

IPH Limited

ABN 49 169 015 838

Half year report

For the half year ended 31 December
2015

IPH LIMITED

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Directors' Report

The directors of IPH Limited (the “Company”) submit herewith the financial report of IPH Limited and its subsidiaries (the “Group”) for the half year ended 31 December 2015 (“HY16”). In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The names of the directors of the Company in office during the financial period and until the date of this report are set out below. Directors were in office for the entire period.

| Name | Office |
|-------------------------|------------------------|
| Mr Richard Grellman, AM | Non-executive Chairman |
| Mr David Griffith | Managing Director |
| Ms Robin Low | Non-executive Director |
| Dr Sally Pitkin | Non-executive Director |
| Mr John Atkin | Non-executive Director |

Review of Operations

IPH Limited’s businesses are comprised of Spruson & Ferguson patent and trade mark attorneys, Spruson & Ferguson Lawyers and IPH Services based in Sydney; Spruson & Ferguson Asia patent attorneys based in Singapore with a representative office in Shanghai; Spruson & Ferguson Malaysia patent attorneys based in Kuala Lumpur; Fisher Adams Kelly Callinans patent and trade mark attorneys based in Brisbane and Melbourne; Pizzeys patent and trade mark attorneys based in Brisbane, Canberra and Singapore and Practice Insight intellectual property software developers based in Perth.

The Group’s businesses provide services to support their clients in protecting their Intellectual Property (“IP”). IP is an output of intellectual creativity that may be reflected in various forms including inventions, trade marks, designs and artistic works. IP is often fundamental to the operations and value of many of the world’s leading companies.

The Group operates IP hubs from its two major offices; the Sydney office provides services in Australia, New Zealand, Papua New Guinea and the Pacific Island; and the Singapore office operates a “one-stop” service for Asia, providing services in 19 countries throughout the region including Singapore, Malaysia, China, Hong Kong, India, Indonesia, the Philippines, Pakistan, Taiwan, Thailand and Vietnam. Specifically Spruson & Ferguson provides patent and design filing and prosecution services in all the above countries; trade mark filing and prosecution services in Australia, New Zealand, Papua New Guinea and the Pacific Islands; services related to all other forms of IP; and IP related legal services in Australia.

In Australia IPH is the leading patent and trade mark attorney group based on patent and trade mark applications filed at Intellectual Property Australia. In Singapore Spruson & Ferguson is the leading patent attorney firm based on patents filed at the Intellectual Property Office of Singapore. In the other Asian markets in which IPH competes, it has a much lower market share, which represents a significant growth opportunity.

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In the half year ended 31 December 2015, the Group's Spruson & Ferguson Asian businesses continued to grow strongly with patent filings increasing 19% compared to the previous corresponding period. Today Spruson & Ferguson's market share in Singapore is 25%. In Australia, the Spruson & Ferguson patent business increased its filings by 3% and the trade mark business increased its filings by 26%, compared to the previous corresponding period. The Group's overall market share in Australia in both patents and trade marks has been increased because of the addition for the first time of the filings of the newly acquired Fisher Adams Kelly, Pizzeys and Callinans businesses. Today IPH Group has a market share of Australian patent filings of 20.5% and of Australian trade mark filings of 11%.

Results

Adjusted operating results

| Reported / Adjusted Results Reconciliation | HY16 \$'m | HY15 \$'m |
|---|--------------|--------------|
| Reported revenue | 69.0 | 42.5 |
| add: Spruson & Ferguson Lawyers pre-restructuring revenue | - | 0.7 |
| Adjusted revenue | 69.0 | 43.2 |
| | | |
| Reported Net Profit after Tax (“NPAT”) | 18.5 | 13.2 |
| add: deferred acquisition consideration net adjustments | 1.4 | - |
| add: impairment adjustment | 0.9 | - |
| add: amortisation of intangibles arising from business combinations | 2.1 | - |
| add: share based payments expenses | 0.5 | 0.6 |
| add: leave balances recognition arising from restructuring | - | 0.4 |
| add: IPO expenses | - | 3.4 |
| add: Spruson & Ferguson Lawyers earnings (net of distributions) | - | 0.1 |
| less: notional annualising of salaries and public company expenses | - | (0.9) |
| less: recognition of tax balances arising from the restructuring | - | (2.0) |
| less: notional tax charges | - | (1.4) |
| Adjusted NPAT | 23.4 | 13.4 |

The Reported / Adjusted Results Reconciliation table has been prepared so as to eliminate the effect of acquisition balances adjustments and non-cash share based payments adjustments to the reported results and in the previous corresponding period to also eliminate the effects of the IPO and restructuring of the Group. The Directors believe these adjustments are necessary to present the adjusted operating results of the Group on the basis of how it has been constituted since the restructuring in late 2014.

Adjusted Group revenue for the half year was \$69.0m, up 60% from the corresponding previous period and adjusted NPAT was \$23.4m, up 75% when compared to the previous corresponding period. The increases in both revenue and NPAT were because of the inclusion of the results from the businesses acquired in the last year, the net positive impact of foreign exchange movements and the underlying growth of the Spruson & Ferguson businesses.

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Acquisitions

On 30 September 2015 IPH completed the acquisition of Pizzeys Patent & Trade Mark Attorneys Pty Ltd (“Pizzeys”). Pizzeys was established over 20 years ago and is one of the fastest growing intellectual property (“IP”) firms in Australia (based on patent filings at IP Australia). This year Pizzeys has become the fourth largest filer of patent applications at the Australian Patent Office. Pizzeys business is predominantly focussed on in-bound work into Australia from overseas IP associates and direct corporate clients. Pizzeys has offices in Brisbane and Canberra. Purchase consideration for the acquisition was \$72.1m, with a potential additional earn-out payment based on FY16 earnings growth. The purchase consideration was settled 50% in cash and 50% in IPH shares and any earn out will be settled on the same basis. The number of IPH shares issued as consideration was determined based on an IPH share price of \$5.41, being the volume weighted average price (“VWAP”) prior to signing the purchase contract. The investment was taken up in IPH’s accounts on the date of completion based on the IPH share price of \$6.90. The earn out amount was valued at completion as part of the investment at \$14.0m. The earn out liability was repriced at the period end, which resulted in a charge to the profit and loss of \$2.3m. This amount has been reversed in the calculation of adjusted earnings.

On 2 November 2015 IPH’s subsidiary Fisher Adams Kelly Pty Ltd acquired Callinans Patent and Trade Mark Attorneys business (“Callinans”). Callinans is a long established patent and trade mark attorney firm predominantly focussed on corporate clients and is based in Melbourne. The combined firm, has been renamed Fisher Adams Kelly Callinans. Purchase consideration for the acquisition was \$5.5m and there are potential further earn-out amounts payable based on certain performance criteria. The purchase consideration was settled 50% in cash and 50% in IPH shares. The number of IPH shares issued as consideration was determined based on an IPH share price of \$6.98, being the VWAP prior to signing the business purchase contract. The investment was taken up in IPH’s accounts on the date of completion based on the IPH share price of \$7.56. The earn out amounts were valued at completion as part of the investment at \$3.8m. Subsequent to completion IPH has recognised a \$1.1m write-back of earn out liability and an impairment charge of \$0.9m in relation to one of the earn out performance criteria having not been met. The remaining earn out liability was repriced at the period end, which resulted in a charge to the profit and loss of \$0.2m. These amounts have been reversed in the calculation of adjusted earnings.

The new businesses acquired over the last year have contributed EBITDA of \$4.0m (net of acquisition costs) to the Group’s results in the period. It is anticipated the contribution from the new businesses in the second half will be greater as IPH derives the benefit of the earnings of the newly acquired businesses for the whole of the period.

Acquisition intangibles

In the period the Company undertook valuations of the intangibles acquired with the new businesses purchased over the last year. This has resulted in \$55.1m of intangibles being recognised on the balance sheet and adjusted against goodwill. The intangibles recognised comprise customer relationships, software and trade marks. As a consequence of the recognition of these intangibles, IPH has adopted new accounting policies to amortise customer relationships over 10 years and software over 4 years and to determine the carrying value of trade marks each reporting period under the requirements of AASB 136 (Impairment of Assets). As a result of the adoption of these polices an amortisation charge of \$2.1m was recognised in the period. This charge has been reversed in the calculation of adjusted earnings.

Share-based payments

During the period the Company issued 285,985 performance rights and 210,916 retention rights under the terms of the Company's long-term incentive plan. These rights have been valued at \$2.7m and will be expensed as share-based payments over the next three years. A share-based payments charge of \$0.5m was recognised in the period. This charge has been written back in the calculation of the adjusted earnings.

Cash flow

| | Reported HY16 \$'m | Reported HY15 \$'m |
|--|--------------------------|--------------------------|
| Operating cash flow before finance & investing | 26.2 | 16.1 |
| Net financing & investing cash flows | 58.7 | 6.7 |
| Net cash flows before dividends | 84.9 | 22.8 |
| Dividends paid (net of DRP re-investments) | (13.3) | (22.1) |
| Net cash flow | <u>71.6</u> | <u>0.7</u> |

Operating cash flows before financing & investing activities in the half year were \$26.2m, up 63% from the previous corresponding period having been positively impacted by the inclusion of the operating cash flows from newly acquired businesses, continued appreciation of foreign currencies against the Australian dollar and underlying growth of the IPH businesses. The previous corresponding period was negatively impacted by the one-off cash costs of the initial public offering and restructuring.

Investment Funding Capacity

The institutional share placement and share purchase plan undertaken by the Company in the period resulted in the issue of 15,197,330 new IPH shares at \$7.30/share. The capital raised from these issues totalled \$108.5m (net of costs). This has allowed the Company to retire all borrowings and retain \$77m in cash balances at 31 December 2015. Further, the Company has available undrawn bank facilities of \$97.6m. The total funding capacity is ear-marked for further acquisitions over the next year.

Dividends

The Directors have reviewed the Company's dividend policy in the light of the non-cash adjustments which have impacted the results and have revised the policy so as to pay-out 80 – 90% of adjusted NPAT. On the basis of the new dividend policy, the Directors have declared an interim dividend of 11.0 cents per share, 80% franked, with a record date of 2 March 2016 and payable on 23 March 2016.

Auditor Independence

The auditor's independence declaration as required under *section 307C* of the *Corporations Act 2001* is set out on page 27 and forms part of this report.

Signed in accordance with a resolution of the directors

A handwritten signature in black ink, appearing to read "David Griffith".

David Griffith
Managing Director
23 February 2016

IPH LIMITED

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

| | Consolidated Half year ended | |
|--|---|--------------------|
| | 31 Dec 2015 | 31 Dec 2014 |
| | \$'000 | \$'000 |
| Revenue | 66,353 | 40,311 |
| Other income | 2,615 | 2,176 |
| Depreciation and amortisation expenses | (2,953) | (498) |
| Employee benefits expense | (18,006) | (14,122) |
| Rental expenses | (2,123) | (1,325) |
| Finance costs | (886) | (337) |
| Restructure and formation expenses | - | (3,441) |
| Legal, professional & compliance expenses | (1,304) | (269) |
| Business acquisition adjustments | (1,354) | - |
| Business acquisition impairment | (961) | - |
| Business acquisition expenses | (617) | - |
| Agent fee expenses | (11,710) | (6,544) |
| Other expenses | (3,584) | (1,957) |
| Profit before income tax expense | 25,470 | 13,994 |
| Income tax expense | (6,994) | (797) |
| Profit for the period | 18,476 | 13,197 |
| Other comprehensive income | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Exchange differences on translation of foreign operations | 602 | (257) |
| Other comprehensive loss for the period | | |
| Total comprehensive income for the period | 19,078 | 12,940 |
| Profit is attributable to: | | |
| - Owners of the parent | 18,476 | 12,923 |
| - Non-controlling interests | - | 274 |
| | 18,476 | 13,197 |
| Total comprehensive income is attributable to: | | |
| - Owners of the parent | 19,078 | 12,666 |
| - Non-controlling interests | - | 274 |
| | 19,078 | 12,940 |
| Earnings per share | | |
| Basic (cents per share) | 10.98 | 8.20 |
| Diluted (cents per share) | 10.90 | 8.18 |

The accompanying notes form part of these financial statements.

IPH LIMITED

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

| | | Consolidated | |
|--------------------------------------|-------------|---------------------|--------------------|
| | <i>Note</i> | 31 Dec 2015 | 30 Jun 2015 |
| | | \$'000 | \$'000 |
| Current assets | | | |
| Cash and cash equivalents | | 76,991 | 5,346 |
| Trade and other receivables | | 33,390 | 27,410 |
| Other | | 3,922 | 2,124 |
| Total current assets | | 114,303 | 34,880 |
| Non-current assets | | | |
| Other financial assets | | 29 | 29 |
| Property, plant and equipment | | 3,565 | 1,188 |
| Intangible assets and goodwill | 2 | 135,045 | 34,525 |
| Deferred tax assets | | 2,416 | 1,972 |
| Total non-current assets | | 141,055 | 37,714 |
| Total assets | | 255,358 | 72,594 |
| Current liabilities | | | |
| Trade and other payables | | 14,371 | 9,978 |
| Provisions | | 4,723 | 4,705 |
| Current tax liabilities | | 10,843 | 5,664 |
| Other financial liabilities | | 19,149 | 4,950 |
| Deferred revenue | | 1,087 | 1,162 |
| Total current liabilities | | 50,173 | 26,459 |
| Non-current liabilities | | | |
| Borrowings | | 42 | 10,550 |
| Provisions | | 576 | 407 |
| Total non-current liabilities | | 618 | 10,960 |
| Total liabilities | | 50,791 | 37,416 |
| Net assets | | 204,567 | 35,178 |
| Equity | | | |
| Issued capital | 4 | 201,494 | 35,305 |
| Reserves | 5 | (13,523) | (14,588) |
| Retained earnings | | 16,596 | 14,461 |
| Non-controlling interests | | - | - |
| Total equity | | 204,567 | 35,178 |

The accompanying notes form part of these condensed consolidated financial statements.

IPH LIMTIED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR
ENDED 31 DECEMBER 2015

| | Issued capital \$'000 | Foreign Currency Translation Reserve \$'000 | Minority Interest Acquisition \$'000 | Equity settled employee benefits \$'000 | Retained earnings \$'000 | Parent \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
|---|---------------------------------|---|--|---|------------------------------------|-------------------------|--|-------------------------------|
| Balance as at 1 July 2014 | 420 | (276) | (4,472) | - | 3,932 | (396) | 543 | 147 |
| Profit for the period | - | - | - | - | 12,923 | 12,923 | 274 | 13,197 |
| Exchange differences on translation a foreign operation | - | (257) | - | - | - | (257) | - | (257) |
| Total comprehensive income for the year | - | (257) | - | - | 12,923 | 12,666 | 274 | 12,940 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | | | |
| Conversion of units | 451 | - | - | - | - | 451 | - | 451 |
| Acquisition of non-controlling interest | 11,354 | - | (10,378) | - | - | 976 | (159) | 817 |
| Issue of ordinary shares | 321 | - | - | - | - | 321 | - | 321 |
| Recognition of share based payments | - | - | - | 597 | - | 597 | - | 597 |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | (658) | (658) |
| Distribution to previous owners | | | | | (14,273) | (14,273) | - | (14,273) |
| Total transactions with owners in their capacity as owners | 12,126 | - | (10,378) | 597 | (14,273) | (11,928) | (817) | (12,745) |
| Balance as at 31 Dec 2014 | 12,546 | (533) | (14,850) | 597 | 2,582 | 342 | - | 342 |

The accompanying notes form part of these condensed consolidated financial statements.

IPH LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR
ENDED 31 DECEMBER 2015

| | Issued capital \$'000 | Foreign Currency Translation Reserve \$'000 | Minority Interest Acquisition \$'000 | Equity settled employee benefits \$'000 | Retained earnings \$'000 | Total Equity \$'000 |
|---|----------------------------------|--|---|--|---|--------------------------------|
| Balance as at 1 July 2015 | 35,305 | (233) | (14,850) | 495 | 14,461 | 35,178 |
| Profit for the period | - | - | - | - | 18,476 | 18,476 |
| Exchange differences on translation a foreign operation | - | 602 | - | - | - | 602 |
| Total comprehensive income for the year | - | 602 | - | - | 18,476 | 19,078 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Dividends paid (Note 3) | - | - | - | - | (16,341) | (16,341) |
| Issue of ordinary shares (net of costs) (Note 4) | 166,189 | - | - | - | - | 166,189 |
| Recognition of share based payments | - | - | - | 463 | - | 463 |
| Total transactions with owners in their capacity as owners | 166,189 | - | - | 463 | (16,341) | 150,311 |
| Balance as at 31 Dec 2015 | 201,494 | 369 | (14,850) | 958 | 16,596 | 204,567 |

The accompanying notes form part of these condensed consolidated financial statements.

IPH LIMITED

**CONDENSED CONSOLIDATED CASH FLOW
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

| | Consolidated Half year ended | |
|---|---|--------------------|
| | 31 Dec 2015 | 31 Dec 2014 |
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Receipts from customers | 70,412 | 45,090 |
| Payments to suppliers and employees | (40,592) | (27,433) |
| Interest received | 33 | 96 |
| Interest paid | (886) | (300) |
| Income tax paid | (2,815) | (1,328) |
| Net cash provided by operating activities | <u>26,152</u> | <u>16,125</u> |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment and intangible assets | (1,085) | (507) |
| Payments for purchase of subsidiaries, net of cash acquired | (37,200) | - |
| Payments for intangibles | (882) | - |
| Net cash used in investing activities | <u>(39,167)</u> | <u>(507)</u> |
| Cash flows from financing activities | | |
| Proceeds from (repayment of) borrowings | (10,508) | 7,179 |
| Distributions/dividends paid to previous owners | - | (22,107) |
| Dividends paid | (13,291) | - |
| Proceeds from issues of shares (net of costs) | 108,454 | - |
| Net cash provided by/(used in) financing activities | <u>84,655</u> | <u>(14,928)</u> |
| Net increase in cash and cash equivalents | 71,640 | 690 |
| Cash and cash equivalents at the beginning of the financial period | 5,346 | 4,321 |
| Effects of foreign exchange rate changes on the balance of cash held in foreign currencies | 5 | (226) |
| Cash and cash equivalents at the end of the financial period | 76,991 | 4,785 |

The accompanying notes form part of these condensed consolidated financial statements.

IPH LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB134 ensures compliance with International Financial Reporting Standards IAS 34 'Interim Financial Reporting'. The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

It is also recommended that the half-year financial report be considered together with any public announcements made by IPH Limited and its controlled entities during the half-year ended 31 December 2015 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2015 annual report for the financial year ended 30 June 2015, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Amendments to AASBs and the new Interpretations that are mandatorily effective for the current reporting period.

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 their operations and effective for the current half year.

No new or revised Standards and Interpretations effective for the period under review are considered to materially impact the Company.

Intangible assets

(i) *Software and customer relationships*

Software and customer relationships acquired as part of the business combinations are recognised separately from goodwill.

Separately acquired software and customer relationships are shown at historical cost. Software and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

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NOTES TO FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

| | |
|-----------------------------|----------|
| IT development and software | 4 years |
| Customer relationships | 10 years |

(ii) Trade Marks

Trademarks are identifiable intangible assets with indefinite useful lives. They are not subject to amortisation; rather, they are subject to impairment testing in accordance with AASB 136 Impairment of Assets"

Business combinations

(i) Deferred consideration

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. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period include deferred consideration. The Group measures the deferred consideration at fair value as at the date of acquisition and reassesses fair value with reference to management accounts and projections at each reporting period.

IPH LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2: INTANGIBLE ASSETS AND GOODWILL

Reconciliation of carrying amount

| | <i>Note</i> | Goodwill | Trademarks | Customer relationships | Software | Total |
|---|-------------|-----------------|-------------------|-------------------------------|-----------------|--------------|
| Cost | | | | | | |
| Balance at 1 July 2015 | | 33,581 | 14 | - | 1,247 | 34,842 |
| Provisional accounting adjustments | | (13,450) | 1,014 | 8,631 | 3,805 | - |
| Acquisitions – internally developed | | - | - | - | 753 | 753 |
| Acquisitions through business combinations | | 60,444 | 1,349 | 41,278 | - | 103,071 |
| Balance at 31 December 2015 | | 80,575 | 2,377 | 49,909 | 5,805 | 138,666 |
| Accumulated amortisation and impairment losses | | | | | | |
| Balance at 1 July 2015 | | - | - | - | (317) | (317) |
| Amortisation | | - | - | (1,464) | (879) | (2,343) |
| Impairment loss | | - | - | (961) | - | (961) |
| Balance at 31 December 2015 | | - | - | (2,425) | (1,196) | (3,621) |
| Carrying amounts | | | | | | |
| At 1 July 2015 | | 33,581 | 14 | - | 930 | 34,525 |
| At 31 December 2015 | | 80,575 | 2,377 | 47,484 | 4,609 | 135,045 |

IPH LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

3: DIVIDENDS

During the half-year, IPH Limited made the following dividend payments:

| | Consolidated | |
|------------------|-----------------------------|-------------------------|
| | 31 December 2015 | 30 June 2015 |
| Interim dividend | \$16,341 | - |

On 23 February 2016, the directors declared an interim dividend of 11 cents per share (9 cents franked) (30 June 2015 final dividend 10.0 cents per share (franked at 5.0 cents) and paid on 7 October 2015) to the holders of fully paid ordinary shares in respect of the half year ended 31 December 2015, to be paid to shareholders on 23 March 2016. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$20,496.

4: ISSUED CAPITAL

| | 31 Dec 2015 | 30 June 2015 |
|---|--------------------|---------------------|
| | \$'000 | \$'000 |
| Issued and paid-up capital | | |
| 186,329,690 fully paid ordinary shares (2015: 162,378,265 fully paid ordinary units) | <u>201,494</u> | <u>35,305</u> |

| Fully paid ordinary shares | 31 Dec 2015 | | 30 June 2015 | |
|---|--------------------|----------------|---------------------|---------------|
| | Number | \$'000 | Number | \$'000 |
| Opening Balance | 162,378,265 | 35,305 | - | - |
| Conversion of units * | - | - | 152,000,000 | 871 |
| Acquisition of NCI | - | - | 5,406,666 | 11,354 |
| Acquisition of Practice Insight | | | 855,111 | 3,694 |
| Acquisition of Fisher Adams Kelly Pty Ltd (i) | 1,029,010 | 4,950 | 3,963,655 | 19,065 |
| Acquisition of Pizzeys Patent & Trademark Attorneys Pty Ltd (Note 8(b)) | 6,776,263 | 46,756 | - | - |
| Acquisition of Callinans Patent & Trademark Attorneys (Note 8(a)) | 393,932 | 2,978 | - | - |
| Dividend reinvestment plan issues | 507,271 | 3,050 | - | - |
| Retention rights exercised (ii) | 47,619 | - | - | - |
| Shares issued (iii) | 15,197,330 | 110,940 | 152,833 | 321 |
| Capital raising costs (iii) | - | (2,486) | - | - |
| | 186,329,690 | 201,494 | 162,378,265 | 35,305 |

*"A" and "C" class units in the Spruson & Ferguson Unit Trust we classified as financial liabilities.

IPH LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

4: ISSUED CAPITAL (CONTINUED)

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.

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

Share issues during the period:

- (i) The Group issued 1,029,010 ordinary shares (27 August 2015) in partial and final consideration for the acquisition of all the issued capital of Fisher Adams Kelly Pty Limited.
- (ii) A total of 47,619 shares were issued (2 December 2015) on the exercise of retention rights under the long term incentive plan adopted by the Board on 24 October 2014. Refer to the Group's 30 June 2015 annual report for details on the incentive plan.
- (iii) The Group issued 15,197,330 shares as part of a share placement and share purchase plan which was completed in December 2015.

| | 2015 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Foreign currency translation reserve | 369 | (233) |
| Minority interest acquisition reserve | (14,850) | (14,850) |
| Equity settled employee benefits reserve | 958 | 495 |
| | <hr/> | <hr/> |
| | (13,523) | (14,588) |

6: SEGMENT INFORMATION

(a) *Basis for segmentation*

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group operates in two geographic locations, which are its reportable segments. These business units are managed separately; the Australian office operates as a hub for activities in Australia, New Zealand and the Pacific providing patent, trademark and design filings, and Asia operates as a hub for Asia providing patent, design filing and prosecution services.

There are varying levels of integration between the Australian and Asia segments. This integration includes provision of professional services, shared technology and management services.

IPH LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

6: SEGMENT INFORMATION (CONTINUED)

(b) *Information about reportable segments*

The following is an analysis of the Group's revenue and reserves by responsible operating segment for the half years under review:

| Geographical Segments | Half year ended | | Half year ended | | Half year ended | |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Australia | | Asia | | Total | |
| | Dec 2015 \$'000 | Dec 2014 \$'000 | Dec 2015 \$'000 | Dec 2014 \$'000 | Dec 2015 \$'000 | Dec 2014 \$'000 |
| Revenue and other income | 40,140 | 23,456 | 28,795 | 18,935 | 68,935 | 42,391 |
| Interest revenue | 32 | 96 | 1 | - | 33 | 96 |
| Inter-segment revenue | 28,713 | 9,474 | 240 | - | 28,953 | 9,474 |
| Segment revenue | 68,885 | 33,026 | 29,036 | 18,935 | 97,921 | 51,961 |
| Segment profit before tax | 35,434 | 13,661 | 14,820 | 9,372 | 50,254 | 23,033 |
| Interest income | 32 | 96 | 1 | - | 33 | 96 |
| Depreciation and amortisation | 2,730 | 379 | 223 | 119 | 2,953 | 498 |
| | | | | | | |
| Australia | | | | | | |
| Dec 2015 \$'000 | | Dec 2015 \$'000 | | Dec 2015 \$'000 | | Total |
| Segment assets | 275,657 | 63,593 | 18,630 | 17,231 | 294,287 | 80,824 |
| Segment liabilities | (44,806) | (30,141) | (7,365) | (8,758) | (52,171) | (38,899) |

IPH LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

6: SEGMENT INFORMATION (CONTINUED)

Reconciliation of reportable segments to financial statements

| | 31 Dec 2015 \$'000 | 31 Dec 2014 \$'000 |
|---|------------------------------|------------------------------|
| (i) Revenues | | |
| Total revenue for reportable segments | 97,921 | 51,961 |
| Elimination of inter-segment revenue | <u>(28,953)</u> | <u>(9,474)</u> |
| Consolidated revenue | <u>68,968</u> | <u>42,487</u> |
| (ii) Profit before tax | | |
| Total profit for reportable segments | 50,254 | 23,033 |
| Elimination of inter-segment profit | <u>(24,784)</u> | <u>(9,039)</u> |
| Consolidated profit before tax | <u>25,470</u> | <u>13,994</u> |
| | 31 Dec 2015 \$'000 | 30 Jun 2015 \$'000 |
| (iii) Assets | | |
| Total assets for reportable segments | 294,287 | 80,824 |
| Elimination of inter-segment assets | <u>(38,929)</u> | <u>(8,230)</u> |
| Consolidated assets | <u>255,358</u> | <u>72,594</u> |
| (iv) Liabilities | | |
| Total liabilities for reportable segments | (52,171) | (38,899) |
| Elimination of inter-segment liabilities | <u>1,380</u> | <u>1,483</u> |
| Consolidated liabilities | <u>(50,791)</u> | <u>(37,416)</u> |

(c) Major customer

No single customer contributed 10% or more to the Group's revenue during either 2015 or 2014.

7: EVENTS SUBSEQUENT TO REPORTING DATE

There have been no events subsequent to balance date which would have a material effect on the Group's consolidated financial statements as at 31 December 2015.

IPH LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

8: BUSINESS COMBINATIONS

(a) Callinans Patent and Trade Mark Attorneys

On 2 November 2015, Fisher Adams Kelly Pty Limited (“FAK”) acquired the assets of Callinans Patent and Trade Mark Attorneys (“Callinans”). Under the terms of a Business Purchase Agreement (BPA). The agreed initial purchase price was \$5,479,400.

Consideration transferred

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

The Group incurred acquisition related costs of \$79,000. These costs have been included in business acquisition expenses.

| | <i>Note</i> | \$'000 |
|--|-------------|---------------|
| Cash | | 2,729 |
| Equity instruments (393,932 ordinary shares) | | 2,978 |
| Contingent consideration | | 3,789 |
| Total consideration transferred | | 9,496 |

Equity instruments issued

Under the terms of the BPA, \$2,750,000 of the purchase price was settled by way of the issue of ordinary shares in IPH Limited to the vendors of Callinan’s. The shares issued have been recorded at their acquisition date fair value of (\$7.56 per share).

The value of the 393,932 shares issued, has been recorded in the financial statements as \$2,978,126.

Contingent consideration

The Group has agreed to pay the selling shareholders additional consideration, of up to \$6 million should (i) certain billing targets be met in relation to key customers, and (ii) certain employees remain employed for the relevant period. The Group has included \$3,788,823 as contingent consideration, which represents its fair value at the date of acquisition.

At 31 December 2015, the contingent consideration had decreased to \$2,846,089 as a result of certain conditions not being met. Contingent consideration is potentially due in two instalments in December 2016 and April 2017.

IPH LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

8: BUSINESS COMBINATIONS (continued)

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 |
| Other assets | 22 |
| Intangible assets – customer relationships | 6,668 |
| Provisions | (243) |
| Deferred revenue | <u>(25)</u> |
| Net assets acquired | 6,422 |
| Goodwill | 3,074 |
| Acquisition-date fair value of the total consideration transferred | 9,496 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 9,496 |
| Less: shares issued by Company as part of consideration | (2,978) |
| Deferred consideration | <u>(3,789)</u> |
| Net cash used | 2,729 |

(b) Pizzeys Patent & Trade Mark Attorneys Pty Ltd

On 30 September 2015, the Group acquired 100% of the ordinary shares of Pizzeys Patent & Trade Mark Attorneys Pty Ltd “Pizzeys” under the terms of a Share Purchase Agreement (SPA). The final agreed purchase price was \$72,142,041.

The acquired business contributed revenues of \$4,115,000 and profit after tax of \$1,826,000 the Group for the period from 1 October 2015 to 31 December 2015. If the acquisition occurred on 1 July 2015, the full year contributions would have been revenues of \$8,043,000 and profit after tax of \$3,304,000.

IPH LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

8: BUSINESS COMBINATIONS (continued)

Consideration transferred

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

The Group incurred acquisition related costs of \$118,000. These costs have been included in business acquisition expenses.

| | <i>Note</i> | \$'000 |
|--|-------------|---------------|
| Cash | | 35,483 |
| Equity instruments (6,776,263 ordinary shares) | | 46,756 |
| Contingent consideration | | 14,006 |
| Total consideration transferred | | 96,245 |

Equity instruments issued

\$36,659,583 of the purchase price was settled by way of the issue of 6,776,263 ordinary shares in IPH to the vendors of Pizzeys. The shares issued have been recorded at their acquisition date fair value of \$6.90 per share.

The value of the 6,776,263 shares issued has been recorded in the financial statements as \$46,756,215.

Contingent consideration

The Group has agreed to pay the selling shareholders additional consideration of 7.9 times the amount by which the acquirees FY16 normalised EBITA, up to a maximum of \$11 million, exceeds FY15 normalised EBITA.

The Group has included \$14,006,665 as contingent consideration related to the additional consideration, which represents its fair value at the date of acquisition. At 31 December 2015, the contingent consideration had increased to \$16,303,269.

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 | 1,012 |
| Trade and other receivables | 3,244 |
| Other assets | 722 |
| Property, plant and equipment | 63 |
| Intangible assets – customer relationships | 34,610 |
| Intangible assets – trade marks | 1,349 |
| Deferred tax assets | 77 |
| Trade and other payables | (1,226) |

IPH LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

| | Fair value \$'000 |
|---|------------------------------|
| (carry forward) | |
| Current tax liability | (655) |
| Provisions | (321) |
| Net assets acquired | 38,875 |
| Goodwill | 57,370 |
| Acquisition-date fair value of the total consideration transferred | 96,245 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 96,245 |
| Less: shares issued by Company as part of consideration | (46,756) |
| Less: cash and cash equivalents acquired | (1,012) |
| Deferred consideration | (14,006) |
| Net cash used | (34,471) |

9: SHARE BASED PAYMENTS

During the period ended 31 December 2015, the Group granted the following share-based payments arrangements.

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

| Tranche | Grant date | Expiry date | Balance at the start of the year | Granted | Exercised | Expired/forfeited/other | Balance at the end of the year |
|---------|------------|-------------|----------------------------------|---------|-----------|-------------------------|--------------------------------|
| | | | 142,857 | - | (47,619) | - | 95,238 |
| 1 | 17/09/2015 | 01/07/2016 | 70,305 | - | - | - | 70,305 |
| 2 | 17/09/2015 | 01/07/2017 | 70,305 | - | - | - | 70,305 |
| 3 | 17/09/2015 | 01/07/2018 | 70,306 | - | - | - | 70,306 |
| | | | 142,857 | 210,916 | - | - | 306,154 |

IPH LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

Performance rights

Each performance 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 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.

Performance Rights will vest (and become exercisable) to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied (collectively the ‘Performance Criteria’). Performance Criteria may include conditions relating to continuous employment or service, the individual performance of the participant and/or the Group’s performance. Typically, the Performance Criteria must be satisfied within a predetermined performance period. Both the Performance Criteria and the performance period are set by the Board at its absolute discretion.

The Board has set the following Performance Criteria for the performance period for the Performance Rights granted to employees prior to the Prospectus Date:

- 50% of the Performance Rights granted will vest subject to a relative total shareholder return (“TSR”) performance hurdle over the relevant vesting period; and
- The remaining 50% of the Performance Rights granted will vest subject to an earnings per share (“EPS”) performance hurdle over the relevant vesting period.

TSR Rights

IPH’s TSR will be assessed against the relative performance over the relevant performance period of a listed of companies included in the ASX300 Accumulation Index. The relative TSR performance targets and the corresponding percentages of the maximum number of TSR Rights that would vest are as follows:

- Below the 50th percentile: 0%
- At the 50th percentile: 25%
- Better than the 50th percentile but below the 75th percentile: Pro-rate straight-line between 25% and 100%
- Equal to or above the 75th percentile: 100%

For the Performance Rights granted to employees in the half-year ending 31 December 2015 the share price for the TSR calculation will be as at grant date and the performance period will be 1 July 2015 to 30 June 2018.

EPS Rights

The performance rights are subject to a vesting period from grant date to 8 September 2018.

IPH LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

| Tranche | Grant date | Expiry date | Balance at the start of the year | Granted | Exercised | Expired/forfeited/other | Balance at the end of the year |
|---------|------------|-------------|----------------------------------|---------|-----------|-------------------------|--------------------------------|
| | | | 275,708 | - | - | (43,848) | 231,860 |
| 1 | 17/09/2015 | 08/09/2018 | 138,130 | - | - | | 138,130 |
| 2 | 17/09/2015 | 08/09/2018 | 138,131 | - | - | | 138,131 |
| 1 | 02/12/2015 | 08/09/2018 | 4,862 | - | - | | 4,862 |
| 2 | 02/12/2015 | 08/09/2018 | 4,862 | - | - | | 4,862 |
| | | | 275,708 | 285,985 | - | - | 517,845 |

Fair value of retention and performance rights granted in the year

For the retention and performance rights granted during the current period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---------------------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| <i>Performance rights</i> | | | | | | | |
| 17/09/2015 | TSR | 08/09/2018 | \$6.12 | \$0.00 | 35.00% | 3.5% | 2.00% \$4.45 |
| 17/09/2015 | EPS | 08/09/2018 | \$6.12 | \$0.00 | 35.00% | 3.5% | 2.00% \$5.51 |
| 02/12/2015 | TSR | 08/09/2018 | \$8.20 | \$0.00 | 35.00% | 3.5% | 2.00% \$6.66 |
| 02/12/2015 | EPS | 08/09/2018 | \$8.20 | \$0.00 | 35.00% | 3.5% | 2.00% \$7.40 |
| <i>Retention rights</i> | | | | | | | |
| 17/09/2015 | Tranche 1 | 1 July 2016 | \$6.12 | \$0.00 | 35.00% | 3.5% | 1.96% \$5.95 |
| 17/09/2015 | Tranche 2 | 1 July 2017 | \$6.12 | \$0.00 | 35.00% | 3.5% | 1.93% \$5.75 |
| 17/09/2015 | Tranche 3 | 1 July 2018 | \$6.12 | \$0.00 | 35.00% | 3.5% | 1.99% \$5.55 |

IPH LIMITED
DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, 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.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the directors,



David Griffith
Managing Director
Sydney, 23 February 2016

The Board of Directors
IPH Limited
Level 35, St Martins Tower
31 Market Street,
Sydney NSW 2000

23 February 2016

Dear Board Members

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 review of the financial statements of IPH Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Tara Hill
Partner
Chartered Accountant

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

We have reviewed the accompanying half-year financial report of IPH Limited, which comprises the condensed consolidated balance sheet as at 31 December 2015, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 26.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of IPH Limited's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of IPH Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte

Auditor's Independence Declaration

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Tara Hill
Partner
Chartered Accountants
Sydney, 23 February 2016