zealand and Singapore, and seeking to expand in other secondary market jurisdictions.

With the completion of integration of Watermark into Griffith Hack and transfer of Glasshouse Advisory businesses, a continued focus in FY21 is to harness the growth potential of the Xenith IP businesses within IPH. In New Zealand, restructuring of management in AJ Park and the proposed acquisition of Baldwins provides IPH with a strong opportunity to leverage its position in that market.

The Company will continue to build on its positive momentum in leveraging its Asian network to expand organic revenue opportunities and grow market share in high growth markets across the region.

IPH continues to evaluate potential international acquisition opportunities in secondary markets.

## 4.4 Risks

| Risk | Description | Management of Risk |
|---|---|---|
| Strategic planning and implementation | The Company conducts its operations in a market that has undergone significant changes with the development of corporatised service providers, which the market continues to adjust to. This provides the Group with both opportunities and risks requiring development and communication of a clear strategic vision and objectives. | The Board is closely involved in identifying, reviewing and confirming strategic objectives and reviewing implementation, including assessing opportunities and risks, and in providing direction to management. |
| Competition and changing market conditions | The sectors in which the Company operates are subject to vigorous competition, based on factors including price, service, innovation and the ability to provide the customer with an appropriate range of IP services in a timely manner. Scope exists for market conditions to change over time reflecting economic, political or other circumstances. | Effective client service, comprising a high level of expertise at competitive prices delivered in a timely manner.<br>All operations of the IPH Group are now or will be supported by industry leading IT systems.<br>Regular marketing visits or, where travel is not possible, virtual meetings or other forms of communication, to maintain and develop client relationships and understand potential changes in client needs, and internal and external pressures.<br>IPH also provides a broad range of intellectual property services and its operations are geographically widespread, reducing exposure to any one form of intellectual property country or jurisdiction in which it operates. |
| Regulatory environment | The Company is subject to significant regulatory and legal oversight. | Senior executives ensure that all regulatory and legal issues affecting IPH's business are monitored and that any changes to the business operations necessary to comply with regulatory and legal changes are undertaken in a timely manner.<br>Careful management and oversight of the Group's internal case management system.<br>Principal review of all professional work and compliance with a professional work approval process for outgoing work. The approval process is correlated to the complexity and level of potential risk associated with the work. |

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| Risk | Description | Management of Risk |
|---|---|---|
| Regulatory reforms | The Group's service offerings are subject to changes to government legislation, regulation and practices including particularly, if implemented, proposals to streamline multi-jurisdictional patent filing and examination processes. | The Company is proactive in any review or evaluation of regulations likely to affect its operations materially, and works with regulators or review authorities to ensure a clear understanding of facts and circumstances, and consideration of all stakeholder perspectives.<br>The Company seeks to offer its services in a range of secondary markets. Many of these markets have less developed IP regulations and systems, and require translations into languages other than English, and are therefore less likely to be affected by such proposals if they were to be implemented than developed or primary markets.<br>Other factors which help safeguard the Company's role are effective technology, excellent client service and efficient operations and the likely need for IP applicants to continue to be required to record a local address for service of documents with the local IP office for examination and prosecution purposes.<br>The Company also continues to consider the development of revenue streams from adjacent markets. |
| Personnel | The Company depends on the talent and experience of its personnel. The loss of any key personnel, or a significant number of personnel generally may have an adverse effect on the Company including loss of knowledge and relationships. Employee costs represent a significant component of the Group's total cost base. | Retention practices including appropriate remuneration, incentive programmes (both short and long term having regard to appropriate key performance indicators), retention awards, working environment and rewarding work. Learning and development programs are in place to attract, develop and build the capability of our workforce to meet our current and future needs of clients.<br>Careful management of staff numbers and salary levels and consideration of resourcing requirements as the Company grows. |
| Disintermediation | The Group acts as an intermediary agent between its clients and IP offices. The removal of intermediaries in the IP application and registration process would have an adverse impact on the Group. It is also possible that third party service providers that currently only provide services with respect to limited aspects of IP protection may seek to extend their relationships with clients into other aspects of the provision of IP services that the Group currently services causing a diminution of relationships with clients. | IPH's intermediary role is safeguarded by clients' reliance on the Group's expertise (both general IP expertise and local expertise) and regulatory barriers such as exclusive rights of patent attorneys to provide various IP related services and requirements for IP applicants to record a local address for service of documents with the local IP office.<br>Other factors which help safeguard the Company's intermediary role are effective technology, excellent client service and efficient operations. The Company also seeks to offer its services in a range of secondary markets. Many of these markets have less developed IP regulations and systems and require translations into languages other than English, and are therefore less likely to be affected by disintermediation or expansion by other providers. |

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| Risk | Description | Management of Risk |
|---|---|---|
| Case management and technology systems | The Group's internally customised systems represent an important part of its operations upon which the Group is reliant. | The Company has established business continuity plans and procedures and maintains system back up and maintenance processes. The Company conducts appropriate reviews of its information technology systems, operations and human resourcing, and its management of cyber risk. The Company continually invests in system enhancements and engages quality 3rd party suppliers to assist with its systems development and maintenance.<br><br>The Company's transition of its IT systems to offsite 'cloud-based' systems enables centralised oversight and standardisation of processes. |
| Technology disruption | The increasing use of electronic systems and processes and technology by regulatory authorities in some markets may provide opportunities for technology disruption in the industry. | The need for the Company's services is safeguarded by the reliance of target clients on the Group's expertise (both general IP expertise and local expertise) and regulatory barriers such as exclusive rights of patent attorneys to provide various IP related services, and requirements for IP applicants to record a local address for service of documents with the local IP office.<br><br>Other factors which help safeguard the Company against technology disruption include its own investment in awareness of and effective technology development, and in efficiency in operations. The Company also seeks to offer its services in a range of secondary markets. Many of these markets have less developed IP regulations and electronic systems, are less advanced technologically and require technical translations into languages other than English. |
| Foreign exchange risk | The Group's financial reports are prepared in Australian dollars. However, a substantial proportion of the Group's sales revenue, expenditure and cash flows are generated in, and assets and liabilities are denominated in US dollars, Euros and Singapore dollars. | The Company monitors the foreign currency exposures that arise from its foreign currency revenue, expenditure and cash flows and from the foreign currency assets and liabilities held on its balance sheet. The Company undertakes regular sensitivity analyses of these exposures. The Company has foreign currency hedging facilities available as part of its bank facilities and has engaged in appropriate use of foreign currency denominated finance facilities to reduce exposure. The Chief Financial Officer regularly reports to the Board in respect of the Company's foreign currency exposures. The Board reviews its hedging policy in respect of the foreign currency exposures from time to time. Currently the Group does not directly hedge against its foreign currency exchange risk to a material extent, although a number of the Group's acquired subsidiaries maintain FX contracts to hedge specific risks or transactions. This policy is currently under review. |

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| Risk | Description | Management of Risk |
|---|---|---|
| Conflict of duties | Patent and trademark attorneys are required to abide by a code of conduct that requires them to act in accordance with the law, in the best interests of their client, in the public interest, and in the interests of the registered attorney's profession as a whole. There may be circumstances in with the Company is required to act in accordance with these duties contrary to other corporate responsibilities and against the interests of shareholders and the short term profitability of IPH.<br><br>An amendment to the Code of Conduct may affect the manner in which the Group conducts its activities, particularly with the expansion of the Group to include additional business units. | The Company has been proactive in any review or evaluation of regulations likely to affect its operations materially, and works with regulators or review authorities to ensure a clear understanding of facts and circumstances, and consideration of all stakeholder perspectives.<br><br>The Company has sought detailed advice on issues of conflict of interest and compliance with related professional obligations. The Company actively assists its business units to implement appropriate processes and procedures for compliance, including relevant professional standards bodies' Codes of Conduct and Professional Rules. |
| Professional liability and uninsured risks | The provision of patent and trademark services and legal services by the Company gives rise to the risk of potential liability for negligence or other similar client or third party claims. | The Company maintains file management processes which are highly automated, safeguarded, controlled and regularly reviewed.<br><br>The Company has comprehensive quality assurance processes to ensure appropriate standards of professional work are maintained.<br><br>The Group has in place a comprehensive insurance programme which includes professional indemnity insurance. To support its professional indemnity insurance arrangements, the Group has internal processes to ensure timely notification to the underwriters of any potential claim arising from its business activities. |
| Acquisitions | The Company's growth strategy may include the acquisition of other intellectual property businesses. Risks arise in ensuring that potential acquisitions are appropriately selected and issues affecting the value of individual acquisitions are identified and reflected in the purchase considerations. | The Company assesses potential acquisition opportunities against the Company's strategic objectives, values and culture. Where an appropriate potential acquisition is identified the Company undertakes extensive due diligence process and where appropriate engages competent professional experts to assist with the due diligence process and appropriate documentation of the transaction. The Company's Board is involved in the review of, and approves, all corporate acquisitions. |

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| Risk | Description | Management of Risk |
|---|---|---|
| Integration of acquired businesses | Following the acquisition of new businesses, risks arise in ensuring the business is properly integrated into the IPH Group, that people and culture issues that may arise are addressed, key staff retained and value maintained. | The Company seeks to identify potential post-acquisition risks when assessing potential acquisitions including for cultural fit and matching of expectations, and to mitigate such risks by appropriate transaction and post-acquisition management structures. Steps are taken following acquisition to review and ensure appropriate on-boarding of new acquisitions with IPH governance, policies, processes and practices and levels of financial control and reporting, and to integrate Company and Group approaches to retention of key staff and utilisation of appropriate information technology platforms. The integration of new acquisitions is regularly reviewed by the Company's Board and relevant Board Committees. |
| Management of an expanded group | With the expansion of the Group to include new business units with multiple offices and across multiple jurisdictions risk may arise with respect to ensuring the appropriate structuring and resourcing of key management and shared services functions and appropriate reporting and oversight of Group operations. | As the Group expands, with the oversight of the Board, the Company reviews and adapts existing management structures to ensure appropriate oversight, reporting requirements, support and resourcing is in place, and that the Company is attracting, retaining and motivating appropriate skilled personnel. |
| Global or regional economic, health or physical events | Risk may arise as a result of global or regional events in the nature of natural disasters or other physical events, global or regional health events or global or regional economic shocks which may impact on the level of demand for IP services by clients and their ability to provide or confirm instructions, the capability and timing for IP regulatory authorities to accept, review and progress the prosecution of IP rights, and the ability of the Group to provide its services. | The nature of the Group's customer base means that it receives revenue from a large number of customers located in a range of jurisdictions such that no one customer accounts for more than a small percentage of the overall revenue of the Group.<br><br>Further much of the demand for patent related services arises from research and development programmes conducted over longer periods that are likely to be less susceptible to economic impacts in the short term. The IP prosecution process also generally extends over longer timeframes and is usually subject to certain fixed milestone steps which are known in advance and required to be met to preserve rights, providing a degree of protection against short term decisions to cease or delay prosecution.<br><br>The Company has established business continuity plans and procedures. The Company's transition of its IT systems to offsite 'cloud-based' systems enables remote conduct of its business by employees where required. Similarly, the ability of many customers and IP offices to continue their core operations in a remote environment facilitates ongoing provision of instructions and responses. |

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## 5. Remuneration report (audited)

### Introduction from the Nomination and Remuneration Committee Chair

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for the 2020 financial year.

This year marked two significant steps in the development of the remuneration systems for the group. In FY15 the CEO had a total remuneration package of $250,000 per annum which was the same as that received by all the other vendor principals. This was a term of the agreement between all the vendor principals which led to the IPO and reflected the firm's history as a private unit trust with no separation between ownership of the firm, management of the firm and working in the firm. Since FY16 the remuneration systems and settings for the firm have been progressively adjusted to reflect those more appropriate for a professionally managed public listed company where there is a clear distinction between the owners, managers and workers in the firm. At the commencement of the year we completed the adjustment of the remuneration for the CEO in line with market. This resulted in a significant increase in his base remuneration. We also adjusted the remuneration paid to the Chairman and Non-executive directors, again to align with market. The key steps in that process of adjustment over the last five years are set out in the report.

The remuneration now provided to KMP, both executive and non-executive, is significantly higher than when the Group listed. Those increases reflect both the process of adjustment from the system adopted at the time of the IPO and the growth in the size, value and complexity of the firm's business over that time. It is worth noting the very significant change in the size, complexity and value of the Group since its IPO.

The other significant milestone achieved this year has been the vesting of the first tranche of Performance Rights granted to executive KMP under the Group's revised Long-Term Incentive (LTI) Plan. The details are set out in the report. Those Performance Rights were granted in FY18.

| | FY15 annualised pro forma forecast[1] | FY20 |
|---|---|---|
| Revenue | $82.8m | $370.1m |
| EBITDA (Underlying)[2] | $30.4m | $114.5m |
| Number of employees | 300 | ~900 |
| Number of brands/business units | 1 | 7 |
| Jurisdictions with material client facing presence | 3 | 8 |
| Market capitalisation | $331m | $1.6bn |

1. Prospectus page 17
2. Pre-AASB16

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In assessing the level of vesting for the LTI, and in making awards under the Short-Term Incentive scheme to the IPH Executive, the Board considered what weight should be given to the impact of COVID-19 on the business and the group's response to it. Our management team did a commendable job in ensuring the health and safety of our employees and facilitating a smooth transition to the "working from home" environment across all our offices in eight different jurisdictions. As detailed in our OFR, there was an unavoidable impact resulting in a reduction in workflow (filings and instructions on existing matters) due to disruption amongst some clients and the general uncertainty of financial conditions, as well as the temporary closure of IP Offices in some of the jurisdictions we service. Despite this, the flow-on effect of previous filings and a level of new filings maintained activity levels. This made redundancies, stand-downs and pay reductions as a result of COVID-19 unnecessary. The JobKeeper scheme in Australia was not accessed, however approximately $1m in government assistance was received in various forms in Singapore, Hong Kong and China. The overall financial result achieved was not significantly below budgeted levels and the Group has been able to declare a higher dividend than the prior year, in line with pre-COVID-19 expectations.

In exercising its discretion on the level of awards, the Board sought to ensure fair treatment of management, employees and shareholders, with reference to these considerations. Details of the STI awards and support for their award (including the Board's discretion) are set out in report. Discretion was also exercised assessing outcomes for staff in the Business Units participating in the Employee Incentive Plan.

The Board also made a modest upward adjustment to the vesting of the LTI. That award was to reward performance over a three-year period. During that time, the Compound Annual Growth Rate (CAGR) of the Group's underlying Earnings Per Share (EPS) exceeded 11.1% per annum and the share price grew from $4.80 to $7.46 at 30 June 2020. The TSR over this period was 75%.

Finally, in light of the present uncertain global outlook, annual pay reviews have been delayed across the group (with the exception of promotions and addressing anomalies). Consistent with this delay, the remuneration of IPH Executive will be reviewed with effect from 1 January 2021.

### Changes in the FY20 Remuneration Report

During the year I have had the opportunity to meet with shareholders and proxy advisors to receive their feedback on remuneration matters and address any issues arising from the FY19 report. The following matters raised have been addressed in the body of the report:

- Rationale for level of CEO fixed remuneration;
- Greater disclosure of STI metrics and outcomes;
- LTIP performance hurdle, its calculation, and the use of a single metric; and
- Rationale for the level of NED fees.

As the Company continues to grow and mature, we will continue to review the remuneration framework and settings for all executives and professional staff, including KMP, to ensure its ability to attract, motivate and retain the talent necessary to run the business, and simultaneously drive behaviour that aligns with the creation of sustainable shareholder value.

We look forward to your support and welcome your feedback on our remuneration report.

Yours sincerely,

John Atkin
Nomination and Remuneration Committee Chair

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## 5. Remuneration report (audited) Continued >

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all Directors.

The Remuneration Report is set out under the following main topics:

- Overview of Executive Remuneration Framework and Guiding Principles
- Overview of Executive Remuneration
- Evolution of Remuneration Framework and Settings Since Listing
- 2020 Remuneration Outcomes
- Overview of Non-Executive Director Remuneration
- Details of Remuneration of Key Management Personnel
- Service Agreements
- Additional Disclosures Relating to Key Management Personnel

### 5.1 Overview of Executive Remuneration Framework and Guiding Principles

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders. The Board of Directors (the Board) ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness, fairness and reasonableness;
- acceptability to shareholders and other stakeholders;
- performance linkage and alignment of executive compensation with remuneration provided across the Group; and
- transparency.

The Nominations and Remuneration Committee ('NRC') is responsible for reviewing and making recommendations to the Board on remuneration packages and policies related to the Directors and other KMP and to ensure that the remuneration policies and practices are consistent with the Group's strategic goals and people objectives. The performance of the Group depends on the quality of its Directors and other KMP. The remuneration philosophy is to attract and retain high quality people, and motivate high performance.

The NRC has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

a) Alignment to shareholders' interests:
   - focuses on sustained growth in earnings per share as well as focusing the executive on key non-financial drivers of value; and
   - attracts and retains high calibre executives.

b) Alignment to program participants' interests:
   - rewards capability and experience;
   - reflects competitive reward for contribution to growth in shareholder wealth; and
   - provides a clear structure for earning rewards.

EY was engaged by the NRC to provide remuneration advice and other valuation services in relation to Key Management Personnel (KMP), but did not provide the NRC with remuneration recommendations as defined under Division 1, Part 1.2, 9B(1) of the Corporations Act 2001 (Cth). The Board was satisfied that advice received was free from any undue influence by key management personnel to whom the advice may relate because strict protocols were observed and complied with regarding any interaction between EY and management, and because all remuneration advice was provided to the NRC Chair.

### 5.2 Overview of Executive Remuneration

The Group aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework for executive KMP for FY20 had the following components:

- base salary, short and long-term incentives and non-monetary benefits; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive KMP's total remuneration.

#### Fixed Remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the NRC, based on individual and Business Unit performance, the overall performance of the Group and comparable market remuneration. Executives may receive their fixed remuneration in the form of cash or

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other fringe benefits (for example, motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

In broad terms, fixed remuneration is set at or above median market levels compared to peers with similar revenues and market capitalisation, while the short-term at-risk component is set at below median levels. The Board believes that the "at-risk" component should be weighted towards long-term incentives, to align with long-term value creation for shareholders.

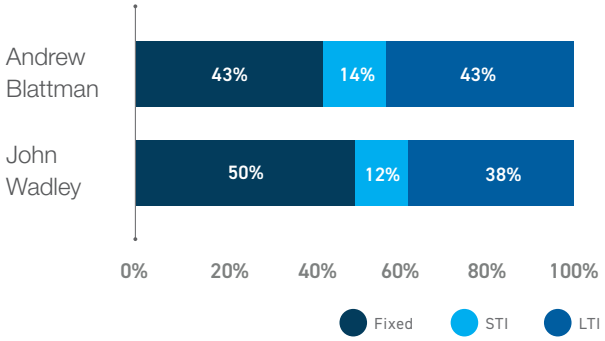
The re-set of CEO fixed remuneration in the current year reflects the significant increase in scope and complexity in the organisation since the initial public offering in 2014, and through subsequent material acquisitions made by the Company in 2017 and 2019. Since its first year as a listed entity (FY15) the Company's Revenue and Underlying EBITDA have more than doubled while dividends paid to shareholders have increased by 85[1] per cent. Over that time Total Shareholder Return has increased by c327%. The indicative market capitalisation of the Company at listing was $331 million compared to around $1.6 billion currently. The company's operational scale has also increased significantly with total staff numbers increasing from 300 at listing to around 900 employees.

In addition to the assessment above, the Board has considered the amount of the CEO's remuneration against available remuneration benchmarks for like businesses and roles. The Board has also considered the composition of remuneration in terms of the mix of fixed, and short and long-term at-risk incentives. Following such review, the Directors considered the increase of the CEO's fixed remuneration was appropriate as well as confirming a significant proportion of the total potential remuneration of Dr Blattman should be in the form of at-risk long-term incentive opportunity so as to further align the interests of Dr Blattman with the interests of the Company and its shareholders.

Short and long-term incentives strengthen alignment with overall performance of the Group and provide a more complete and market-comparable remuneration package. Short term incentives are set at 33% for the CEO and 25% for the CFO, with a stronger focus on alignment through the long-term incentives at 100% for the CEO and 75% for the CFO. Incentives are also reviewed annually by the NRC. The mix of remuneration is illustrated above.

1. Dividends paid FY15 to FY19

**Remuneration mix**




**Long-term incentive**

Under the long-term incentive plan, the CEO and CFO are issued Performance Rights which entitle the holder at the Vesting Date to an equivalent number of Shares subject to satisfying defined vesting conditions.

Performance Rights will vest on the Vesting Date subject to the Company's achievement of a minimum compound annual growth rate (CAGR) in Earnings Per Share over the Performance Period. EPS performance will be assessed on the basis of the Company's EPS performance during the relevant Performance Period compared to the EPS targets for that period as determined by the Board.

The Board will determine a target for EPS for the Performance Period (EPS Target) and a minimum target for EPS for the Performance Period (Minimum EPS Target) prior to any issue from year to year. For vesting to occur, EPS for the Performance Period must be at least equal to the Minimum EPS Target.

The Board has reviewed the Long-Term Incentive (LTI) Earnings Per Share (EPS) targets, taking into account shareholder feedback and appropriate levels of growth for IPH to pursue in the markets in which the Group operates. As a result, the LTI targets for the 2020 plan as outlined below have been re-calibrated to align with internal objectives and external expectations whilst maintaining an appropriate level of stretch.

The Board also considered the possible inclusion of an additional performance condition based on Return on Invested Capital (ROIC). While return on capital is a key consideration both in driving improvements in the organic business and in any acquisition, the Board determined the complexities of the measurement and its susceptibility to change due to extraneous timing effects did not warrant its inclusion. The Board will ensure that management continues to apply a disciplined approach to investing the Group's capital when evaluating acquisitions and other investment opportunities.

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## 5.2 Executive Remuneration Continued >

The Board was cognisant when setting the targets for the 2020 awards of the timing of the Xenith acquisition and its potential impact on the achievement of those targets. Acquisitions form part of IPH's strategy and LTIP targets are calibrated to include both organic and acquisitive growth. A significant aspect of management's performance and the company's success is dependent upon the successful integration of acquisitions. Board expectations of vesting are an input into their assessment of the overall remuneration mix.

EPS targets for the 2020 Plan are:

» Minimum EPS Target – 5% CAGR in EPS over the three-year Performance Period ending on 30 June 2022; and

» EPS Target – 12.5% CAGR in EPS over the three-year Performance Period ending on 30 June 2022.

The table below outlines how Performance Rights issued in 2020 will vest based on the Company's EPS performance over the Performance Period (measured by calculating the CAGR between EPS for FY19 and EPS for FY22).

| EPS in FY22 | Percentage of Performance Rights that vest |
|---|---|
| Less than 5% CAGR in EPS over the Performance Period | Nil vesting |
| Equal to 5% CAGR in EPS over the Performance Period | 25% vesting |
| CAGR in EPS greater than 5%, up to and including 12.5% CAGR in EPS over the Performance Period | Pro-rated vesting on a straight-line basis |
| At or above 12.5% CAGR in EPS over the Performance Period | 100% vesting |

Dividends will not be paid on Performance Rights.

## 5.3 Evolution of Remuneration Framework and Settings Since Listing

At the IPO the Chief Executive Officer's total remuneration package was $250,000 per annum which was the same salary received by all the vendor principals that continued employment with the company. No short term or long-term incentives applied to executive management. In early 2016 the group engaged GRG to provide remuneration advice and undertake a benchmarking exercise for both executive remuneration and Chair and director fees. That advice indicated that both executive remuneration and director fees were very significantly below comparable benchmarks and the Board determined to commence the process of adjusting the remuneration settings for KMP. As a first step the fixed remuneration for the CEO was lifted to $750,000 per annum without any incentive. In 2018, the fees for the Chair were lifted to $220,000 per annum and the non-executive director fee lifted to $115,000 per annum (in both cases inclusive of all committees).

When Andrew Blattman was appointed CEO during 2017 his initial fixed remuneration was set at $750,000 per annum in line with that of his predecessor. We recognised at the time this fixed remuneration was still a long way below comparable benchmarks for fixed remuneration. However, to bring his total remuneration package closer to benchmarks Andrew's received an STI at a maximum of 20% of base and an LTI of 100% of base. No change was made to the fees payable for the Chair or non-executive directors.

In June/July 2018, when reviewing outcomes for FY18 and setting remuneration for FY19, the Board determined that the CEO should not receive any STI payment for FY18 as the overall result achieved by the Group was not adequate. However, the CEO's fixed remuneration was increased to $900,000 and an STI at a maximum of 33.33% of base, bringing it closer to but still below the comparable benchmarks at the time as advised by EY. No change was made to the fees payable for the Chair or non-executive directors.

In June/July 2019 a further benchmarking exercise was undertaken for both executive KMP. The CEO's fixed remuneration was increased to $1,250,000 per annum. This put the CEO's fixed remuneration slightly above median for comparable benchmarks at the time as advised by EY. That setting is in line with the overall framework where more emphasis is placed on fixed remuneration and long-term incentives, than short term. (At a maximum of 33.33% of fixed remuneration, the CEO's STI is significantly lower than comparable benchmarks.)

At the same time the fees for the Chair and non-executive directors were increased to levels below comparable benchmarks as advised by GRG in their report during FY17. While that report was over two years old, when regard was made to the changes in the Group's business, the increase in market capitalisation of the Company over that period and that the fees proposed were less than the benchmarks assessed in 2017, it was decided the expense of obtaining a more current benchmark report was not warranted.

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## 5.4 2020 Remuneration Outcomes

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| NPAT ('000) | 38,843 | 42,893 | 40,673 | 53,112 | 54,752 |
| EPS (cents per share) | 21.9 | 22.5 | 20.8 | 26.9 | 25.9 |
| Underlying EPS (cents per share) | 26.2 | 26.7 | 26.4 | 31.7 | 36.6 |
| Dividends Paid ('000) | 36,837 | 40,924 | 42,823 | 51,360 | 61,015 |
| Total Dividends (cents per share) | 21.0 | 22.0 | 22.5 | 25.0 | 28.5 |
| Share Price (30 June closing price) | $6.42 | $4.80 | $4.45 | $7.46 | $7.46 |
| Return of Capital ('000) | - | - | 2,727 | - | - |

The Group aims to align its Executive remuneration to its strategic objectives and the consequences on shareholder's financial wealth. The evolution of the Group's remuneration policy aligns with the growth in the business in the last five financial years as summarised above.

### 2020 STIP Outcomes – Summary of plan design

Financial KPI – The CEO (maximum 50% of STIP Opportunity) and CFO (maximum 30%) have the attainment of the Group Underlying EBITDA budget (on an FX adjusted or constant currency basis) as their financial target. The Board believes the budget has an appropriate amount of "stretch" built into the budget target. Group Underlying EBITDA was selected as it is the most common measure used to assess the group's financial performance.

Strategic KPI's – The CEO (maximum 50% of STIP Opportunity) and CFO (maximum 70%) have the attainment of a number individual objectives in line with the Board approved strategy of:

» Consolidation of acquisitions;

» Organic Growth; and

» Growth Step-outs.

### 2020 STIP Outcomes – Performance commentary

The Group achieved an Underlying EBITDA of $114.5m (an increase of 28% on the prior year) in a difficult operating environment in the second half of the year illustrating the resilience of the IPH business. This outcome included the acquisitive impact of the Xenith group and continued strong organic growth from the Asian business. Underlying EPS grew from 31.7 cents per share to 36.7 cents per share (pre AASB16) and dividends to shareholders increased by 14%.

### Financial KPI

The Group EBITDA target was not achieved. While the Group performed well in achieving an Underlying EBITDA of $114.5m in the circumstances, this EBITDA outcome was close to but behind the FX-adjusted budgeted target and therefore none of the potential award based upon the financial element was payable.

However, as a result of the COVID-19 disruption, the ability to meet financial budgetary outcomes was constrained, and therefore the Board exercised its discretion and granted all members of the IPH Executive 50% of their STIP potential amount related to the Financial KPI.

In exercising its discretion on the level of awards, the Board sought to ensure fair treatment of management, employees and shareholders. Discretion was also exercised assessing outcomes for staff in the Business Units participating in the Employee Incentive Plan.

### Strategic KPI

An award was made to each executive KMP member on the basis of their achievement of individual objectives inline with the Board approved strategic objectives of: consolidating acquisitions; organic growth and growth step outs (acquisitive growth). The CEO and CFO were awarded 90% of their STIP potential amount related to the Strategic KPI. Notable progress included:

Consolidating acquisitions – The consolidation of the acquisition of the Xenith Group. Significantly, this included the integration of the Watermark business to a single Griffith Hack brand and the transfer of a portion of the Glasshouse Advisory business to Grant Thornton. Cost synergies have been achieved as a result of the consolidation of these businesses.

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## 5.4 2020 Remuneration Outcomes Continued >

Organic growth – The Group maintained organic growth in Asia, even with tougher second half conditions and a strong comparative period. This was due to the replacement of the large client filer noted in the prior year with multiple new clients, as well as further case inflow through the network effect of files directed by IPH entities.

Growth step-outs – On 10 June 2020, the Group announced that AJ Park has reached an agreement to acquire the New Zealand intellectual property firm Baldwins Intellectual Property (Baldwins). The transaction is subject to a number of conditions including clearance of the proposed acquisition by the New Zealand Commerce Commission. The Company continues to evaluate potential acquisition opportunities in international secondary markets.

### 2020 STIP Outcomes – Individual KMP outcome

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| Executive | STI Foregone % | STI Paid % | STI Payment $ | STI Foregone % | STI Paid % | STI Payment $ |
| Andrew Blattman | 30 | 70 | 288,750 | 25 | 75 | 225,000 |
| John Wadley | 22 | 78 | 117,000 | - | 100 | 135,000 |

### 2018 LTIP Grant – tested at the conclusion of the 2020 year

The performance period for the 2018 LTI commenced on 1 July 2017 and concluded on 30 June 2020. Performance was assessed at the end of the 2020 financial year and as a result of performance over the period, there was a partial vesting.

In 2019, the Committee reviewed the definition of earnings which is used in the calculation of earnings per share. The LTIP issues made in 2018 and 2019 used a "cash-adjusted" earnings measure. The Committee felt the use of this third measure (in addition to the established statutory and underlying measures) had the potential to create confusion. Therefore, it was decided to re-calculate the targets based upon an underlying earnings measure consistent with that adopted for market reporting.

This had the effect of increasing the maximum EPS target for the 2018 issue from 38.4 cents per share to 40.5 cents per share, and the maximum EPS target for the 2019 issue from 37.9 cents per share to 40.2 cents per share. This new methodology was approved before the 2020 issue and thus no change was required to that issue.

In determining the calculation of the Underlying EPS, adjustments are made to statutory profit after tax. The outcome for FY20 is as follows:

| Statutory Net Profit after tax ($M) | 54.8 |
|---|---|
| Net amount of non-cash amortisation expenses of acquired intangibles | 13.9 |
| Net amount of non-cash share based payments as part of the share incentive plan | 1.4 |
| Net amount of adjustment to statutory results as disclosed in the Operational and Financial Review | 7.6 |
| Underlying Net Profit after tax | 77.7 |
| Underlying EPS (cents per share) | 36.6c |

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| Grant | Performance period | Measure | Minimum | Maximum | Performance achived |
|---|---|---|---|---|---|
| 2018 | 1/7/2018 – 30/6/2020 | Underlying EPS CAGR | 7% | 15% | 11.1% per annum |

On the basis of the underlying EPS achieved, the CAGR equated to 11.1%, which would have led to a pay-out of 72.5% of the maximum award. As a result of the impact of COVID-19 in the last three months of the 36 month vesting period, the Board felt it appropriate to exercise its discretion with regard to the level of vesting, and vested a further 2.5% of the maximum award for each participant. In doing so, the Board took into account the level of earnings that had been forecast pre-COVID-19.

| Executive | Maximum Award[1] | Rights | % Vested | % Forfeited | Vested ($)[2] | Expensed ($)[3] |
|---|---|---|---|---|---|---|
| Andrew Blattman | $750,000 | 156,780 | 75 | 25 | 877,184 | 577,342 |
| John Wadley | $225,000 | 47,034 | 75 | 25 | 263,158 | 173,203 |

1. Maximum remuneration attributable to rights
2. Value of shares vesting at 30 June 2020 share price
3. Expensed in the IPH Group P&L account over the life of the award

## 5.5 Overview of Non-Executive Director Remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed periodically by the NRC. The NRC may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

The Chairman's fees are determined independently from the fees of other non-executive directors based on comparative roles in the external market. Non-executive directors do not receive share options or other incentives and their remuneration must not include a commission on, or a percentage of, operating revenue.

ASX listing rules require the aggregate non-executive directors remuneration be determined periodically by a general meeting. At the 2019 Annual General Meeting approval was sought and obtained to increase the maximum aggregate remuneration of non-executive directors by $500,000 to $1.25m. This is consistent with the "re-set" of the CEO's remuneration as described above, reflecting the significant increase in scope and complexity in the organisation since the initial public offering in 2014. This amount had not increased since the Company's listing. This increase allows the remuneration of non-executive directors to appropriately reflect the expectations placed upon them both by the Company and the regulatory environment in which it operates. It also allows the appointment of additional non-executive directors from time to time to ensure the Board has the requisite skills and experience.

Non-executive director fees paid (directors' fees and committee fees) (inclusive of superannuation) for the year ended 30 June 2020 are summarised as follows:

| Name - Position | FY20 Fees |
|---|---|
| Richard Grellman AM - Chairman | 330,000 |
| John Atkin - Director | 165,000 |
| Robin Low - Director | 165,000 |
| Jingmin Qian – Director | 165,000 |
| | 825,000 |

The non-executive directors are not entitled to participate in any employee incentive scheme (including the LTIP).

Directors may also be reimbursed for expenses reasonably incurred in attending to the Company's affairs. Non-executive directors may be paid such additional or special remuneration as the directors decide is appropriate where a director performs extra work or services which are not in the capacity as a director of the Group. There is no contractual redundancy benefit for directors, other than statutory superannuation contributions.

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## 5.6 Details of Remuneration of Key Management Personnel

### Amounts of remuneration

The key management personnel of the Group consisted of the following Directors of IPH Limited:

- Richard Grellman AM – Non-executive Chairman
- Andrew Blattman – Managing Director and Chief Executive Officer
- John Atkin – Non-executive Director
- Robin Low – Non-executive Director
- Jingmin Qian – Non-executive Director

And the following persons:

- John Wadley – Chief Financial Officer

| | | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|---|
| Non-Executive Directors: | | Cash salary and fees $ | Cash bonus $ | Non-monetary[1] $ | Super-annuation $ | Employee leave[2] $ | Equity-settled[3] $ | Total $ |
| Richard Grellman | 2020 | 304,660 | - | - | 25,340 | - | - | 330,000 |
| | 2019 | 228,312 | - | - | 21,688 | - | - | 250,000 |
| John Atkin | 2020 | 150,685 | - | - | 14,315 | - | - | 165,000 |
| | 2019 | 127,854 | - | - | 12,146 | - | - | 140,000 |
| Robin Low | 2020 | 150,685 | - | - | 14,315 | - | - | 165,000 |
| | 2019 | 127,854 | - | - | 12,146 | - | - | 140,000 |
| Jingmin Qian[4] | 2020 | 150,685 | - | - | 14,315 | - | - | 165,000 |
| | 2019 | 31,963 | - | - | 3,037 | - | - | 35,000 |
| **Executive Directors:** | | | | | | | | |
| Andrew Blattman | 2020 | 1,228,997 | 288,750 | 9,272 | 27,889 | 129,347 | 763,344 | 2,447,599 |
| | 2019 | 879,467 | 225,000 | (3,838) | 25,729 | 66,302 | 535,247 | 1,727,907 |
| **Other Key Management Personnel:** | | | | | | | | |
| John Wadley | 2020 | 589,325 | 117,000 | (10,204) | 21,725 | - | 253,522 | 971,368 |
| | 2019 | 524,362 | 135,000 | 19,203 | 21,165 | - | 160,574 | 860,304 |

1. Non-monetary benefits represent the movement in the accrued annual leave balance during the year.
2. Employee leave balances represent the movement in accrued long service leave balances during the year.
3. Accounting charge based on the fair value of the award at date of grant. Total number of rights are included in the performance rights holding table at the end of this report.
4. Jingmin Qian commenced as a director from 1 April 2019.

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## 5.7 Service Agreements

Remuneration and other terms of employment for KMP are formalised in service or employment agreements. Details of these agreements are as follows:

Dr Andrew Blattman, Managing Director and Chief Executive Officer.

» Remuneration package (inclusive of superannuation) for the year ended 30 June 2020 of $1,250,000. Annual superior performance bonus of up to 33.33% of remuneration and a long-term incentive opportunity of 100% of remuneration.

John Wadley, Chief Financial Officer.

» Remuneration package (inclusive of superannuation) for the year ended 30 June 2020 of $600,000. Annual superior performance bonus of up to 25% of remuneration and a long-term incentive opportunity of 75% of remuneration.

Executive KMP may terminate their employment contract by giving six months' notice in writing. Contracts may be terminated by the Company with six months' notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the Company may terminate the employment contract immediately and without notice or payment in lieu of notice. Upon termination of the employment contract, the KMP will be subject to a restraint of trade period of 12 months throughout Australia, New Zealand and Singapore. The enforceability of the restraint is subject to all usual legal requirements. KMP have no entitlement to termination payments in the event of removal for misconduct. Andrew Blattman receives five weeks annual leave.

## 5.8 Additional Disclosures Relating to Key Management Personnel

The following disclosures relate only to equity instruments in the Company or its subsidiaries.

### Shareholding

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| 30 June 2020 - Ordinary Shares | Balance at the start of the year | Additions | Disposals | Balance at the end of the year |
|---|---|---|---|---|
| Richard Grellman | 71,449 | 1,773 | (21,449) | 51,773 |
| Andrew Blattman | 2,506,166 | - | (300,000) | 2,206,166 |
| John Atkin | 115,829 | - | - | 115,829 |
| Robin Low | 74,214 | - | - | 74,214 |
| Jingmin Qian | - | - | - | - |
| John Wadley | 401 | 12 | - | 413 |
| | 2,768,059 | 1,785 | (321,449) | 2,448,395 |

| 30 June 2019 - Ordinary Shares | Balance at the start of the year | Additions | Disposals | Balance at the end of the year |
|---|---|---|---|---|
| Richard Grellman | 71,449 | - | - | 71,449 |
| Andrew Blattman | 4,506,166 | - | (2,000,000) | 2,506,166 |
| John Atkin | 115,829 | - | - | 115,829 |
| Robin Low | 74,214 | - | - | 74,214 |
| Jingmin Qian | - | - | - | - |
| John Wadley | 401 | - | - | 401 |
| | 4,768,059 | - | (2,000,000) | 2,768,059 |

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## 5.8 Additional Disclosures Relating to Key Management Personnel Continued >

### Option holding

No options over ordinary shares in the Company were held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties.

### Performance rights holding

The number of performance rights issued to KMPs is set out below:

| 30 June 2020 | Plan[1] | Balance at start of year | Granted during year | Vested | % | Forfeited | % | FY20 Expense | Unvested at end of year | Future P&L Expense |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | % | | % | $ | | $ |
| Andrew Blattman | 2018 | 156,780 | - | (117,585) | 75 | (39,195) | 25 | 61,105 | - | 31,383 |
| | 2019 | 198,676 | - | - | - | - | - | 293,622 | 198,676 | 343,361 |
| | 2020 | - | 175,809 | - | - | - | - | 408,617 | 175,809 | 885,337 |
| John Wadley | 2018 | 47,034 | - | (35,276) | 75 | (11,758) | 25 | 18,331 | - | 9,415 |
| | 2019 | 59,603 | - | - | - | - | - | 88,087 | 59,603 | 103,009 |
| | 2020 | - | 63,229 | - | - | - | - | 147,104 | 63,229 | 318,725 |
| | | 462,093 | 239,038 | (152,861) | | (50,953) | | 1,016,866 | 497,317 | 1,691,230 |

1. Financial year in which the award is granted.

This concludes the remuneration report, which has been audited.

## 6. Shares under performance rights

Details of unissued shares or interests under performance rights across all incentive plans of the Group at the date of this report are:

| Issuing entity | Type | Number of shares | Class | Exercise Price | Expiry Date |
|---|---|---|---|---|---|
| IPH Limited | Performance | 1,280,723 | Ordinary | 0.00 | Up to Sept 2022 |

## 7. Shares under option

There were no unissued ordinary shares of IPH Limited under option at the date of this report.

## 8. Dividends

Dividends paid during the financial year were as follows:

| | |
|---|---|
| Final dividend of 13.0 cents per share for the year ended 30 June 2019, paid on 18 September 2019. (60% franked) (A$'000s) | 27,680 |
| Interim dividend of 13.5 cents per share for the year ended 30 June 2020, paid on 13 March 2020. (100% franked) (A$'000s) | 28,856 |

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## 9. Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the Group during the financial year.

## 10. Matters subsequent to the end of the financial year

There were no significant events post 30 June 2020 that have impacted on the Group.

## 11. Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

## 12. Indemnity and insurance of officers

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## 13. Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## 14. Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## 15. Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## 16. Officers of the Company who are former partners of Deloitte Touche Tohmatsu

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

## 17. Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument dated 24 March 2016 and in accordance with that Instrument amounts in the annual financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## 18. 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 the following page.

## 19. Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2) (a) of the Corporations Act 2001.



Dr. Andrew Blattman
Managing Director
20 August 2020, Sydney

# Auditor's Independence Declaration

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Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Sydney NSW 2000

Tel: +61 2 9322 7000
www.deloitte.com.au

The Board of Directors
IPH Limited
Level 24, Tower 2, Darling Park
201 Sussex Street, Sydney

20 August 2020

Dear Board Members

**Auditor's Independence Declaration to IPH 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 IPH Limited.

As lead audit partner for the audit of the financial report of IPH Limited for the year ended 30 June 2020, 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

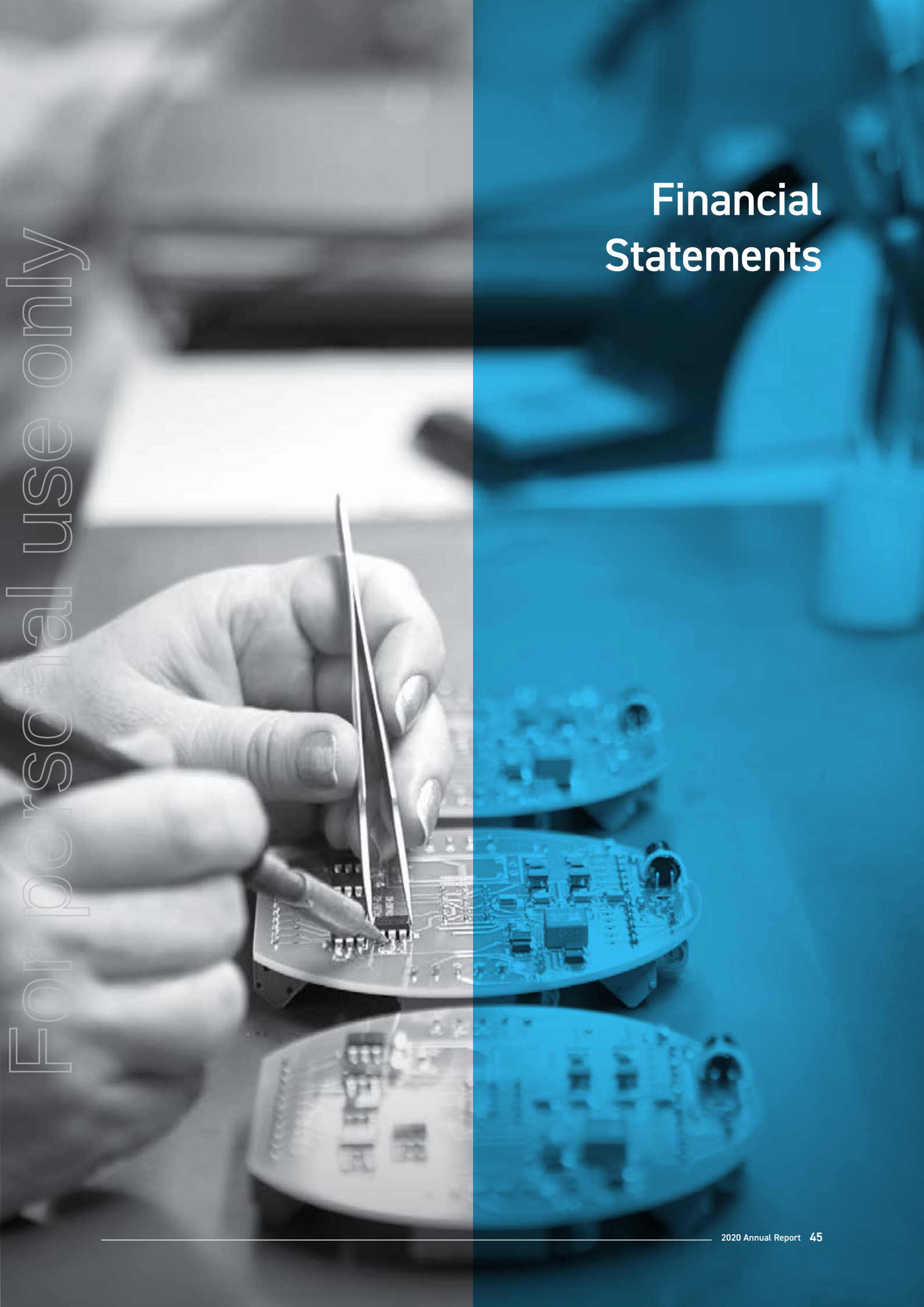
(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

H Fortescue
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.



# Financial Statements

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# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30th June 2020

| | Note | Consolidated 30 June 2020 $'000 | 30 June 2019 $'000 |
|---|---|---|---|
| Revenue | 5 | 365,674 | 252,544 |
| Other income | 6 | 4,485 | 7,054 |
| **Expenses** | | | |
| Employee benefits expense | | (115,462) | (68,634) |
| Agent fee expenses | | (105,590) | (74,567) |
| Amortisation of acquired intangibles | 7 | (19,616) | (9,214) |
| Depreciation of right-of-use assets | 7 | (9,624) | - |
| Depreciation and amortisation of fixed assets and intangibles | 7 | (5,241) | (3,441) |
| Insurance expenses | | (2,500) | (2,122) |
| Travel expenses | | (1,910) | (2,278) |
| Occupancy expenses | | (1,713) | (8,086) |
| Business acquisition costs | | (1,120) | (3,724) |
| Other expenses | 7 | (28,566) | (14,239) |
| Finance costs | 7 | (7,125) | (2,661) |
| Profit before income tax expense | | 71,692 | 70,632 |
| Income tax expense | 8 | (16,940) | (17,521) |
| Profit after income tax expense for the year | | 54,752 | 53,111 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | (516) | 3,857 |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Fair value gain on investment in equity instruments | | 855 | 4,478 |
| Fair value loss on hedging instruments | | (542) | - |
| Other comprehensive income for the year, net of tax | | (203) | 8,335 |
| Total comprehensive income for the year | | 54,549 | 61,445 |
| **Profit for the year is attributable to:** | | | |
| Owners of IPH Limited | | 54,752 | 53,111 |
| | | 54,752 | 53,111 |
| **Total comprehensive income for the year is attributable to:** | | | |
| Owners of IPH Limited | | 54,549 | 61,445 |
| | | 54,549 | 61,445 |
| **Earnings per share** | | | |
| From continuing operations | | | |
| Basic earnings (cents per share) | 33 | 25.85 | 26.91 |
| Diluted earnings (cents per share) | 33 | 25.76 | 26.75 |

These statements should be read in conjunction with the following notes.

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# Statement of Financial Position

For the year ended 30th June 2020

| | | Consolidated | |
|---|---|---|---|
| | Note | 30 June 2020 | 30 June 2019 |
| | | $'000 | $'000 |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 82,910 | 35,263 |
| Trade and other receivables | 10 | 89,132 | 63,406 |
| Investment in financial assets | 11 | - | 39,194 |
| Contract assets | | 4,763 | 2,524 |
| Other assets | 12 | 4,254 | 4,793 |
| Total current assets | | 181,059 | 145,180 |
| **Non-current assets** | | | |
| Property, plant and equipment | 13(a) | 13,273 | 6,692 |
| Right-of-use assets | 13(b) | 38,808 | - |
| Intangibles | 13(c) | 483,259 | 255,053 |
| Deferred tax | 14 | 22,709 | 7,793 |
| Other assets | | - | 178 |
| Total non-current assets | | 558,049 | 269,716 |
| Total assets | | 739,108 | 414,896 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 24,733 | 18,874 |
| Income tax payable | | 3,270 | 10,222 |
| Provisions | 16 | 19,160 | 8,110 |
| Interest bearing lease liabilities | 13(b) | 11,076 | - |
| Other financial liabilities | | 200 | 200 |
| Contract liabilities | | 1,803 | 179 |
| Total current liabilities | | 60,242 | 37,585 |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 151,238 | 65,470 |
| Deferred tax | 14 | 60,397 | 22,368 |
| Interest bearing lease liabilities | 13(b) | 42,587 | 4,472 |
| Other financial liabilities | 23 | 774 | - |
| Provisions | 18 | 1,208 | 251 |
| Total non-current liabilities | | 256,204 | 92,561 |
| Total liabilities | | 316,446 | 130,146 |
| Net assets | | 422,662 | 284,750 |
| **Equity** | | | |
| Issued capital | 19 | 402,149 | 262,763 |
| Reserves | 20 | 468 | (2,025) |
| Retained profits | 21 | 20,045 | 24,012 |
| Total equity attributable to owners of IPH Limited | | 422,662 | 284,750 |

These statements should be read in conjunction with the following notes.

# Statement of Changes in Equity

For the year ended 30th June 2020

| | Issued Capital | Foreign Currency Translation Reserve | Minority Interest Acquisition Reserve | Equity Settled Employee Benefits Reserve | Other Reserve | Retained Profits | Total Equity |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | - | $'000 | $'000 |
| Balance at 1 July 2018 | 262,763 | 1 | (14,814) | 3,352 | - | 16,286 | 267,588 |
| Profit after income tax expense for the year | - | - | - | - | - | 53,111 | 53,111 |
| Effect of foreign exchange differences | - | 3,857 | - | - | - | - | 3,857 |
| Fair value gain on investment in equity instruments designated at FVTOCI | - | - | - | - | 4,478 | - | 4,478 |
| Total comprehensive income for the year | - | 3,857 | - | - | 4,478 | 53,111 | 61,446 |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Share-based payments charge | - | - | - | 2,196 | - | - | 2,196 |
| Share-based payments vested | - | - | - | (1,095) | - | - | (1,095) |
| Dividends paid | - | - | - | - | - | (45,385) | (45,385) |
| Balance at 30 June 2019 | 262,763 | 3,858 | (14,814) | 4,453 | 4,478 | 24,012 | 284,750 |
| Balance at 1 July 2019 | 262,763 | 3,858 | (14,814) | 4,453 | 4,478 | 24,012 | 284,750 |
| AASB 16 transitional impact on retained earnings (note 2) | - | - | - | - | - | (2,183) | (2,183) |
| Adjusted opening balance at 1 July 2019 | 262,763 | 3,858 | (14,814) | 4,453 | 4,478 | 21,829 | 282,567 |
| Profit after income tax expense for the year | - | - | - | - | - | 54,752 | 54,752 |
| Effect of foreign exchange differences | - | (516) | - | - | - | - | (516) |
| Fair value gain on investment in equity instruments designated at FVTOCI | - | - | - | - | 855 | - | 855 |
| Hedge revaluation (note 23) | - | - | - | - | (542) | - | (542) |
| Total comprehensive income for the year | - | (516) | - | - | 313 | 54,752 | 54,549 |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Issue of ordinary shares as consideration for a business combination, net of transaction costs (note 29) | 130,730 | - | - | - | - | - | 130,730 |
| Dividend Reinvestment Plan (note 21) | 8,656 | - | - | - | - | - | 8,656 |
| Share-based payments charge | - | - | - | 2,696 | - | - | 2,696 |
| Dividends paid (note 22) | - | - | - | - | - | (56,536) | (56,536) |
| Balance at 30 June 2020 | 402,149 | 3,342 | (14,814) | 7,149 | 4,791 | 20,045 | 422,662 |

These statements should be read in conjunction with the following notes.

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# Statement of Cash Flows

For the year ended 30th June 2020

| | | Consolidated | |
|---|---|---|---|
| | Note | 30 June 2020 | 30 June 2019 |
| | | $'000 | $'000 |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 413,835 | 280,534 |
| Payments to suppliers and employees | | (288,793) | (199,082) |
| Interest received | 6 | 75 | 92 |
| Interest and other finance costs paid | 7 | (4,857) | (2,661) |
| Income taxes paid | | (30,442) | (17,333) |
| Net cash from operating activities | 32 | 89,818 | 61,550 |
| **Cash flows from investing activities** | | | |
| Payments for purchase of subsidiaries, net of cash acquired | 29 | (40,324) | - |
| Proceeds from sale of Practice Insight businesses | | - | 10,160 |
| Payments for investments | | - | (32,796) |
| Payments for property, plant and equipment | 13(a) | (2,117) | (2,274) |
| Payments for internally developed software | 13(c) | (3,046) | (3,616) |
| Dividends received | | - | 576 |
| Net cash used in investing activities | | (45,487) | (27,950) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 22 | (47,880) | (45,385) |
| Proceeds of borrowings | | 90,183 | 34,180 |
| Repayment of borrowings | | (26,107) | (10,576) |
| Payment of lease liabilities | | (11,898) | - |
| Net cash (used in)/from financing activities | | 4,298 | (21,781) |
| Net (decrease)/increase in cash and cash equivalents | | 48,629 | 11,819 |
| Cash and cash equivalents at the beginning of the financial year | | 35,263 | 26,213 |
| Effects of exchange rate changes on cash and cash equivalents | | (982) | (2,769) |
| Cash and cash equivalents at the end of the financial year | 9 | 82,910 | 35,263 |

These statements should be read in conjunction with the following notes.

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## Note 1. General information

The financial statements cover IPH Limited as a Group consisting of IPH Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is IPH Limited's functional and presentation currency.

IPH Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 24, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 20 August 2020.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Other than AASB 16 – Leases, the adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

#### Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### Basis of preparation

The financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

#### Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 28.

### Principles of consolidation

The consolidated financial statements are those of the consolidated entity ("the Group"), comprising the financial statements of the parent entity and all of the entities the parent controls. The Company controls an entity when it has power over the investee and the Group is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

External non controlling interests are allocated their share of total comprehensive income and are presented within equity in the consolidated Statement of Financial Position, separately from the equity of shareholders.

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When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Australian dollars ('$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars as follows:

- Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used;
- Assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the balance date; and
- All resulting exchange differences are recognised in other comprehensive income, in the foreign currency translation reserve.

Goodwill and fair value accounting adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

The Group provides professional services in relation to the protection, commercialisation, enforcement and management of all forms of intellectual property. Delivery of these services represent performance obligations. Upon completion of each performance obligation, which is satisfied at a point in time, the Group is entitled to payment for the services performed. Fees for completion of each performance obligation are determined by reference to a scale of charges and revenue is recognised.

Dividend revenue is recognised when the right to receive a dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is recognised on an accruals basis.

Other revenue, including commission revenue, is recognised when it is received or when the right to receive payment is established.

All revenue is stated net of the amount of goods and services tax (GST).

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## Government grants

Grants from governments are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with any specified requirements. All government grants are recognised in the Statement of Profit or Loss and Other Comprehensive Income on a systematic basis over the periods in which the Group recognises the related costs.

## Contract assets

Contract assets represent costs incurred and profit recognised on client assignments and services that are in progress at balance date. Contract assets are valued at net realisable value after providing for any foreseeable losses. Contract assets are reviewed and any thought not to be recoverable are written off.

## Disbursements recoverable

Recoverable client disbursements recorded in contract assets are recognised when services are provided. The amount recognised is net of any GST payable. Internally generated disbursements are credited directly to the profit and loss as they are charged to a client matter.

Disbursements older than 60 days are monitored and any thought not to be recoverable are written off.

## Income tax

The income tax expense or benefit is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date.

### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

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The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group which was formed on 3 September 2014. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax consolidated group is IPH Limited.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the "separate taxpayer within group" approach.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in 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. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

## Financial instruments

### Financial assets

Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL). Financial assets are initially recognised at fair value on the trade date, including, in the case of instruments not recorded at fair value through profit or loss, directly attributable transaction costs. Subsequently, financial assets are carried at fair value (equity investments, trade receivables and derivatives) or amortised cost adjusted for any loss allowance (loans and other receivables).

### Derivative financial instruments

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables including interest rates or exchange rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure and the Group uses derivatives to manage its exposure to interest rates and foreign exchange risk accordingly.

All derivatives are measured at fair value through the Statement of Profit and Loss and Other Comprehensive Income unless designated and effective as a hedge where the hedge accounting provisions apply.

### Impairment of financial assets

The impairment approach is based on expected credit losses (ECL model) for financial assets held at amortised cost and fair value through other comprehensive income. Therefore, it is not necessary for a loss event to have occurred before credit losses are recognised. Instead, a loss allowance is always recognised for ECL and is re-measured at each reporting date for changes in those expected credit losses. ECL represent a probability-weighted estimate of credit losses over the expected life of the financial instrument. Because ECL consider both the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

For financial assets, a credit loss is the present value of the difference between: (i) the contractual cash flows that are due under the contract; and (ii) the cash flows expected to be received.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated Statement of Financial Position.

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### Trade and other receivables

Trade and other receivables include amounts due from customers for services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

The carrying amount of financial assets is reviewed annually by the directors' to assess whether there is any objective evidence that a financial asset is impaired.

Where such objective evidence exists, the Group recognises impairment losses.

### Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter group balances.

Non derivative financial liabilities are recognised at amortised cost using the effective interest method.

Trade accounts payable comprise the original debt less principal payments plus where applicable any accrued interest.

Financial liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

### Trade and other payables

Trade and other payables represent the liabilities for goods and services received that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 90 days of recognition of the liability.

Unearned income is recognised as a liability when received and is recognised as revenue once a patent service has been provided or completed.

## Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

| | |
|---|---|
| Leasehold improvements | 6-15 years |
| Plant and equipment | 2-20 years |
| Furniture, fixtures and fittings | 5-20 years |
| Computer equipment | 2-5 years |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are measured at their fair value at the date of the acquisition.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently of events or changes in circumstances indicate that it might be impaired and it is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit and loss and not subsequently reversed.

### Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

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*Customer relationships*

Customer relationships are the assessed value of the supply of goods and services that exist at the date of acquisition. In valuing customer relationships, consideration is given to historic customer retention and decay statistics, projected future cash flows and appropriate capital charges.

Customer relationships are amortised over a period of 10 years. The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

*Trademarks*

Trademarks are intangible assets with indefinite useful lives that are acquired separately and are carried at cost less accumulated impairment losses.

*Software acquired*

Software acquired through a business combination is assessed as the identifiable value of that software at the date of acquisition. Acquired software is amortised over a period of 4 years.

### Internally-generated intangible assets

Internally-generated intangible assets, including software, arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The useful lives of internally generated intangible assets are as follows:

| | |
|---|---|
| Software | 3 years |

### Derecognition of intangible assets

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

## Impairment of assets

Goodwill and other assets that have an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136 'Impairment of Assets'. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

For the purposes of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

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## Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## Leases

The Group recognises a right-of use-asset and a lease liability at the lease commencement date. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment of assets' policy.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease payments included in the measurement of the lease liability comprise:

» Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable; and

» Lease payments that depend on an index rate, initially measured using the index or rate at the commencement date.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

» The lease term has changed or there is a significant event or change in circumstances, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; or

» A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

To determine the incremental borrowing rate, the Group makes adjustments specific to the lease including factors such as lease term, country, currency and security. The weighted average incremental borrowing rate applied to lease liabilities on 1 July 2019 was 4.27%.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs, and is disclosed in note 13(b).

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## Employee benefits

### Short and long-term employee benefit

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by the employees up to reporting date.

### Retirement benefit costs

Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings. Borrowings are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

## Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## Share-based payments

Equity settled share based compensation benefits are provided to employees. Equity settled transactions are awards of shares, options or rights, which are provided in exchange for the rendering of services. Equity settled share based payments are measured at the fair value of the equity instruments at the grant date.

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

## Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (note 23). Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

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For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

## Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## Dividends

Dividends are recognised when declared during the financial year and are no longer at the discretion of the Company.

## Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase, the difference is recognised as a gain directly in profit or loss on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and any previously held equity interest.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. Contingent consideration is classified either as equity or a financial liability. Amounts classified as financial liability are subsequently remeasured to fair value with changes to fair value recognised in profit or loss.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the Group receives all the information possible to determine fair value.

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## Earnings per share

### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of IPH Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument dated 24 March 2016 and in accordance with that Instrument amounts in the annual financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## Adoption of new accounting standards

The Group has adopted all of 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 an accounting period that begins on or after 1 July 2019.

### AASB 16 Leases

The Group initially adopted AASB 16 Leases from 1 July 2019. As a result the Group, as a lessee, has recognised right-of-use assets and lease liabilities representing its obligation to make lease payments. The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, comparative information has not been restated.

### Transition

Upon transition the standard allows companies to utilise a number of practical expedients. The Group has utilised the following:

(i) All contracts which have previously been classified as a lease will continue to be treated as a lease.

(ii) The same discount rate (the Group's incremental borrowing rate) has been applied to leases with similar characteristics (eg. similar lease terms). For older long term leases, the comparable government bond rates at time of inception of the lease have been used as the discount rate.

The Group leases office space in each location in which it operates. At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's relevant incremental borrowing rate as at 1 July 2019. Right-of-use assets were measured at their carrying amount as if AASB 16 had been applied since the commencement of the lease, discounted using the Group's incremental borrowing rate at the date of initial application.

The Group presents right-of-use assets within its own line in non-current assets and presents lease liabilities as interest bearing lease liabilities in the Statement of Financial Position.

### Impacts on the financial statements at transition

On transition to AASB 16, the Group recognised right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

| | $000's |
|---|---|
| Right-of-use assets | 30,087 |
| Lease liabilities | (31,495) |
| Deferred tax liabilities | (818) |
| Retained profits | 2,183 |
| Reduction in provisions | 42 |

The movement in retained earnings reported at the half year at 31 December 2019 was recorded as a charge of $830k. Following review of the lease accounting transition at year end, it was identified that some cash lease incentives provided by landlords had not been included within the transition models. These incentives have been incorporated in the figures above.

The total value of the Group's lease liabilities at 1 July 2019 (after the above impacts for AASB 16) were as follows:

| | $000's |
|---|---|
| Current lease liabilities | (5,575) |
| Non-current lease liabilities | (30,297) |

The following table shows the operating lease commitments disclosed in applying AASB 117 leases at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application of the lease liabilities recognised in the consolidated Statement of Financial Position at the date of initial application:

| | $000's |
|---|---|
| Gross operating lease commitments at 30 June 2019 | 41,482 |
| Less: Effect of discounting the above amounts | (5,610) |
| Lease liabilities recognised at 1 July 2019 | 35,872 |

### Acquisition of Xenith IP Limited

On 15 August 2019 IPH acquired the remaining interest in Xenith IP Limited (XIP) which it did not already own. XIP had implemented AASB 16 prior to acquisition and as a result right-of-use assets of $20,222,000 and lease liabilities of $28,344,000 were recognised in IPH at the date of acquisition (refer note 29).

### Impacts on financial statements at 30 June 2020

At 30 June 2020, the Group recognised right-of-use lease assets of $38,808,000 and lease liabilities of $53,663,000 as a result of applying AASB 16. Depreciation relating to AASB 16 leases was $9,624,000 and additional interest expense was $2,268,000.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events of changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2.

Customer relationships are finite intangible assets and are amortised over their expected life. Assets subject to amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

### COVID-19

Management have considered the impact of COVID-19 and the current economic environment on the judgements, estimates and assumptions that affect the reported amounts in the financial statements and adjusted these where appropriate. Further detail in respect of the impact on the operations of the Group is discussed in detail in the Operational and Financial Review of the Directors' Report.

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## Note 4. Operating segments

### Identification of reportable operating segments

The Group is organised into three segments: Intellectual Property Services Australia & New Zealand; Intellectual Property Services Asia; and Adjacent Businesses. Adjacent Businesses includes the operations of Wisetime (formerly presented as Data Analytics) and Glasshouse Advisory (acquired as a subsidiary of XIP). These operating segments are based on the internal reports that are reviewed and used by the senior executive team and Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

| | |
|---|---|
| Intellectual Property Services Australia & New Zealand | Related to the provision of filing, prosecution, enforcement and management of patents, designs, trade marks and other IP in Australia and New Zealand. |
| Intellectual Property Services Asia | Related to the provision of filing, prosecution, enforcement and management of patents, designs, trade marks and other IP in Asia. |
| Adjacent Businesses | Adjacent businesses include Wisetime the autonomous time-keeping tool and Glasshouse Advisory. |

The CODM reviews profit before interest, income tax and adjustments to the statutory reported results. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a monthly basis.

### Intersegment transactions

There are varying levels of integration between the segments. The integration includes provision of professional services, shared technology and management services. Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

### Reliance on major customers

Maximum revenue from any customer is less than 3% of overall revenue of the Group. Country of origin of revenue has not been disclosed as this is commercially sensitive information.

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# Notes to the Financial Statements

Note 4. Operating segments Continued >

| 30 June 2020 Consolidated | Intellectual Property Services: Australia & NZ | Intellectual Property Services: Asia | Adjacent businesses | Corporate | Intersegment eliminations / unallocated | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | | |
| Sales to external customers | 266,059 | 97,345 | 2,270 | - | - | 365,674 |
| Intersegment sales | 2,528 | 5,292 | - | - | (7,820) | - |
| Total sales revenue | 268,587 | 102,637 | 2,270 | - | (7,820) | 365,674 |
| Other revenue | 9,062 | 72 | 473 | 2,040 | (7,689) | 3,958 |
| Total revenue | 277,649 | 102,709 | 2,743 | 2,040 | (15,509) | 369,632 |
| Less: Overheads | (182,066) | (56,622) | (4,612) | (15,218) | 14,922 | (243,596) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA), before adjustments | 95,583 | 46,087 | (1,869) | (13,178) | (587) | 126,036 |
| Less: Depreciation | (10,002) | (2,482) | (400) | (273) | - | (13,157) |
| Less: Amortisation | (19,147) | (1,225) | (110) | (866) | 24 | (21,324) |
| Less: Management Charges | 3,159 | (7,199) | - | 4,037 | 3 | - |
| Segment result: (Profit before interest, tax and adjustments) | 69,593 | 35,181 | (2,379) | (10,280) | (560) | 91,555 |

| | |
|---|---|
| **Reconciliation of segment result** | |
| Segment result | 91,555 |
| **Adjustments to statutory result:** | |
| » Business acquisition costs | (1,202) |
| » New business establishment costs | - |
| » Restructuring expenses | (4,127) |
| » Profit on sale of Practice Insight business | - |
| » Impairment of intangible assets | (1,600) |
| » Impairment of right-of-use assets and asset write offs | (3,704) |
| » Share-based payments | (2,180) |
| Total adjustments | (12,813) |
| Interest income | 75 |
| Finance costs | (7,125) |
| Profit for the period before income tax expense | 71,692 |
| **Reconciliation of segment revenue** | |
| Segment revenue | 369,632 |
| Restructuring | 452 |
| Profit on sale of Practice Insight business | - |
| Interest income | 75 |
| Total revenue | 370,159 |

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| 30 June 2019 Consolidated | Intellectual Property Services: Australia & NZ | Intellectual Property Services: Asia | Adjacent businesses | Corporate | Intersegment eliminations / unallocated | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | | |
| Sales to external customers | 163,344 | 89,200 | - | - | - | 252,544 |
| Intersegment sales | 856 | 3,669 | - | - | (4,525) | - |
| Total sales revenue | 164,200 | 92,869 | - | - | (4,525) | 252,544 |
| Other revenue | 7,446 | 591 | 477 | (19) | (4,390) | 4,105 |
| Total revenue | 171,646 | 93,460 | 477 | (19) | (8,915) | 256,649 |
| Less: Overheads | (109,827) | (54,843) | (1,904) | (10,020) | 9,638 | (166,956) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA), before adjustments | 61,819 | 38,617 | (1,427) | (10,039) | 723 | 89,693 |
| Less: Depreciation | (1,119) | (233) | (53) | (145) | - | (1,550) |
| Less: Amortisation | (8,510) | (1,169) | (519) | (937) | 30 | (11,105) |
| Less: Management Charges | 2,324 | (8,071) | - | 5,748 | - | - |
| Segment result: (Profit before interest, tax and adjustments) | 54,514 | 29,144 | (1,999) | (5,373) | 753 | 77,038 |

| | |
|---|---|
| **Reconciliation of segment result** | |
| Segment result | 77,038 |
| **Adjustments to statutory result:** | |
| » Business acquisition costs | (3,478) |
| » New business establishment costs | (31) |
| » Restructuring expenses | (986) |
| » Profit on sale of Practice Insight business | 2,857 |
| » Impairment of intangible assets | - |
| » Impairment of right-of-use assests and asset write offs | - |
| » Share-based payments | (2,200) |
| Total adjustments | (3,838) |
| Interest income | 92 |
| Finance costs | (2,661) |
| Profit for the period before income tax expense | 70,632 |
| **Reconciliation of segment revenue** | |
| Segment revenue | 256,649 |
| Restructuring | - |
| Profit on sale of Practice Insight business | 2,857 |
| Interest income | 92 |
| Total revenue | 259,598 |

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## Note 5. Sales revenue

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Revenue from the rendering of services | 365,674 | 252,544 |
| | 365,674 | 252,544 |

## Note 6. Other income

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Net realised foreign exchange gain | 1,732 | 1,866 |
| Net unrealised foreign exchange loss | (1,556) | (536) |
| Dividends received | - | 576 |
| Profit on sale of Practice Insight businesses | - | 2,857 |
| Other income | 1,736 | 843 |
| Commission | 2,498 | 1,356 |
| Interest | 75 | 92 |
| | 4,485 | 7,054 |

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## Note 7. Expenses

Profit before income tax includes the following specific expenses:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Depreciation - Property, plant and equipment | 3,533 | 1,550 |
| Amortisation - Software development | 1,708 | 1,891 |
| | 5,241 | 3,441 |
| Depreciation - Right-of-use asset | 9,624 | - |
| Amortisation - Acquired intangibles | 19,616 | 9,214 |
| Total depreciation and amortisation | 34,481 | 12,655 |
| **Employee benefits expense:** | | |
| Share based payments (note 34) | 2,180 | 2,200 |
| Superannuation expense | 7,151 | 3,740 |
| Government COVID-19 stimulus grants[1] | (1,071) | - |
| **Other expenses:** | | |
| Advertising and marketing | 825 | 575 |
| Impairment of right-of-use assets and revaluation of lease liabilities arising from onerous leases | 2,385 | - |
| Impairment of leasehold improvements | 1,319 | - |
| Impairment of Watermark trademark | 1,600 | - |
| IT and communication | 5,052 | 3,066 |
| Office expenses | 2,152 | 1,766 |
| Professional fees | 3,006 | 2,732 |
| Staff welfare and training | 1,128 | 470 |
| Other | 11,099 | 5,630 |
| | 28,566 | 14,239 |
| **Finance costs:** | | |
| Interest on bank facilities – Overdraft | 36 | 21 |
| Interest on bank facilities – Loan | 3,779 | 1,859 |
| Other interest expense – Facility fees | 1,042 | 781 |
| | 4,857 | 2,661 |
| Interest on lease contracts (note 13(b)) | 2,268 | - |
| Total finance costs | 7,125 | 2,661 |

1. Grants received from Asian governments in response to the impact of COVID-19.

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## Note 8. Income tax expense

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| **Income tax expense** | | |
| Current tax | 23,935 | 21,905 |
| Deferred tax | (6,859) | (4,114) |
| (Under)/Over provided in prior years | (136) | (270) |
| Aggregate income tax expense | 16,940 | 17,521 |
| **Deferred tax included in income tax expense comprises:** | | |
| Increase in deferred tax assets (note 14) | (1,520) | (1,144) |
| Decrease in deferred tax liabilities (note 14) | (5,339) | (2,970) |
| | (6,859) | (4,114) |
| **Reconciliation of income tax expense and tax at the statutory rate** | | |
| Profit before income tax expense | 71,692 | 70,632 |
| Tax at the statutory tax rate of 30% | 21,508 | 21,190 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Permanent differences | 108 | 391 |
| Equity settled share-based payments | (169) | 27 |
| Acquisition costs | 249 | 329 |
| Difference in overseas tax rates | (4,683) | (3,887) |
| Losses not brought to account | - | 28 |
| Under / (Over) provision with respect to current tax in prior years | (136) | (331) |
| Other | 63 | (226) |
| Income tax expense | 16,940 | 17,521 |

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## Note 9. Current assets - cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Cash on hand | 162 | 314 |
| Cash at bank | 81,898 | 34,099 |
| Term Deposit[1] | 850 | 850 |
| | 82,910 | 35,263 |

1. Restricted cash cover for bank facilities.

## Note 10. Current assets - trade and other receivables

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Trade receivables from contracts with customers | 91,886 | 64,655 |
| Less: loss allowance | (2,754) | (1,249) |
| | 89,132 | 63,406 |

### Impairment of receivables

The Group has recognised a loss of $1,855,000 (2019: $727,000) in profit or loss in respect of the loss allowance for the year ended 30 June 2020. The ageing of the impaired receivables provided for above are as follows:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Past due more than 91 days | 2,396 | 1,249 |

Movements in the provision for impairment of receivables are as follows:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Opening balance | 1,249 | 818 |
| Additional provisions recognised through business combinations (note 29) | 470 | - |
| Additional provisions recognised | 1,855 | 727 |
| Receivables written off during the year as uncollectable | (820) | (296) |
| Closing balance | 2,754 | 1,249 |

## Past due but not impaired

Customers with receivable balances past due but without provision for impairment, amount to $36,850,000 as at 30 June 2020 (2019: $22,932,000). The ageing of the past due but not impaired receivables are as follows:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| 31 to 60 days overdue | 26,895 | 17,289 |
| 61 to 90 days overdue | 2,882 | 1,790 |
| Past due more than 91 days | 7,073 | 3,853 |
| | 36,850 | 22,932 |

Ageing has been calculated with reference to the trading terms of local clients (30 days) and international clients (90 days). No interest is charged on outstanding trade receivables.

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## Note 11. Current assets - investment in financial assets

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| Current | $'000 | $'000 |
| Investment in equity instruments[1] | - | 39,194 |
| | - | 39,194 |

1. IPH acquired an equity interest of 19.9% in Xenith IP Group on 13 February 2019. This was designated at Fair Value Through Other Comprehensive Income. On acquisition of Xenith IP Group on 15 August 2019 this investment formed part of the acquisition cost (note 29).

## Note 12. Current assets - other

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Prepayments | 3,697 | 2,518 |
| Foreign exchange contracts (note 23) | 384 | 28 |
| Other current assets | 173 | 2,247 |
| | 4,254 | 4,793 |

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## Note 13. Non-current assets

### (a) Property, plant and equipment

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Leasehold improvements – at cost | 14,846 | 7,287 |
| Less: Accumulated depreciation | (8,038) | (3,376) |
| | 6,808 | 3,911 |
| Plant and equipment – at cost | 1,589 | 1,024 |
| Less: Accumulated depreciation | (1,359) | (853) |
| | 230 | 171 |
| Furniture, fixtures and fittings – at cost | 6,281 | 4,162 |
| Less: Accumulated depreciation | (4,228) | (3,118) |
| | 2,053 | 1,044 |
| Computer equipment – at cost | 29,093 | 13,119 |
| Less: Accumulated depreciation | (24,911) | (11,553) |
| | 4,182 | 1,566 |
| | 13,273 | 6,692 |

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## Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Leasehold improvements | Plant and equipment | Furniture, fixtures and fittings | Computer equipment | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 July 2018 | 3,810 | 274 | 829 | 1,270 | 6,183 |
| Additions | 596 | 36 | 514 | 1,128 | 2,274 |
| Disposals / Transfers | - | (41) | (151) | (35) | (227) |
| Exchange differences | 4 | 2 | 3 | 3 | 12 |
| Depreciation expense | (499) | (100) | (151) | (800) | (1,550) |
| Balance at 30 June 2019 | 3,911 | 171 | 1,044 | 1,566 | 6,692 |
| Additions | 424 | 80 | 383 | 1,230 | 2,117 |
| Additions through business combinations (note 29) | 5,366 | 41 | 913 | 3,314 | 9,634 |
| Disposals | (240) | - | - | (2) | (242) |
| Impairment | (1,319) | - | - | - | (1,319) |
| Exchange differences | (33) | (3) | (10) | (30) | (76) |
| Depreciation expense | (1,301) | (59) | (277) | (1,896) | (3,533) |
| Balance at 30 June 2020 | 6,808 | 230 | 2,053 | 4,182 | 13,273 |

## (b) Leases

The Group enters leases in relation to office space and office equipment.
The Statement of Financial Position shows the following amounts relating to leases:

| Right-of-use assets | Premises | Equipment | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Balance at 1 July 2019 | - | - | - |
| Adoption of AASB 16 | 29,730 | 357 | 30,087 |
| Remeasurements | 2,562 | 66 | 2,628 |
| Additions through business combinations (note 29) | 20,222 | - | 20,222 |
| Depreciation expense | (9,475) | (149) | (9,624) |
| Impairment arising from onerous leases | (4,661) | - | (4,661) |
| Exchange gains / (losses) | 162 | (6) | 156 |
| Balance at 30 June 2020 | 38,540 | 268 | 38,808 |

| | Consolidated | |
|---|---|---|
| Lease liabilities | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Current | 11,076 | - |
| Non-current | 42,587 | 4,472 |
| | 53,663 | 4,472 |

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The Statement of Profit or Loss and Other Comprehensive Income shows the following amounts relating to leases:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Depreciation charge - Right-of-use assets | 9,624 | - |
| Interest expense (included in finance costs) | 2,268 | - |
| Expense relating to variable lease payments not included in lease liabilities (included in other expenses) | 2,818 | - |
| Income from subleasing of right-of-use assets (included in other income) | (260) | - |
| Impairment of right-of-use assets | 2,385 | - |

Total cash outflow for leases in 2020 was $11,898,000.

## (c) Intangibles

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Goodwill - at cost | 298,038 | 184,648 |
| Patents and trade marks - at cost | 17,232 | 4,189 |
| | 315,270 | 188,837 |
| Capitalised software development - at cost | 10,792 | 7,999 |
| Less: Accumulated amortisation | (6,022) | (4,518) |
| | 4,770 | 3,481 |
| Customer relationships | 212,011 | 91,911 |
| Less: Accumulated amortisation | (47,831) | (28,215) |
| Less: Impairment | (961) | (961) |
| | 163,219 | 62,735 |
| | 483,259 | 255,053 |

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### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Goodwill | Patents and trade marks | Customer relationships | Capitalised software development | Software acquired | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 July 2018 | 185,223 | 4,237 | 71,830 | 4,223 | 790 | 266,303 |
| Additions | - | 33 | - | 3,583 | - | 3,616 |
| Exchange differences | (3,834) | (81) | - | (2,431) | (671) | (7,017) |
| Disposals | 3,259 | - | - | (3) | - | 3,256 |
| Amortisation expense | - | - | (9,095) | (1,891) | (119) | (11,105) |
| Balance at 30 June 2019 | 184,648 | 4,189 | 62,735 | 3,481 | - | 255,053 |
| Exchange differences | (530) | - | - | (6) | - | (536) |
| Additions | - | 43 | - | 3,003 | - | 3,046 |
| Additions through business combinations (note 29) | 113,920 | 14,600 | 120,100 | - | - | 248,620 |
| Impairment[1] | - | (1,600) | - | - | - | (1,600) |
| Amortisation expense | - | - | (19,616) | (1,708) | - | (21,324) |
| Balance at 30 June 2020 | 298,038 | 17,232 | 163,219 | 4,770 | - | 483,259 |

1. On 1 July 2020 Watermark was merged with Griffith Hack and will operate under the Griffith Hack name. As a result, the intangible asset relating to the former Watermark trademark has been assessed as having no ongoing economic benefit and hence has been written off.

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### Impairment testing

For the purposes of impairment testing, goodwill is allocated to cash generating units (CGUs) that are an identifiable group of assets that generate cash associated with the goodwill. A summary of the goodwill by CGU is set out below:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| CGU | $'000 | $'000 |
| Spruson & Ferguson Australia | 52,958 | 52,958 |
| Pizzeys | 68,158 | 68,158 |
| AJ Park | 41,424 | 42,468 |
| Spruson & Ferguson (Hong Kong)[1] | 34,839 | 20,758 |
| Griffith Hack[2] | 54,006 | - |
| Shelston | 36,992 | - |
| Spruson & Ferguson Asia[1] | 9,355 | - |
| Other | 306 | 306 |
| Total | 298,038 | 184,648 |

1. A portion of the Goodwill arising on the acquisition of Xenith has been allocated to Spruson & Ferguson Asia and Spruson & Fergusion (Hong Kong) as increased revenue is expected to be attributable to these CGUs as a result of the Xenith acquisiton.

2. The Griffith Hack CGU includes goodwill previously allocated to Watermark as these entities have been combined going forward.

The recoverable amount of a CGU is determined primarily utilising a value-in-use calculation and secondly based on estimated net selling prices. Value-in-use calculations use cash flow projections based on financial budgets prepared by management and approved by the Board. Cashflows for future years are extrapolated using the estimated growth rates stated below. After five years a terminal growth rate is assumed and terminal value-in-use calculated. The terminal growth rates do not exceed the average growth rates that the business has experienced and are generally lower than the short term growth rates assumed.

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### Key assumptions used for value-in-use calculations

| | 5 yr EBITDA CAGR | | Terminal growth rates | | Discount rates[1] |
|---|---|---|---|---|---|
| CGU | 2020 | 2019 | | Pre-tax | Post-tax |
| | % | % | % | % | % |
| Spruson & Ferguson Australia | 4.1 | 4.3 | 2.5 | 15 | 10.5 |
| Spruson & Ferguson Asia | 8.2 | - | 2.5 | 12.6 | 10.5 |
| Pizzeys | 4.9 | 7.1 | 2.5 | 15 | 10.5 |
| AJ Park | 4.0 | 3.8 | 2.5 | 14.6 | 10.5 |
| S&F Hong Kong | 13.6 | 19.4 | 2.5 | 13.8 | 11.5 |
| Griffith Hack | 6.6 | - | 2.5 | 15 | 10.5 |
| Shelston | 5.9 | - | 2.5 | 15 | 10.5 |

1. With the exception of S&F Hong Kong which had an increase in discount rate from 10.5% to 11.5% reflecting the economic environment in that CGU, all other rates have remained the same from 2019 to 2020

The post-tax discount rate has been applied to discount the future attributable post-tax cash flows.

At 30 June 2020, the assessed value-in-use for each CGU exceeded the carrying amounts of the CGU and no impairment loss was recognised.

### Impact of possible change in key assumptions

No impairment charge in any CGU would arise as a result of the following changes in assumptions:

» Holding all assumptions constant, if the discount rate increased by 0.5%

» Holding all assumptions constant, if the terminal rate declined by 0.5%

In addition to the above sensitivity testing, for Pizzeys and Shelston, the carrying value of the respective CGU would equal the recoverable amount at any of the following levels:

| | Pizzeys | Shelston |
|---|---|---|
| Discount rate | 11.40% | 11.10% |
| Terminal growth rate | 1.20% | 1.70% |
| 4 Year EBITDA CAGR (FY21 to FY25) | 1.50% | 3.70% |

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## Note 14. Deferred tax assets/liabilites

| | Opening balance | Recognised in profit or loss | Acquisitions | Recognised in equity | Closing balance |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| The net deferred tax asset comprises the following balances: | | | | | |
| Loss allowance | 232 | 172 | 141 | - | 545 |
| Property, plant and equipment | 374 | 25 | - | - | 399 |
| Provisions | 2,280 | 487 | 2,542 | - | 5,309 |
| Accrued expenses | 749 | (142) | 936 | - | 1,543 |
| Unbilled revenue | (408) | (733) | - | - | (1,141) |
| Prepayments | (5) | (126) | - | - | (131) |
| Foreign exchange | 598 | 558 | (178) | - | 978 |
| Transaction costs | 841 | (440) | 2,965 | - | 3,366 |
| Leased assets | 710 | 1,227 | 2,493 | (818) | 3,612 |
| Software | (100) | (14) | 58 | - | (56) |
| Intangible assets - Customer relationships | (18,495) | 5,735 | (36,020) | - | (48,780) |
| Intangible assets - Trademarks | (405) | 480 | (4,380) | - | (4,305) |
| Sundry | 973 | (211) | - | - | 762 |
| Financial instruments | - | (159) | 138 | 232 | 211 |
| Fair value movement on investments | (1,919) | - | - | 1,919 | - |
| | (14,575) | 6,859 | (31,305) | 1,333 | (37,688) |

Note 14. Deferred tax assets/liabilities Continued >

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Disclosed as: | | |
| Deferred tax asset | 22,709 | 7,793 |
| Deferred tax liability | (60,397) | (22,368) |
| | (37,688) | (14,575) |

## Note 15. Current liabilities - trade and other payables

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Trade payables | 15,064 | 9,203 |
| Sundry creditors and accruals | 9,669 | 9,671 |
| | 24,733 | 18,874 |

## Note 16. Current liabilities - provisions

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Employee benefits | 18,577 | 8,110 |
| Provision for onerous contracts | 523 | - |
| Other provisions | 60 | - |
| | 19,160 | 8,110 |

### Movement in provision for onerous contracts

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Opening balance at beginning of financial year | - | - |
| Additions | 523 | - |
| Closing balance at the end of financial year | 523 | - |

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## Note 17. Non-current liabilities - borrowings

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Non Current | | |
| Multicurrency loan facility | 151,238 | 65,470 |
| | 151,238 | 65,470 |

On 11 February 2019, the Group entered into a facilities agreement ('Agreement') with HSBC and Westpac which refinanced the facilities previously outstanding with ANZ. The facilities under the Agreement comprise:

- A $90m multicurrency revolving loan facility;
- A $100m acquisition term loan facility; and
- A $20m revolving credit facility for the general corporate purposes of the Group.

The Agreement has a term of three years maturing on 11 February 2022.

### Assets pledged as security

The bank facility made available by HSBC and Westpac is secured by cross guarantee and all assets from IPH Limited and a number of its wholly owned subsidiaries. The value of current and non-current assets pledged as security are as noted on the consolidated Statement of Financial Position.

### Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Total facilities | | |
| Loan facilities | 190,000 | 190,000 |
| Working capital facility | 20,000 | 20,000 |
| | 210,000 | 210,000 |
| Used at the reporting date | | |
| Loan facilities | 151,238 | 65,470 |
| | 151,238 | 65,470 |
| Bank guarantees drawn under working capital facility | 12,813 | 6,100 |
| Unused at the reporting date | | |
| Loan facilities | 38,762 | 124,530 |
| Working capital facility | 7,187 | 13,900 |
| | 45,949 | 138,430 |

## Note 18. Non-current liabilities - provisions

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Employee benefits | 565 | 251 |
| Provision for onerous contracts | 643 | - |
| | 1,208 | 251 |

**Movement in provision for onerous contracts**

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Opening balance at beginning of financial year | - | - |
| Additions | 643 | - |
| Closing balance at the end of financial year | 643 | - |

## Note 19. Equity - issued capital

| | Consolidated | | Consolidated | |
|---|---|---|---|---|
| | 30 June 2020 | 30 June 2019 | 30 June 2020 | 30 June 2019 |
| | Shares | Shares | $'000 | $'000 |
| Ordinary Class shares - fully paid | 214,396,164 | 197,341,566 | 402,149 | 262,763 |
| | 214,396,164 | 197,341,566 | 402,149 | 262,763 |

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### Movements in ordinary share capital

| | Date | Shares | $'000 |
|---|---|---|---|
| Opening balance | 1 July 2018 | 197,341,566 | 262,763 |
| Balance at 30 June 2019 | | 197,341,566 | 262,763 |
| Acquisition of Xenith IP Group Ltd (note 29) | 15 August 2019 | 15,581,683 | 130,730 |
| Performance and retention rights exercised | 28 August 2019 | 510,320 | - |
| Dividend reinvestment - final dividend (note 22) | 18 September 2019 | 307,613 | 2,879 |
| Dividend reinvestment - interim dividend (note 22) | 13 March 2020 | 654,982 | 5,777 |
| Balance at 30 June 2020 | | 214,396,164 | 402,149 |

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Employee Share Trust

On 1 July 2017, IPH established the Employee Share Trust for the purpose of acquiring and allocating shares granted through the IPH Employee Incentive Plan. As at 30 June 2020, the number of shares held by the trust was 579,154 (2019: 175,917). The Trust acquired 510,320 shares on market during the year.

### Share buy-back

There were no shares bought back during the year ended 30 June 2020.

### Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

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 would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

### Dividend reinvestment plan

The group operates a dividend reinvestment plan. The issue price is the average of the daily volume weighted average market price of all shares sold by normal trade during the 10 days trading days commencing on the second trading day following the dividend record date.

## Note 20. Equity - reserves

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Foreign currency reserve | 3,342 | 3,858 |
| Share-based payments reserve | 7,149 | 4,453 |
| Minority interest acquisition reserve | (14,814) | (14,814) |
| Other reserve | 4,791 | 4,478 |
| | 468 | (2,025) |

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services. Specifically the reserve relates to performance rights issued by the Company to its employees under its LTIP.

### Minority interest acquisition reserve

This reserve represents the difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration paid or received, where there is no change in control and arose on the initial listing of IPH.

### Other reserve

This reserve includes the following items:

- fair value gains or losses on investments in equity instruments designated as FVTOCI; and
- revaluation of hedging instruments.

### Movements in reserves

Movements in each class of reserve during the current and previous financial year are presented in the Statement of Changes in Equity.

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## Note 21. Equity - retained profits

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Retained profits at the beginning of the financial year | 24,012 | 16,286 |
| Profit after income tax expense for the year attributable to owners of IPH Limited | 54,752 | 53,111 |
| Transitional impact on adoption of AASB 16 (note 2) | (2,183) | - |
| Dividends paid (note 22) | (56,536) | (45,385) |
| Retained profits at the end of the financial year | 20,045 | 24,012 |

## Note 22. Equity - dividends

| | | Consolidated | |
|---|---|---|---|
| | | 30 June 2020 | 30 June 2019 |
| | Cents per share | $'000 | $'000 |
| Interim dividend | | | |
| December 2018 - paid 13 March 2019 | 12.0 | - | 23,680 |
| December 2019 - paid 13 March 2020 | 13.5 | 28,856 | - |
| Final dividend | | | |
| June 2018 - paid 12 September 2018 | 11.0 | - | 21,705 |
| June 2019 - paid 18 September 2019 | 13.0 | 27,680 | - |

On 20 August 2020, the Company declared an ordinary dividend of 15 cents per share (franked at 100%) to be paid on 18 September 2020. The dividend value is $32,159,425. No provision for this dividend has been recognised in the Statement of Financial Position as at 30 June 2020, as it was declared after the end of the financial year.

### Dividend Reinvestment Plan

The Dividend Reinvestment Plan was active during the financial year. 962,595 shares were issued to participants totalling $8,656,199. The Dividend Reinvestment Plan did not operate during the comparative year.

### Franking credits

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 9,100 | 1.750 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date.

## Note 23. Financial instruments

### Financial risk management objectives

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group's principal financial instruments, other than derivatives, comprise of cash and bank loan facilities. The main purpose of financial instruments is to manage liquidity and hedge the Group's exposure to financial risks, namely:

- foreign currency risk;
- interest rate risk;
- liquidity risk; and
- credit risk.

The Group uses derivatives to reduce the Group's exposure to fluctuations in interest rates and foreign exchange rates. These derivatives create an obligation or a right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that the Group uses to hedge its risks include:

- foreign exchange contracts; and
- interest rate swaps.

The Group does not trade in derivative instruments for speculative purposes. The Group uses different methods to measure the different types of risks to which it is exposed, including sensitivity analysis in the case of interest rate and foreign exchange and ageing analysis for credit risk.

### i) Market risk

*Foreign currency risk*

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The focus is on minimising exposure to fluctuations in the rate of the United States Dollar ("USD") and the European Union's Euro ("EUR") which represent most of the Group's foreign currency exposure.

The Group's policy, with some minor exceptions, is not to hedge against foreign currency risk. The exceptions, which are outlined in the table below, relate to foreign currency contracts entered into by a number of the Group's acquired subsidiaries to hedge specific risks or transactions. The largest net position, against the USD, is less than 10% of this exposure.

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| 30 June 2020 Current | Foreign currency (000's) | Exchange rate ($) | < 3 months $'000 | 3 - 6 months $'000 | > 6 months $'000 | Fair value ($'000) |
|---|---|---|---|---|---|---|
| Pay USD / receive AUD | USD 6,800 | 0.67 | 5,997 | 4,215 | - | 291 |
| Pay USD / receive NZD[1] | USD 1,800 | 0.64 | - | 883 | 1,807 | 75 |
| Pay EUR / receive AUD | EUR 977 | 0.60 | 1,081 | 537 | - | 18 |
| | | | | | | 384 |

1 Converted to AUD equivalent at 30 June 2020 spot rate.

Forward exchange contracts were used in the prior year to hedge risk exposures which were not significant.

The Group's net asset exposure at the reporting date was as follows:

| | A$'000 | US$'000 | €'000 | S$000 | NZD$000 | Other[1] |
|---|---|---|---|---|---|---|
| 30 June 2020 | | | | | | |
| Net asset exposure (Local Currency) | 348,005 | 41,491 | 5,736 | 9,628 | 7,137 | 3,369 |
| 30 June 2019 | | | | | | |
| Net asset exposure (Local Currency) | 243,718 | 13,208 | 1,750 | 9,075 | 6,402 | 3,754 |

1. Australian dollar equivalent.

The sensitivity of the Group's Australian dollar denominated Profit or Loss account and Statement of Financial Position to foreign currency movements is based on a 10% fluctuation (2019: 10% fluctuation) on the average rates during the financial year. This analysis assumes that all other variables including interest rates remain constant. A 10% movement in the average foreign exchange rates would have impacted the Group's profit after tax and equity as follows:

| | 10% Weakening | | 10% Strengthening | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $000 |
| USD | 5,046 | 1,881 | (4,587) | (1,710) |
| Euro | 744 | 283 | (677) | (258) |
| SGD | 729 | 955 | (662) | (868) |
| NZD | 667 | 608 | (606) | (553) |
| Other currencies | 337 | 375 | (306) | (341) |
| Net exposure to foreign currency risk | 7,523 | 4,102 | (6,838) | (3,730) |

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*Interest rate risk*

The Group's main interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to seek to reduce its interest rate exposure using interest rate swaps. Instruments in place at year end are summarised in the table below:

| | Carrying amount | Notional amount | Hedge ranges | Average maturity profile |
|---|---|---|---|---|
| | ($'000) | ($'000) | % p.a. | years |
| As at 30 June 2020 | | | | |
| Interest rate swaps | (774) | 50,000 | 0.79-0.92 | <5 |

The group did not enter into any interest rate swaps during the 2019 financial year.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

| | 30 June 2020 | | 30 June 2019 | |
|---|---|---|---|---|
| Consolidated | Weighted average interest rate | Balance | Weighted average interest rate | Balance |
| | % | $'000 | % | $'000 |
| Multicurrency loan facility | 1.87 | 151,238 | 3.70 | 65,470 |
| Net exposure to cash flow interest rate risk | | 151,238 | | 65,470 |

**ii) Liquidity risk**

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

**iii) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group may obtain payment in advance or restrict the services offered where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. The Group does not have any material credit risk exposure to any single debtor or group of debtors and does not hold any collateral.

**iv) Price risk**

The Group is not exposed to any significant price risk.

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### Offsetting financial assets and financial liabilities

The Group presents its derivative assets and liabilities on a gross basis.

### Derivative financial instruments

*Fair value hedge*

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk and could affect the Statement of Comprehensive Income. Changes in the fair value of derivatives (hedging instruments) that are designated as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (hedged item).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

*Cashflow hedge*

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk of a highly probable forecast transaction or a recognised asset or liability. The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges is recognised in other comprehensive income in equity via the cash flow hedge reserve. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. Any gain or loss related to ineffectiveness is recognised in profit or loss immediately.

At inception of a hedge relationship the Group formally designates and documents the relationship between the hedging instrument and the hedged item, along with the risk management objectives and strategy for undertaking the hedge transaction. Both at inception and an ongoing basis that the hedging instrument is effective in offsetting changes in cash flows and fair values of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- an economic relationship between the hedged item and the hedging instrument;
- effect of credit risk does not dominate the value changes that result from that economic relationship; and
- hedge ratio of the designated hedge is the same; that is the Group hedges the same quantity of the hedging instrument and the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is no longer in an effective hedge relationship, or the forecast transaction is no longer expected to occur. The fair value gain or loss of derivatives recorded in equity is recognised in profit or loss over the period that the forecast transaction is recorded in profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised in profit or loss immediately.

### Effects of hedge accounting on the financial position and performance

The effects of the interest rate swaps on the group's financial position and performance are as follows:

| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | $'000 | $'000 |
| Carrying amount (non-current liability) | (774) | - |
| Notional amount | 50,000 | - |
| Maturity date | 2023 | - |
| Hedge ratio | 1:1 | - |
| Change in fair value of outstanding hedging instruments since inception of hedge | (774) | - |
| Change in value of hedged item used to determine hedge effectiveness | 774 | - |
| Weighted average hedged rate for the year | 1.55% | - |

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The group has the following derivative financial instruments in the following line items in the Statement of Financial Position:

| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | $'000 | $'000 |
| Current assets | | |
| Foreign exchange contracts - fair value hedges | 384 | - |
| | 384 | - |
| Non-current liabilities | | |
| Interest rate swaps - cash flow hedges | 774 | - |
| | 774 | - |

### Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the Statement of Financial Position.

The cash flows in the maturity analysis below are not expected to occur significantly earlier than contractually disclosed below.

| Consolidated - 30 June 2020 | Weighted average interest rate | 1 year or less | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Remaining contractual maturities |
|---|---|---|---|---|---|---|
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| Non-derivatives | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 15,064 | - | - | - | 15,064 |
| Sundry creditors and accruals | - | 9,669 | - | - | - | 9,669 |
| *Interest-bearing - variable* | | | | | | |
| Lease liabilities | 4.23% | 14,901 | 14,087 | 20,170 | 13,546 | 62,704 |
| Multi-option facility | 1.87% | 2,828 | 152,888 | - | - | 155,716 |
| Total non-derivatives | | 42,462 | 166,975 | 20,170 | 13,546 | 243,153 |

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| Consolidated - 30 June 2019 | Weighted average interest rate | 1 year or less | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Remaining contractual maturities |
|---|---|---|---|---|---|---|
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| Non-derivatives | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 9,203 | - | - | - | 9,203 |
| Other payables and accruals | - | 9,671 | - | - | - | 9,671 |
| *Interest-bearing - variable* | | | | | | |
| Multicurrency loan facility | 3.70% | 2,422 | 2,422 | 67,892 | - | 72,736 |
| Total non-derivatives | | 21,296 | 2,422 | 67,892 | - | 91,610 |

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability.

The Board considers that the carrying amount of financial assets and financial liabilities recognised in the financial statements approximate their fair value.

The table below shows the assigned level for each asset and liability held at fair value by the Group:

| Consolidated - 30 June 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Financial assets measured at fair value | | | | |
| Forward foreign exchange contracts | - | 384 | - | 384 |
| Total current assets | - | 384 | - | 384 |
| Financial liabilities measured at fair value | | | | |
| Interest rate swaps | - | 774 | - | 774 |
| Total non-current liabilities | - | 774 | - | 774 |

| Consolidated - 30 June 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Current assets | | | | |
| Investment in shares | 39,194 | - | - | 39,194 |
| Total current assets | 39,194 | - | - | 39,194 |

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## Note 24. Key management personnel disclosures

### Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $ | $ |
| Short-term employee benefits | 2,979,854 | 2,295,177 |
| Post-employment benefits | 117,899 | 95,911 |
| Long-term benefits | 129,347 | 66,302 |
| Share-based payments | 1,016,866 | 695,821 |
| | 4,243,966 | 3,153,211 |

## Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company, and unrelated firms:

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $ | $ |
| Audit services - Deloitte Touche Tohmatsu (Australia) | | |
| Audit or review of the financial statements | 522,000 | 341,000 |
| Other assurance services | 17,500 | 4,080 |
| | 539,500 | 345,080 |
| Deloitte Touche Tohmatsu (Singapore) | | |
| Audit or review of the financial statements | 65,232 | 58,302 |
| | 65,232 | 58,302 |
| Audit services - unrelated firms | | |
| Audit or review of the financial statements | 45,984 | 44,968 |
| Other services - unrelated firms | | |
| Corporate and taxation services | 147,500 | 187,435 |
| | 193,484 | 232,403 |

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## Note 26. Contingent liabilities

The Group has given bank guarantees in respect of leased office premises as at 30 June 2020 of $12,813,000 (2019: $6,100,000).

## Note 27. Related party transactions

### Parent entity

IPH Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 31.

### Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report in the Directors' report.

### Transactions with related parties

There were no additional transactions with related parties.

## Note 28. Parent entity information

Set out below is the supplementary information about the parent entity.

| | Parent | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Statement of profit or loss and other comprehensive income | | |
| Profit after income tax | 45,743 | 37,000 |
| Other comprehensive income | 313 | 4,478 |
| | 46,056 | 41,478 |
| Statement of financial position | | |
| Total current assets | 116,543 | 93,860 |
| Total assets | 503,290 | 354,195 |
| Total current liabilities | 3,874 | 4,027 |
| Total liabilities | 87,859 | 71,417 |
| Equity | | |
| Issued capital | 402,149 | 262,763 |
| Share-based payments reserve | 9,450 | 5,705 |
| Other reserves | 4,792 | 4,478 |
| Retained earnings | (960) | 9,832 |
| | 415,431 | 282,778 |

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### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Other than the security provided for the debt facility agreement as disclosed in note 17, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2020 apart from being party to the deed of cross guarantee as detailed in note 35.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2.

## Note 29. Business combinations

### Acquisitions undertaken in the year ended 30 June 2020

#### Xenith IP Group Ltd

On 15 August 2019, the Group acquired the remaining 80.1% of the ordinary shares of Xenith IP Group Limited (XIP) which it did not already own under the terms of a Scheme of Arrangement valued at $2.15 per Xenith share. At the date of acquisition the carrying value of the intial investment in XIP was $38,129,622. The Group acquired the remaining shares for $176,806,120. The consideration was settled by way of issue of 15,581,683 IPH shares and cash facilities of $46,075,800, funded by a drawdown on IPH's existing debt facility.

The acquired business contributed revenues of $107.5m and profit after tax of $9.5m to the Group for the period from 15 August 2019 to 30 June 2020. For the period prior to ownership from 1 July to 14 August 2019, the acquired business generated revenues of $13.4m and a loss after tax of $3.6m. The loss after tax is due to costs and adjustments associated with the acquisition by IPH and is not representative of ongoing business.

***Consideration transferred***

The following table summarises the acquisition date fair value of each major class of consideration transferred.

| | $'000 |
|---|---|
| Cash | 46,076 |
| Equity instruments (15,581,683 ordinary shares) | 130,730 |
| Total consideration transferred on acquisition date | 176,806 |
| Recognition of existing investment in XIP as part of acquisition value | 38,130 |
| Total acquisition value | 214,936 |

The Group incurred acquisition related costs in the year of $416,000. These costs have been included in business acquisition expenses.

***Equity instruments issued***

$130,730,320 of the purchase price was settled by way of the issue of 15,581,683 ordinary shares in IPH to the vendors of XIP. The shares issued have been recorded in the financial statements at the acquisition date fair value of $8.39 per share.

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***Identifiable assets acquired and liabilities assumed***

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

| | Fair value |
|---|---|
| | $'000 |
| Cash and cash equivalents | 5,752 |
| Trade and other receivables | 25,044 |
| Other assets | 7,814 |
| Property, plant and equipment | 9,634 |
| Right-of-use assets | 20,222 |
| Intangible assets - customer relationships | 120,100 |
| Intangible assets - trademarks | 14,600 |
| Current tax liabilities | (115) |
| Deferred tax liabilities | (31,305) |
| Trade and other payables | (11,045) |
| Provisions | (8,565) |
| Borrowings | (21,100) |
| Interest bearing lease liabilities | (28,344) |
| Other creditors | (1,676) |
| Net assets acquired | 101,016 |
| Goodwill | 113,920 |
| Acquisition-date fair value of total consideration transferred | 214,936 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of total consideration transferred | 214,936 |
| Less: shares issued by company as part of consideration | (130,730) |
| Less: existing investment in XIP | (38,130) |
| Less: cash and cash equivalents acquired | (5,752) |
| Net cash used | 40,324 |

The acquisition accounting has been finalised. Since provisionally reported at 31 December 2019, adjustments to the opening tax values resulted in an increase in deferred tax liabilities of $1.4m and a corresponding increase in goodwill of the same amount.

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## Note 30. Events after the reporting period

There were no significant events post 30 June 2020 that have impacted on the Group.

## Note 31. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 2:

| Name | Principal place of busines/Country of incorporation | Principal activities | Ownership interest 30 June 2020 | Ownership interest 30 June 2019 |
|---|---|---|---|---|
| AJ Park IP Ltd | New Zealand | Patent attorneys | 100% | 100% |
| AJ Park IP Pty Ltd | Australia | Patent attorneys | 100% | 100% |
| AJ Park Law Ltd[5] | New Zealand | Lawyers | 0% | 0% |
| Beijing Pat SF Intellectual Property Agency Co Ltd[5] | China | Patent attorneys | 0% | 0% |
| GH Law Pty Ltd[2,3,6] | Australia | Lawyers | 100% | 0% |
| GH PTM Pty Ltd[2,3,6] | Australia | Patent attorneys | 100% | 0% |
| Glasshouse Advisory Pty Ltd[2,3,6] | Australia | Non trading entity | 100% | 0% |
| Griffith Hack Holdings Pty Ltd[2,3,6] | Australia | Non trading entity | 100% | 0% |
| Intellectual Property Management Pty Ltd[2,3,6] | Australia | Non trading entity | 100% | 0% |
| IPH Holdings (Asia) Pte Ltd | Singapore | Non trading entity | 100% | 100% |
| IPH Services Pty Ltd[2,3] | Australia | Support services | 100% | 100% |
| IPH (Thailand) Ltd[4] | Thailand | Non trading entity | 49% | 49% |
| Pizzeys Patent & Trade Mark Attorneys Pty Ltd[2,3] | Australia | Patent attorneys | 100% | 100% |
| Pizzeys Pte Ltd | Singapore | Patent attorneys | 100% | 100% |
| Practice Insight Pty Limited[2,3] | Australia | Data analysis and software | 100% | 100% |
| PT Spruson Ferguson Indonesia | Indonesia | Patent attorneys | 100% | 100% |
| Shelston IP Lawyers Pty Ltd[2,3,6] | Australia | Lawyers | 100% | 0% |

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| Name | Principal place of busines/Country of incorporation | Principal activities | Ownership interest 30 June 2020 | Ownership interest 30 June 2019 |
|---|---|---|---|---|
| Shelston IP Pty Ltd[2,3,6] | Australia | Patent attorneys | 100% | 0% |
| Spruson & Ferguson (Asia) Pte Limited | Singapore | Patent attorneys | 100% | 100% |
| Spruson & Ferguson (Hong Kong) Ltd | Hong Kong | Patent attorneys | 100% | 100% |
| Spruson & Ferguson Intellectual Property Agency (Beijing) Company Ltd | China | Patent attorneys | 100% | 100% |
| Spruson & Ferguson Lawyers Pty Limited[2,3] | Australia | Lawyers | 100% | 100% |
| Spruson & Ferguson Limited | Hong Kong | Non trading entity | 100% | 100% |
| Spruson & Ferguson Ltd | Thailand | Patent attorneys | 100% | 100% |
| Spruson & Ferguson (M) SDN BHD | Malaysia | Patent attorneys | 100% | 100% |
| Spruson & Ferguson (NSW) Pty Limited[2,3] | Australia | Non trading entity | 100% | 100% |
| Spruson & Ferguson Pty Limited[2,3] | Australia | Patent attorneys | 100% | 100% |
| Spruson & Ferguson (Shanghai) Ltd | China | Patent attorneys | 100% | 100% |
| Watermark Advisory Services Pty Ltd[2,3,6] | Australia | Non trading entity | 100% | 0% |
| Watermark Australasia Pty Ltd[2,3,6] | Australia | Non trading entity | 100% | 0% |
| Watermark Holdings Pty Ltd[2,3,6] | Australia | Non trading entity | 100% | 0% |
| Watermark Intellectual Property Lawyers Pty Ltd[2,3,6] | Australia | Lawyers | 100% | 0% |
| Watermark Intellectual Property Pty Ltd[2,3,6] | Australia | Patent attorneys | 100% | 0% |
| WiseTime GmbH | Germany | Data analysis and software | 100% | 100% |
| Xenith IP Group Pty Ltd[2,3,6] | Australia | Non trading entity | 100% | 0% |
| Xenith IP Services Pty Ltd[2,3,6] | Australia | Support services | 100% | 0% |

1. IPH Limited is the head entity within the tax consolidated group.
2. These companies are members of the tax consolidated group.
3. These wholly owned subsidiaries entered into a deed of cross guarantee with IPH limited pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and are relieved from the requirements to prepare and lodge an audited financial report (note 39).
4. The Group holds 90.6% of the voting rights and thus has control of this entity.
5. These entities have Alliance Agreements with Group entities which results in consolidation in the IPH Group for Accounting purposes.
6. These entites were acquired by IPH Group in the financial year ended 30 June 2020.

## Note 32. Reconciliation of profit after income tax to net cash from operating activities

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Profit after income tax expense for the year | 54,752 | 53,111 |
| Adjustments for: | | |
| Depreciation and amortisation | 34,481 | 12,655 |
| Impairment of Intangible assets | 1,600 | - |
| Onerous lease and write downs | 3,704 | - |
| Unrealised foreign exchange | 1,556 | 536 |
| Interest on lease liabilities | 2,268 | - |
| Share-based payments | 2,180 | 2,200 |
| Change in operating assets and liabilities: | | |
| Decrease/(Increase) in trade and other receivables | (682) | (7,787) |
| (Increase) in deferred tax assets | (9,100) | (3,718) |
| Decrease/(Increase) in other assets | 6,291 | (2,179) |
| (Decrease)/Increase in trade and other payables | (3,658) | 4,115 |
| (Decrease)/increase in provision for income tax | (4,402) | 3,906 |
| Increase in other liabilties | - | (202) |
| (Decrease) in deferred revenue | (53) | (926) |
| Increase/(Decrease) in provisions | 881 | (161) |
| Net cash from operating activities | 89,818 | 61,549 |

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## Note 33. Earnings per share

| | Consolidated | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | $'000 | $'000 |
| Profit after income tax | 54,752 | 53,111 |
| Profit after income tax attributable to the owners of IPH Limited | 54,752 | 53,111 |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 211,828,389 | 197,341,566 |
| Options over ordinary shares | 755,802 | 1,193,492 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 212,584,191 | 198,565,456 |
| | Cents | Cents |
| Basic earnings per share | 25.85 | 26.91 |
| Diluted earnings per share | 25.76 | 26.75 |

## Note 34. Share-based payments

On 24 October 2014, the Long Term Incentive Plan ('LTIP') was adopted by the Board of Directors and was established to attract, motivate and retain key staff. Participation in the LTIP is at the Board's discretion and no individual has a contracted right to participate in the LTIP or to receive any guaranteed benefits.

### Retention rights

Each retention right issued under the LTIP converts into one ordinary share of IPH Limited on exercise. No amounts are paid or payable by the recipient of the retention right, and the retention rights carry neither rights to dividends nor voting rights. The retention rights are treated as in substance options and accounted for as share-based payments.

A portion of the aggregate retention rights granted will vest at each twelve month anniversary of the grant date; vesting is conditional on continued employment.

Set out below are summaries of the rights granted under the plan:

| Grant Date | Vesting Date | Exercise price | Balance at the start of year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 19 August 2016 | 1 August 2019 | $0.00 | 73,411 | - | (70,303) | (3,108) | - |
| Total Retention Rights | | | 73,411 | - | (70,303) | (3,108) | - |

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# Notes to the Financial Statements



### Revised IPH Limited Employee Incentive Plan - November 2016

A new incentive plan, the IPH Limited Employee Incentive Plan (the "Incentive Plan"), was approved at the AGM on 16 November 2016. This plan replaces the existing Long Term Incentive Plan and Retention Rights Plan. Each performance right issued under the Incentive Plan converts into one ordinary share of IPH Limited on exercise. No amounts are paid or payable by the recipient of the performance right, and the performance rights carry neither rights to dividends nor voting rights. The performance rights are treated as in substance options and accounted for as share-based payments.

The conditions attached to rights issued under the Incentive Plan can be in the form of a retention requirement or other Key Performance Indicator (KPI) metric for the Group, business unit and individual.

Movement in Performance Rights issued under the new Incentive Plan during the financial year were:

| Grant Date | Final vesting Date | Exercise price | Balance at the start of year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| Retention - 7 Jun 17 | 1 June 2020[1] | $0.00 | 10,684 | - | - | (10,684) | - |
| Retention - 22 Feb 18 | 5 Feb 2021[1] | $0.00 | 3,685 | - | (1,382) | (2,303) | - |
| Retention - 7 May 18 | 9 Apr 2022[2] | $0.00 | 43,479 | - | (14,493) | (14,493) | 14,493 |
| KPI - FY19[3] | 31 Aug 2019 | $0.00 | 717,396 | - | (709,487) | (7,909) | - |
| KPI - FY20[4] | 31 Aug 2020 | $0.00 | - | 905,496 | - | (569,610) | 335,886 |
| Total Performance Rights | | | 775,244 | 905,496 | (725,362) | (604,999) | 350,379 |

1. Annual vesting at the following rates: 20% first vesting date, 30% second and 50% final vesting date
2. Annual vesting of 25% of the award
3. Rights were issued in 3 tranches with grant dates of 6 Sept 18, 26 Nov 18 and 28 Feb 18
4. Rights were issued in 3 tranches with grant dates of 11 Oct 19, 1 Nov 19 and 4 Dec 19

The performance rights that vest are converted into shares and held on behalf of the employee in in the IPH Employee Share Trust for a further three years. The employees receive dividends whilst the shares are in trust but are unable to trade the shares. Shares are forfeited should the employee cease to be an employee during the three year holding period. A share based payment charge is recognised in the profit and loss account during this period of restriction.

### IPH Executives - Long Term Incentive

An executive long term incentive was introduced during FY18. Performance rights vest subject to achievement of a minimum compound annual growth rate in EPS over the performance period. The Board will determine a target for EPS for the performance period. For vesting to occur, EPS for the performance period must be at least equal to the Minimum EPS Target.

EPS Targets for the FY18 and FY19 plans are:

» Minimum EPS Target: 7% CAGR in EPS over the three year performance period ending on 30 June; and

» EPS Target: 15% CAGR in EPS over the three year performance period ending on 30 June.

Vesting of Rights is as follows:

» Less than 7% CAGR in EPS over the Performance Period - Nil vesting

» Equal to 7% CAGR in EPS over the performance Period - 20% vesting

» Greater than 7% CAGR in EPS up to and including 10% CAGR - straight line vesting between 20% and 65%

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- Greater than 10% CAGR in EPS up to and including 15% CAGR - straight line vesting between 65% and 100%
- At or above 15% CAGR in EPS over the Performance Period - 100% vesting

EPS Targets for the FY20 plan:

- Minimum EPS Target: 5% CAGR in EPS over the three year performance period ending on 30 June
- EPS Target: 12.5% CAGR in EPS over the three year performance period ending on 30 June

Vesting of Rights is as follows:

- Less than 5% CAGR in EPS over the Performance Period - Nil vesting
- Equal to 5% CAGR in EPS over the Performance Period - 25% vesting
- Greater than 5% CAGR in EPS up to and including 12.5% CAGR - pro-rated vesting on a straight line basis
- At or above 12.5% CAGR in EPS over the Performance Period - 100% vesting

| Grant Date | Final vesting Date | Exercise price | Balance at the start of year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| LTI - 20 Nov 17 | 1 Sept 2020 | $0.00 | 288,811 | - | - | (72,203) | 216,608 |
| LTI - 26 Nov 18 | 1 Sept 2021 | $0.00 | 366,493 | - | - | (29,802) | 336,691 |
| LTI - 22 Nov 19 | 1 Sept 2022 | $0.00 | - | 377,044 | - | - | 377,044 |
| Total LTI Performance Rights | | | 655,304 | 377,044 | - | (102,005) | 930,343 |

***Fair value of retention and performance rights granted***

The weighted average share price during the financial year was $8.19 (2019: $6.01).

The weighted average remaining contractual life of rights outstanding at the end of the financial year was 1.04 years (2019: 0.9 years).

The weighted fair value of the rights granted during the year is $7.71 (2018: $5.15).

Valuation model inputs used to determine the fair value of rights at the grant date, are as follows:

**Initial Incentive Plan - Oct 2014**

| Grant Date | Vesting Date | Share price at grant date | Exercise price | Dividend yield | Fair value at grant date |
|---|---|---|---|---|---|
| **Retention rights** | | | | | |
| 19 August 2016[1] | 30 June 2019 | $5.80 | $0.00 | 4.00% | $5.17 |

1. Expected volatility and risk free rate not included in this valuation

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### Revised IPH Limited Incentive Plan - November 2016

*Professional Staff and Senior Management*

| Grant Date | Vesting Date | Share price at grant date | Exercise price | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|
| IPH Limited Employee Incentive Plan | | | | | | |
| Retention - 22 Feb 18[1,2] | 5 Feb 2021 | $3.74 | $0.00 | 6.30% | 2.00% | $3.25 |
| Retention - 7 May 18[2,3] | 9 April 2022 | $3.86 | $0.00 | 6.30% | 2.08% | $3.32 |
| KPI FY19 - 6 Sep | 31 Aug 2019 | $5.65 | $0.00 | 5.20% | 1.94% | $5.37 |
| KPI FY19 - 26 Nov | 31 Aug 2019 | $5.40 | $0.00 | 5.20% | 1.91% | $5.19 |
| KPI FY19 - 28 Feb | 31 Aug 2019 | $6.06 | $0.00 | 4.80% | 1.73% | $5.91 |
| KPI FY20 - 11 Oct | 31 Aug 2020 | $8.16 | $0.00 | 3.90% | 0.70% | $7.88 |
| KPI FY20 - 1 Nov | 31 Aug 2020 | $8.05 | $0.00 | 3.90% | 0.83% | $7.79 |
| KPI FY20 - 4 Dec | 31 Aug 2020 | $8.07 | $0.00 | 3.90% | 0.77% | $7.84 |

1. Annual vesting at the following rates: 20% first vesting date, 30% second and 50% final vesting date.
2. Risk free interest rate and fair value at grant date are at the weighted average of the rights issued.
3. Annual vesting of 25% of the award.

*IPH Executives - Long Term Incentive*

| Grant Date | Vesting Date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|---|
| LTI - 20 Nov 2017 | 1 Sept 2020 | $5.64 | $0.00 | 32.00% | 5.00% | 1.89% | $4.91 |
| LTI - 26 Nov 2018[1] | 1 Sept 2021 | $5.40 | $0.00 | | 5.20% | 2.07% | $4.68 |
| LTI - 22 Nov 2019[1] | 1 Sept 2022 | $8.20 | $0.00 | | 3.90% | 0.74% | $7.36 |

1. Expected volatility not included in this valuation.

### *Amounts recognised in the Financial Statements*

During the financial year ended 30 June 2020, an expense of $2,180,000 was recognised in the Statement of Profit or Loss in relation to equity settled share based payment awards. (June 2019: $2,200,000)

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## Note 35. Deed of cross guarantee

The members of the Group party to the deed of cross guarantee are detailed in note 31. The consolidated Statement of Profit or Loss and Other Comprehensive Income and consolidated Statement of Financial Position of the entities party to the deed of cross guarantee are:

| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | $'000 | $'000 |
| Revenue | 220,755 | 114,690 |
| Other income | 44,146 | 43,781 |
| Expenses | | |
| Employee benefits expense | (79,969) | (36,319) |
| Depreciation of right-of-use assets | (6,119) | - |
| Depreciation and amortisation of fixed assets and intangibles | (24,472) | (8,614) |
| Occupancy expenses | (711) | (3,396) |
| Business acquisition costs | (1,120) | (3,583) |
| Agent fee expenses | (66,632) | (34,300) |
| Insurance expenses | (1,334) | (1,129) |
| Travel expenses | (1,369) | (1,379) |
| Other expenses | (17,724) | (8,982) |
| Finance costs | (6,473) | (2,669) |
| Profit before income tax expense | 58,978 | 58,100 |
| Income tax expense | (12,098) | (10,645) |
| Profit after income tax expense for the year | 46,880 | 47,455 |
| Other comprehensive income | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Other comprehensive income for the year, net of tax | 313 | 4,478 |
| Total comprehensive income for the year | 47,193 | 51,933 |

| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | $'000 | $'000 |
| Profit for the year is attibutable to: | | |
| Owners of IPH Limited | 46,880 | 47,455 |
| Profit after income tax expense for the year | 46,880 | 47,455 |
| Total comprehensive income for the year is attibutable to: | | |
| Owners of IPH Limited | 47,193 | 51,933 |
| Profit after income tax expense for the year | 47,193 | 51,933 |
| Current assets | | |
| Cash and cash equivalents | 63,970 | 16,112 |
| Trade and other receivables | 58,273 | 49,409 |
| Other assets | 7,536 | 45,086 |
| Total current assets | 129,779 | 110,607 |
| Non-current assets | | |
| Property, plant and equipment | 9,794 | 3,271 |
| Right-of-use assets | 27,509 | - |
| Intangibles | 284,201 | 175,044 |
| Investments in subsidiaries | 98,878 | 91,488 |
| Deferred tax | 21,755 | 7,660 |
| Total non-current assets | 442,136 | 277,463 |
| Total assets | 571,915 | 388,070 |

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| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Current liabilities** | | |
| Trade and other payables | 16,990 | 10,256 |
| Income tax | (4,361) | 4,576 |
| Provisions | 15,898 | 6,673 |
| Interest bearing lease liabilities | 6,567 | - |
| Deferred revenue | 1,832 | 121 |
| Total current liabilities | 36,926 | 21,626 |
| **Non-current liabilities** | | |
| Borrowings | 151,238 | 65,470 |
| Deferred tax liability | 40,735 | 20,929 |
| Interest bearing lease liabilities | 32,748 | - |
| Other financial liabilities | 774 | - |
| Provisions | 2,791 | 4,724 |
| Total non-current liabilities | 228,286 | 91,123 |
| Total liabilities | 265,212 | 112,749 |
| Net assets | 306,703 | 275,321 |
| **Equity** | | |
| Issued capital | 289,574 | 262,748 |
| Reserves | 9,261 | 958 |
| Retained profits | 7,868 | 11,615 |
| Total equity | 306,703 | 275,321 |

# Directors' Declaration

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## In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

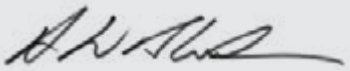
At the date of this declaration, the company is within the class of companies affected by ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Corporations Instrument applies, as detailed in note 35 to the financial statements, will as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Dr. Andrew Blattman
Managing Director
20 August 2020, Sydney

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# Independent Auditor's Report

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## Independent Auditor's Report to the Members of IPH Limited

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of IPH Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

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

*Basis for Opinion*

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

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

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

*Key Audit Matters*

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

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| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Recoverability of goodwill and intangible assets**<br><br>As at 30 June 2020, goodwill and intangible assets totalled $298.0 million and $185.2 million respectively, of which $68.2 million relates to the Pizzeys cash generating unit ("CGU"), and $37.0 million relates to the Shelston CGU as disclosed in note 13(c).<br><br>As set out in note 13(c), for the Pizzeys CGU, a decline in the 4 year EBITDA CAGR from 4.9% to 1.5% or an increase in the post tax discount rate from 10.5% to 11.4% would result in the carrying value of the Pizzeys CGU being equal to the recoverable amount.<br><br>Similarly, as also set out in note 13(c), for the Shelston CGU, a decline in the EBITDA CAGR from 5.9% to 3.7% or an increase in the post tax discount rate from 10.5% to 11.1% would result in the carrying value of the Shelston CGU being equal to the recoverable amount.<br><br>The determination of the recoverable amount of goodwill and intangible assets is complex and requires management to exercise significant judgement in particular in determining the key assumptions used in cash flow projections, such as:<br><br>• short term budgeted revenue and EBITDA, particularly in light of current economic uncertainty caused by COVID-19;<br>• long term growth rates; and<br>• discount rates. | Our procedures performed in conjunction with our valuation specialists, included, but were not limited to:<br><br>○ obtain an understanding of management's process to assess the recoverable amount of goodwill and intangible assets including the preparation of discounted cash flows models, and budgeting and forecast processes;<br><br>○ assessing the appropriateness of management's discounted cash flow ("DCF") models;<br><br>○ agreeing the cash flow projections used in the DCF model to Board approved forecasts;<br><br>○ consideration of the impact of COVID-19 on current year actual cash flows and future forecast cash flows, with specific focus on revenue and EBITDA forecasts;<br><br>○ assessing the historical accuracy of management's forecasting by comparing actual results to budgeted results for preceding years;<br><br>○ challenging the key assumptions and estimates used by management in their DCF models, including:<br><br>○ analysis of long term growth rates by reference to industry data and external economic outlook; and<br><br>○ determining our independent expectation of an appropriate discount rate range;<br><br>○ challenging and evaluating the appropriateness of management's sensitivity analysis; and<br><br>○ evaluating the appropriateness of disclosures made in the financial report against the relevant accounting standards. |
| **Accounting for the acquisition of Xenith IP Group Pty Ltd ("XIP")**<br><br>As disclosed in note 29, on 15 August 2019 IPH Limited acquired XIP and in accordance with the requirements of AASB 3 Business Combinations ("AASB 3") IPH have recorded the fair value of the assets acquired and assumed liabilities on acquisition date. The consideration was $214.9 million and goodwill of $113.9 million was recognised on acquisition.<br><br>Accounting for an acquisition is a complex and judgemental exercise, requiring management to determine:<br><br>• the fair value of the total purchase consideration including any deferred amounts;<br>• the identifiable intangible assets such as customer contracts and relationships, to be recognised separately from goodwill; and | Our procedures performed in conjunction with our valuation specialists, included, but were not limited to:<br><br>○ obtaining a detailed understanding of the terms and conditions of the Scheme of Implementation Deed including the relevant purchase consideration and assessing management's accounting treatment;<br><br>○ evaluating the competence, capability and objectivity of management's external expert and performing a detailed review of their signed valuation report to understand the scope of their engagement and any limitations in the report;<br><br>○ challenging the appropriateness of the values attributed to the acquired intangible assets assumed by: |

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| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| • the allocation of goodwill to the CGUs that are expected to benefit from the synergies of the business combination. | ○ assessing the identification and valuation of customer relationships and the appropriateness of the amortisation rate;<br>○ analysing cash flow assumptions including revenue growth rates, gross margin and contributory asset charges;<br>○ assessing the discount rate used and challenging the reasonableness of the valuation outputs;<br>○ challenging management's qualitative and quantitative basis for the allocation of the acquired goodwill; and<br>○ evaluating the appropriateness of disclosures made in the financial report against the relevant accounting standards. |

*Other Information*

The directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): The IPH Group, The IPH Story, Chairman's Letter, Operational Highlights, Financial Highlights, CEO's Report and Shareholder Information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Letter, Chief Executive Officer's Report, Board of Directors and Shareholders Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

*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,

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they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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.

# Independent Auditor's Report

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**Report on the Remuneration Report**

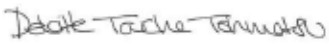
*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in section 5 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of IPH Limited for the year ended 30 June 2020, 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.



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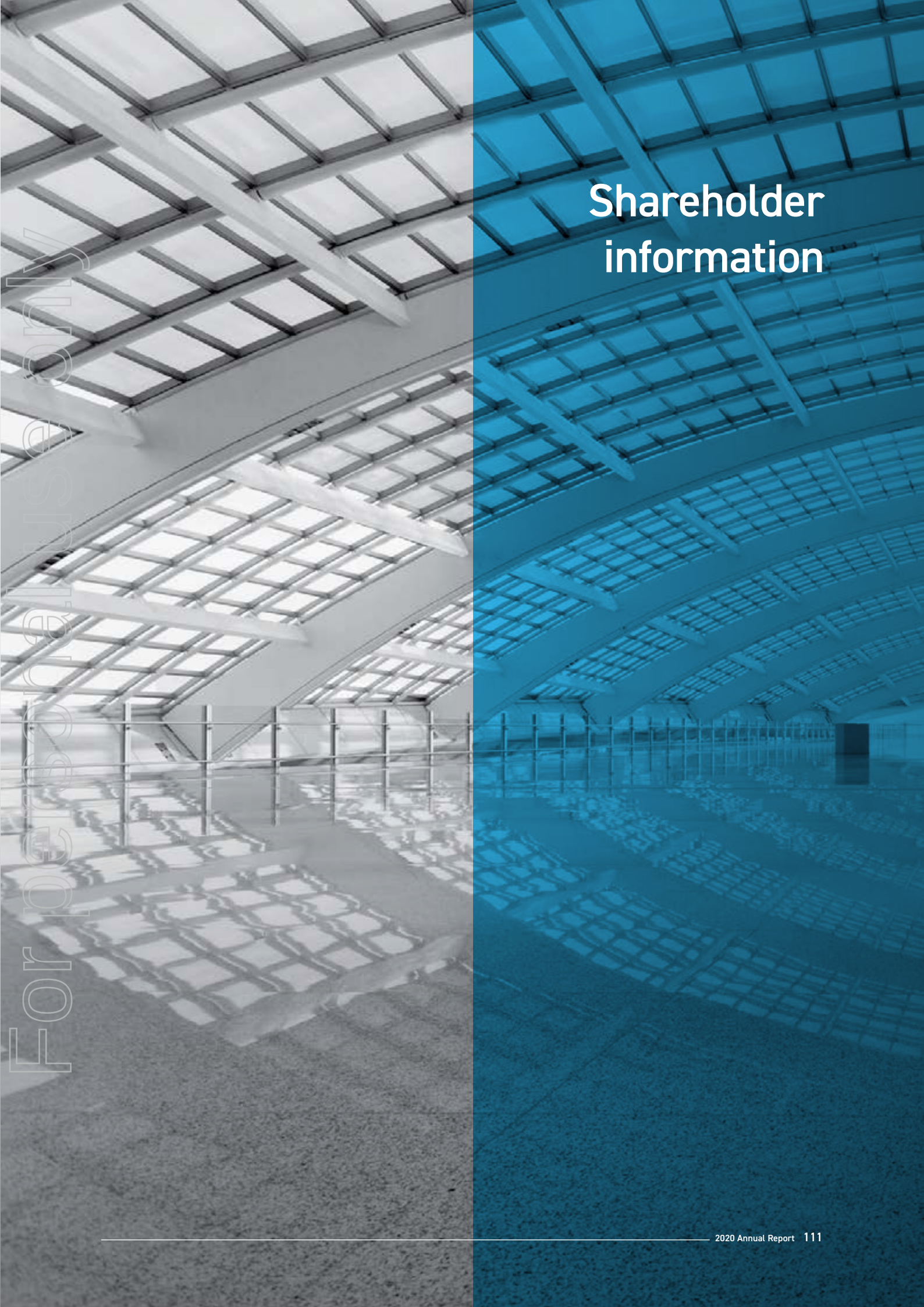
Partner
Chartered Accountants
Sydney, 20 August 2020



# Shareholder information

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# Shareholder Information

The shareholder information set out below was applicable as at 31 August 2020.

## Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| Range | Securities | % | Number of shareholders |
|---|---|---|---|
| 100,001 and Over | 191,865,905 | 89.49 | 66 |
| 10,001 to 100,000 | 9,037,292 | 4.22 | 401 |
| 5,001 to 10,000 | 4,911,838 | 2.29 | 674 |
| 1,001 to 5,000 | 7,199,904 | 3.36 | 2,825 |
| 1 to 1,000 | 1,381,225 | 0.64 | 3,030 |
| Total | 214,396,164 | 100.00 | 6,996 |
| Unmarketable Parcels | 6,079 | 0.00 | 283 |

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## Equity security holders

### Twenty largest quoted equity security holders

The names of the twenty largest registered holders of quoted equity securities as at 31 August 2020 are listed below:

| Rank | Name | A/C designation | 31 Aug 2020 | % |
|---|---|---|---|---|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | | 82,905,431 | 38.67% |
| 2 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | | 40,482,032 | 18.88% |
| 3 | NATIONAL NOMINEES LIMITED | | 14,943,166 | 6.97% |
| 4 | CITICORP NOMINEES PTY LIMITED | | 14,542,951 | 6.78% |
| 5 | BNP PARIBAS NOMINEES PTY LTD | <AGENCY LENDING DRP A/C> | 5,605,629 | 2.61% |
| 6 | BNP PARIBAS NOMS PTY LTD | <DRP> | 3,846,800 | 1.79% |
| 7 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | <NT-COMNWLTH SUPER CORP A/C> | 3,833,023 | 1.79% |
| 8 | UBS NOMINEES PTY LTD | | 2,200,291 | 1.03% |
| 9 | SETDOR PTY LIMITED | | 2,100,000 | 0.98% |
| 10 | TALABAH PTY LIMITED | | 1,767,175 | 0.82% |
| 11 | MILTON CORPORATION LIMITED | | 1,265,922 | 0.59% |
| 12 | CITICORP NOMINEES PTY LIMITED | <COLONIAL FIRST STATE INV A/C> | 1,251,280 | 0.58% |
| 13 | WOMBEE PTY LTD | <IRANI FAMILY A/C> | 1,000,654 | 0.47% |
| 14 | WARBONT NOMINEES PTY LTD | <UNPAID ENTREPOT A/C> | 878,460 | 0.41% |
| 15 | NATIONAL NOMINEES LIMITED | <DB A/C> | 792,412 | 0.37% |
| 16 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA | | 670,665 | 0.31% |
| 17 | AMP LIFE LIMITED | | 666,957 | 0.31% |
| 18 | BKI INVESTMENT COMPANY LIMITED | | 665,000 | 0.31% |
| 19 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | | 644,527 | 0.30% |
| 20 | PACIFIC CUSTODIANS PTY LIMITED | IPH EMP SHARE TST | 579,154 | 0.27% |
| Total | | | 180,641,529 | 84.26% |
| Balance of register | | | 33,754,635 | 15.74% |
| Grand total | | | 214,396,164 | 100.00% |

The above table includes shareholders that may hold shares for the benefit of third parties.

# Shareholder Information

## Geography distribution

31 Aug 2020

| | Securities | % | No. of holders | % |
|---|---|---|---|---|
| AUSTRALIA | 213,534,127 | 99.60 | 6,898 | 98.60 |
| BAHRAIN | 700 | 0.00 | 1 | 0.01 |
| DENMARK | 10,000 | 0.00 | 1 | 0.01 |
| FRANCE | 3,822 | 0.00 | 1 | 0.01 |
| HONG KONG | 5,332 | 0.00 | 1 | 0.01 |
| INDONESIA | 3,332 | 0.00 | 2 | 0.03 |
| JAPAN | 974 | 0.00 | 1 | 0.01 |
| MALAYSIA | 3,900 | 0.00 | 3 | 0.04 |
| NEW ZEALAND | 731,597 | 0.34 | 66 | 0.94 |
| PHILIPPINES | 1,320 | 0.00 | 1 | 0.01 |
| SINGAPORE | 37,742 | 0.02 | 6 | 0.09 |
| SOUTH AFRICA | 1 | 0.00 | 1 | 0.01 |
| SWEDEN | 1,657 | 0.00 | 1 | 0.01 |
| THAILAND | 8,000 | 0.00 | 1 | 0.01 |
| UNITED KINGDOM | 38,755 | 0.02 | 4 | 0.06 |
| UNITED STATES | 12,655 | 0.01 | 6 | 0.09 |
| VANUATU | 1,900 | 0.00 | 1 | 0.01 |
| VIETNAM | 350 | 0.00 | 1 | 0.01 |
| Total | 214,396,164 | 100.00[1] | 6,996 | 100.00[1] |

1. May not add up to 100 due to rounding

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## Unquoted equity securities

| | Number on Issue | Number of holders |
|---|---|---|
| Performance Rights | 1,280,723 | 166 |

## Substantial holders

The names of substantial shareholders of the Company's ordinary shares as at 31 August 2020 (holding no less than 5%) who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

| Holder | Date of last notice received | Number of securities | Percentage of issued capital[1] |
|---|---|---|---|
| Paradice Investment Management Pty Ltd | 19 August 2019 | 13,185,819 | 6.18% |
| The Vanguard Group | 27 May 2019 | 11,076,840 | 5.19% |
| Invesco Australia Ltd | 27 July 2020 | 10,995,377 | 5.12% |

1. Percentage of issued securities at 31 August 2020

## Voting rights

The voting rights attached to ordinary shares are set out below:

### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

## Restricted securities

There are no restricted securities.

# Shareholder Information

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## Annual General Meeting (AGM)

IPH will hold its 2020 Annual General Meeting as a virtual meeting on Thursday, 19 November 2020, commencing at 10.30am (AEDT). Shareholders can attend the virtual Annual General Meeting through the online platform: https://agmlive.link/IPH20

IPH Limited is listed on the ASX and its ordinary shares are quoted under the ASX code 'IPH'.

## Annual report

Amendments to the Corporations Act 2001 have changed the obligations of companies regarding the provision of annual reports to shareholders. The default option for receiving annual reports has changed from a printed copy to an electronic copy via IPH's website at www.iphltd.com.au.

## Verification process

During the FY20 period, IPH has implemented additional processes to verify the periodic corporate reports it has prepared and released during FY20, where those reports were not subject to audit or review by an external auditor, to satisfy itself that each report was materially accurate and balanced and provided investors with appropriate information to make investment decisions. This verification process was applied to the sections of this Annual Report not audited or reviewed by an external auditor. The verification processes used included documenting the sources of information and undertaking consultation within IPH or with external parties. The Board or, where appropriate, Board Committees, have reviewed and approved each periodic corporate report prepared and released by IPH during FY20.

## Online voting

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2020 AGM. The information required to log on and use online voting is shown on the voting form distributed to shareholders with the Notice of Annual General meeting.

## Voting rights

At a general meeting, a shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll has one vote for each fully paid share held.

Voting at any meeting of shareholders is by a show of hands unless a poll is demanded in the manner described in the Company's Constitution. Consistent with the ASX Corporate Governance Principles and Recommendations, the Chairman will demand a poll in relation to all substantive resolutions at a meeting of shareholders. If there are two or more joint holders of a share and more than one of them is present at a general meeting, in person or by proxy, attorney or representative, and tenders a vote in respect of the share, the Company will count only the vote cast by, or on behalf of, the shareholder by the joint holder whose name appears first in the Company's register of shareholder.

The quorum required for a meeting of members is the lesser (by number) of: five shareholders present in person; or shareholders present in person representing at least 10 per cent of the voting shares.

## Shareholder questions

Shareholders can submit a written question to the Company or the Company's auditor in regard to the AGM or any of the proposed resolutions to be considered at the AGM, using the form supplied with the Notice of AGM distributed to shareholders.

## Information about IPH

Information about IPH Limited including company announcements, presentations and reports can be accessed at www.iphltd.com.au.

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Cover image: Buildings in the centre of Auckland, New Zealand



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www.iphltd.com.au