Appendix 4E

Full year report

Name of entity

INTEGRATED RESEARCH LIMITED

ABN	Reporting period (year ended)	Previous corresponding period (year ended)
76 003 588 449	30 June 2016	30 June 2015

For announcement to the market
Extracts from this report for announcement to the market

				A$000
Revenues from ordinary activities	Up	20%	to	84,532
Profit before tax attributable to members	Up	11%	to	21,386
Profit after tax attributable to members	Up	12%	to	16,029
Net profit for the period attributable to members	Up	12%	to	16,029

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	3.5¢	60%
Previous corresponding period	4.0¢	35%

Dividends consist of no conduit foreign income.

Record date for determining entitlements to the dividend	12 Sept 2016
Date the dividend is payable	13 Oct 2016

NTA backing	**June 2016 cents**	June 2015 cents
Net tangible asset backing per ordinary security	11.19	11.26

Brief explanation of directional and percentage changes to profit:

Refer accompanying Market Release.

Audit

This report is based on accounts that are in the process of being audited, and are unlikely to be subject to dispute or qualification.

INTEGRATED RESEARCH LIMITED AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR-ENDED

30 JUNE 2016

ABN: 76 003 588 449

ASX CODE: IRI

Financial Statements

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Consolidated statement of comprehensive income

For the year ended 30 June 2016

In thousands of AUD	Notes	Consolidated 2016	2015
Revenue			
Revenue from licence fees		45,725	41,031
Revenue from maintenance fees		27,153	23,700
Revenue from testing solution services		4,288	-
Revenue from consulting		7,366	5,548
Total revenue		84,532	70,279
Expenditure			
Research and development expenses		(13,582)	(12,431)
Sales, consulting and marketing expenses		(44,983)	(35,161)
General and administration expenses		(5,962)	(5,220)
Total expenditure	4	(64,527)	(52,812)
Other gains and (losses)	5	1,347	1,502
Profit before finance income and tax		21,352	18,969
Finance income	6	34	297
Profit before tax		21,386	19,266
Income tax expense	8	(5,357)	(5,015)
Profit for the year		16,029	14,251
Other comprehensive income			
Items that may be reclassified subsequently to profit			
Gain/(loss) on cash flow hedge taken to equity		247	(317)
Foreign exchange translation differences		(46)	915
Other comprehensive income		201	598
Total comprehensive income for the year		16,230	14,849
Profit attributable to:			
Members of Integrated Research		16,029	14,251
Total comprehensive income attributable to:			
Members of Integrated Research		16,230	14,849
Earnings per share attributable to members of Integrated Research:			
Basic earnings per share (AUD cents)	9	9.42	8.41
Diluted earnings per share (AUD cents)	9	9.34	8.34

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 5 to 35.

Consolidated statement of financial position

As at 30 June 2016

In thousands of AUD	Notes	Consolidated 2016	Consolidated 2015
Current assets			
Cash and cash equivalents	10	8,544	15,323
Trade and other receivables	11	29,017	25,012
Current tax assets		164	184
Other current assets	12	1,781	1,344
Total current assets		39,506	41,863
Non-current assets			
Trade and other receivables	11	23,373	13,260
Other financial assets	13	824	804
Property, plant and equipment	14	1,793	1,969
Deferred tax assets	15	1,492	1,342
Intangible assets	16	21,972	17,020
Total non-current assets		49,454	34,395
Total assets		88,960	76,258
Current liabilities			
Trade and other payables	18	8,513	7,241
Provisions	21	2,618	2,327
Income tax liabilities		3,385	1,719
Deferred revenue		20,363	18,698
Other current liabilities	22	42	604
Total current liabilities		34,921	30,589
Non-current liabilities			
Deferred consideration for acquisition	20	2,036	-
Deferred tax liabilities	15	3,916	4,408
Provisions	21	981	899
Deferred revenue		5,583	3,825
Other non-current liabilities	22	477	405
Total non-current liabilities		12,993	9,537
Total liabilities		47,914	40,126
Net assets		41,046	36,132
Equity			
Issued capital	23	1,667	1,667
Reserves	23	1,726	935
Retained earnings		37,653	33,530
Total equity		41,046	36,132

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 5 to 35.

Consolidated statement of changes in equity

For the year ended 30 June 2016

Consolidated In thousands of AUD	Share capital	Hedging reserve	Translation reserve	Employee benefit reserve	Retained earnings	Total
Balance at 1 July 2015	1,667	(197)	(439)	1,571	33,530	36,132
Profit for the year	-	-	-	-	16,029	16,029
Other comprehensive income for the year (net of tax)	-	247	(46)	-	-	201
Total comprehensive income for the year	-	247	(46)	-	16,029	16,230
Share based payments expense	-	-	-	590	-	590
Dividends to shareholders	-	-	-	-	(11,906)	(11,906)
Balance at 30 June 2016	1,667	50	(485)	2,161	37,653	41,046

Consolidated In thousands of AUD	Share capital	Hedging reserve	Translation reserve	Employee benefit reserve	Retained earnings	Total
Balance at 1 July 2014	1,667	120	(1,354)	873	29,441	30,747
Profit for the year	-	-	-	-	14,251	14,251
Other comprehensive income for the year (net of tax)	-	(317)	915	-	-	598
Total comprehensive income for the year	-	(317)	915	-	14,251	14,849
Share based payments expense	-	-	-	698	-	698
Dividends to shareholders	-	-	-	-	(10,162)	(10,162)
Balance at 30 June 2015	1,667	(197)	(439)	1,571	33,530	36,132

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 5 to35.

Consolidated statement of cash flows

For the year ended 30 June 2016

		Consolidated	
In thousands of AUD	**Notes**	**2016**	**2015**
Cash flows from operating activities			
Cash receipts from customers		74,354	62,012
Cash paid to suppliers and employees		(54,446)	(38,855)
Cash generated from operations		19,908	23,157
Income taxes paid		(3,690)	(1,738)
Net cash provided by operating activities	27	16,218	21,419
Cash flows from investing activities			
Payments for capitalised development		(9,565)	(9,037)
Payments for property, plant and equipment		(311)	(1,004)
Payments for purchase of business	3	(1,211)	-
Payments for intangible asset		(152)	(126)
Interest received		154	297
Interest paid		(120)	-
Net cash used in investing activities		(11,205)	(9,870)
Cash flows from financing activities			
Proceeds from borrowings		1,500	-
repayment of borrowings		(1,500)	-
Payment of dividend	23	(11,906)	(10,162)
Net cash used in financing activities		(11,906)	(10,162)
Net (decrease)/ increase in cash and cash equivalents		(6,893)	1,387
Cash and cash equivalents at 1 July		15,323	13,300
Effects of exchange rate changes on cash		114	636
Cash and cash equivalents at 30 June	10	8,544	15,323

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 5 to 35.

Notes to the Financial Statements
For the year ended 30 June 2016

Note 1: Significant accounting policies

Integrated Research Limited (the "Company") is a company domiciled in Australia. The financial report of the Company for the year ended 30 June 2016 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

Integrated Research is a for-profit Company limited by ordinary shares.

a) Statement of Compliance
The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and Interpretations and the Corporations Act 2001. Financial statements of the consolidated entity comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

b) Basis of Preparation
The financial statements are presented in Australian dollars and are prepared on the historical cost basis, with the exception of derivatives, which are at fair value.

The company is of a kind referred to in ASIC Class Order (CO) 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

New accounting standards and Interpretations

The Company has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2015 and have not had any material effect on its financial position or performance:

AASB2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'

AASB 2013-3 'Amendments to Australian Accounting Standards – Recoverable Amount Disclosures for Non-Financial Assets'

AASB 1031 'Materiality'

AASB2013-9 'Amendments to Australian Accounting Standards – 'Conceptual Framework, Materiality and Financial Instruments'

AASB 2014-1 Part A 'Annual Improvements 2010-2012 Cycle'

AASB 2014-1 Part A 'Annual Improvements 2011-2013 Cycle'

Note 1: Significant accounting policies (continued)

Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards is not expected to materially affect any of the amounts recognised in the financial statements, but may change the disclosures presently made in relation to the consolidated entity's financial statements:

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 9 'Financial Instruments'	1 January 2018	30 June 2018
AASB 2014-4 'Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)'	1 January 2016	30 June 2016
AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements 2012-2014 Cycle'	1 January 2016	30 June 2016
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB1031 Materiality'	1 July 2015	30 June 2016

Initial application of the following Standard is likely to impact the amounts recognised in the financial statements. If the changes are material disclosures will be made in relation to the consolidated entity's financial statements:

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2018

Note 1. Significant accounting policies (continued)

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

c) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has: Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee). Exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee including: The contractual arrangement with the other vote holders of the investee; rights arising from other contractual arrangements and the Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it: de-recognises the assets (including goodwill) and liabilities of the subsidiary; de-recognises the carrying amount of any non-controlling interests; de-recognises the cumulative translation differences recorded in equity; recognises the fair value of the consideration received; recognises the fair value of any investment retained; recognises any surplus or deficit in profit or loss; reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

d) Foreign currency

In preparing the financial statements of the individual entities transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

On consolidation, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation are translated to Australian dollars at foreign exchange rates ruling at the year end date. The revenues and expenses of foreign operations, are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in other comprehensive income and accumulated in the translation reserve.

e) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of forward exchange contracts is their quoted market price at the year end date, being the present value of the quoted forward price.

Note 1. Significant accounting policies (continued)

f) Hedging

On entering into a hedging relationship, the consolidated entity normally designates and documents the hedge relationship and risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the profit or loss.

g) Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses (see accounting policy (k)). The cost of acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed annually, with the effect of any changes recognised on a prospective basis.

The following useful lives are used in the calculation of depreciation:

Leasehold improvements	6 to 10 years
Plant and equipment	4 to 8 years

h) Intangible Assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development.

The useful lives of the capitalised assets are assessed as finite.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see accounting policy (k)).

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life, but no more than three years.

Note 1. Significant accounting policies (continued)

Intellectual property
Intellectual property acquired from third parties is amortised over its estimated useful life, but no more than three years.

Computer software
Computer software is stated at cost and depreciated on a straight-line basis over a 2½ to 3 year period.

i) Trade and other receivables
Trade and other receivables are stated at their amortised cost less impairment losses. The carrying amount of uncollectible trade receivables is reduced by an impairment loss through the use of an allowance account.

For the trade receivables with extended payment terms beyond twelve months, the receivable is initially recognised at fair value calculated by applying a discount to the contracted cash flows. The discount rate applied is based upon the corporate borrowing rate that would apply to the type of customer, taking into account the customers' credit worthiness based on its size and jurisdiction.

j) Cash and cash equivalents
Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less.

k) Impairment
The carrying amounts of the consolidated entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that are not yet available for use, the recoverable amount is estimated at each year end date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Note 1. Significant accounting policies (continued)

k) Impairment (continued)
The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

l) Employee benefits
Superannuation
Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred. There are no defined benefit plans in operation.

Long-term service benefits
The consolidated entity’s net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Corporate bond rate at the year end date which have maturity dates approximating to the terms of the consolidated entity’s obligations.

Share-based payment transactions
The performance rights programmes allow the consolidated entity’s employees to acquire shares of the Company. The fair value of performance rights granted are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the performance rights. The fair value of the instrument granted is measured using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options or performance rights that are expected to vest.

Wages, salaries, annual leave, and non-monetary benefits
Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees’ services provided to the year end date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at the year end date.

m) Provisions
A provision is recognised in the statement of financial position when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee benefits
Provisions for employee benefits include liabilities for annual leave and long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Make good
The make good provision is for leases undertaken by the Company. For each provision raised a corresponding asset has been recognised and is amortised over the shorter of the term of the lease or the useful life of the asset.

n) Trade and other payables
Trade and other payables are stated at their amortised cost.

Note 1. Significant accounting policies (continued)

o) Revenue

The consolidated entity allocates revenue to each element in software arrangements involving multiple elements based on the relative fair value of each element. The typical elements in the multiple element arrangement are licence and maintenance fees. The company's determination of fair value is generally based on the price charged when the same element is sold separately.

Revenue from the sale of licences, where the consolidated entity has no post delivery obligations to perform is recognised in profit or loss at the date of delivery of the licence key.

Revenue from maintenance contracts is recognised rateably over the term of the service agreement, which is typically one year. Maintenance contracts are typically priced based on a percentage of licence fees and have a one year term. Services provided to customers under maintenance contracts include technical support and supply of software updates.

The Company introduced a new line of revenue (testing solutions services) following the acquisition of the IQ Services business. Revenue from testing solutions services is recognised over the period to which the services are provided.

Revenue from multiple element software arrangements, where the fair value of an undelivered element cannot be reliably measured are recognised over the period the undelivered services are provided.

Revenue from consulting services is recognised over the period the services are provided.

No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

p) Expenses

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense and spread over the lease term.

Financing income

Financing income comprises interest receivable on funds invested.

q) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional dividend franking deficit tax that arises from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Note 1. Significant accounting policies (continued)

r) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), or similar taxes, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable or payable are classified as operating cash flows.

s) Significant accounting judgements, estimates and assumptions

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 are:

Intangible assets - Development

An intangible asset arising from development expenditure on an internal project is recognised only when the consolidated entity can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project commencing from the commercial release of the project. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

Intangible assets – Goodwill

Goodwill acquired from business acquisitions is initially measured at cost. Good is tested annually for impairment or earlier if changes in circumstances indicate a potential impairment, the impairment policy is explained in note 1(k). The impairment testing requires judgements over future cashflow streams and assumptions used in the calculations.

Share based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial option pricing model and applying management determined probability factors relating to non-market vesting conditions.

Receivables

The consolidated entity assesses impairment of receivables based upon assessment of objective evidence for significant receivables and by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each reporting date. This assessment includes judgements and estimates of future outcomes the actual results of which may differ from the estimates at the reporting date.

Note 1. Significant accounting policies (continued)

t) Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date measured at fair value. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Changes in the fair value of the contingent consideration are recognised in the Statement of Comprehensive Income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Goodwill is tested annually for impairment. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Note 2. Segment reporting

The information reported to the CODM (being the Chief Executive Officer) for the purposes of resource allocation and assessment of performance is focused on geographical performance. The principal geographical regions are The Americas – Operating from the United States with responsibility for the countries in North, Central and South America, Europe – operating from the United Kingdom with responsibility for the countries in Europe, Asia Pacific – operating from Australia and Singapore with responsibility for the countries in the rest of the world and Corporate Australia – includes revenue and expenses for research and development and corporate head office functions of the company.

Inter-segment pricing is determined on an arm's length basis.

Segment profit represents the profit earned by each segment without allocation of investment revenue and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

Note 2. Segment reporting (continued)

In thousands of AUD	Americas 2016	Americas 2015	Europe 2016	Europe 2015	Asia Pacific 2016	Asia Pacific 2015	Corporate Australia[1] 2016	Corporate Australia[1] 2015	Eliminations 2016	Eliminations 2015	Consolidated 2016	Consolidated 2015
Sales to customers outside the consolidated entity	57,956	52,688	17,208	10,182	10,271	8,866	(903)	(1,457)	-	-	84,532	70,279
Inter-segment revenue		-					41,006	38,109	(41,006)	(38,109)	-	-
Total segment revenue	57,956	52,688	17,208	10,182	10,271	8,866	40,103	36,652	(41,006)	(38,109)	84,532	70,279
Total revenue											**84,532**	**70,279**
Segment results	3,160	1,598	426	248	359	222	17,407	16,901	-	-	21,352	18,969
Results from operating activities											21,352	18,969
Financing income											34	297
Income tax expense											(5,357)	(5,015)
Profit for the year											**16,029**	**14,251**
Capital additions[3]	1,354	704	49	112	8	17	1,124	297	-	-	2,535	1,130
Depreciation and amortisation expenditure	555	156	86	71	7	4	9,988	8,883	-	-	10,636	9,114

In local currency[2]	Americas (USD) 2016	Americas (USD) 2015	Europe (GBP) 2016	Europe (GBP) 2015
Sales to customers outside the consolidated entity	41,997	43,621	8,438	5,338
Inter-segment sales	-	-	-	-
Total segment revenue	41,997	43,621	8,438	5,338
Segment results	2,276	1,311	209	133

[1] Corporate Australia includes both the research and development, hedging and corporate head office functions of the Integrated Research Limited.
[2] Segment results represented in local currencies as reviewed by the Chief Operating Decision Maker.
[3] Excludes internal development costs capitalised but includes third party assets acquired. Additions also include assets acquired through the purchase of businesses.

Note 3. Business Combinations

On 1st July 2015, the Company acquired the operational assets of the US based IQ Services business. The acquisition provides the Company with a number of strategically significant growth opportunities in its existing markets and into new allied markets. The business combination is anticipated to provide the world's most complete view of cloud, hybrid and traditional on premises operations for unified communications and contact centre solutions.

The acquisition has been accounted for using the acquisition method. The interim consolidated financial statements include the results of the acquired business for the six month period from the acquisition date.

The fair values of the identifiable assets and liabilities of the acquired business on 1 July 2015 were as follows:

In thousands of AUD	**Notes**	**Fair value recognised on acquisition**
Assets		
Prepayments		52
Property, plant and equipment		335
Capitalised Development	16	844
Customer relationships	16	779
Third party software	16	94
		2,104
Liabilities		
Provisions		159
Deferred revenue		752
		911
Total identifiable net assets at fair value		1,193
Goodwill arising on acquisition	16	3,204
Total Net Assets Acquired		4,397
Represented by:		
Payment due on acquisition date		325
Deferred consideration within one year		845
Deferred consideration beyond one year		3,227
Purchase consideration		4,397

The goodwill recognised at acquisition is primarily attributed to the expected synergies and other benefits from combining the assets and activities of IQ Services with those of the Company. The goodwill has been tested for impairment at 30 June 2016 (refer note 17).

The deferred consideration recognised at acquisition date represents Company's estimate of the fair value of future payments for the acquisition after taking into account the following inputs:

- an implicit finance charge to discount the obligations to net present value;
- the currency exchange rate since the obligations are due in United States dollars; and
- the probability of the vendor achieving certain earn-out targets.

At 30 June 2016 the Company revised its fair value of the deferred consideration liability to $2,036,000 resulting in a credit to profit of $1,413,000. The write-back reflects the fair value of the deferred consideration based on the 2016 current year loss and forward projections consistent with the forecasts provided in impairment testing of goodwill (refer note 17).

The table below provides the movement of the deferred consideration during the year:

In thousands of AUD	Purchase consideration at acquisition	Cash paid during the period	Currency revaluation	Finance charges	Writeback of liability	Deferred consideration at end of year
Payment at acquisition	325	(325)	-	-	-	-
Deferred consideration	4,072	(886)	182	81	(1,413)	2,036
	4,397	(1,211)	182	81	(1,413)	2,036

Note 4. Expenditure

Total expenditure includes:

	Consolidated	
In thousands of AUD	**2016**	**2015**
Employee benefits expense:		
Defined contribution plans	2,218	1,872
Equity settled share-based payments	655	728
Other employee benefits	43,562	36,504
	46,435	39,104
Depreciation and amortisation	10,636	9,114
Bad and doubtful debt expense	1,463	1,004
Operating lease rental expenses	1,912	1,600

Note 5. Other gains and (losses)

		Consolidated	
In thousands of AUD	**Note**	**2016**	**2015**
Writeback of deferred consideration for acquisition	3	1,413	-
Currency exchange gains/(losses)		(66)	1,502
		1,347	1,502

Note 6. Finance income

	Consolidated	
In thousands of AUD	**2016**	**2015**
Interest income	154	297
Finance charges on earn out liability	(81)	-
Interest on borrowings	(39)	-
	34	297

Note 7. Auditors' remuneration

2016 and 2015 Ernst and Young.

	Consolidated	
In AUD	**2016**	**2015**
Remuneration for audit and review of the financial reports of the Company or any entity in the consolidated entity:		
Audit and review of financial reports:		
Auditors of the Company	200,850	142,509
Remuneration for other services by the auditors of the Company or any entity in the consolidated entity:	12,448	86,251
Taxation services:		
Auditors of the Company	216,800	157,460

Note 8. Income tax expense

Recognised in profit for the year

In thousands of AUD	Note	Consolidated 2016	2015
Current tax expense:			
Current year		4,589	5,978
Prior year adjustments		126	(98)
		4,715	5,880
Deferred tax expense:			
Origination and reversal of temporary differences	15	642	(865)
Total income tax expense in profit and loss		5,357	5,015

Numerical reconciliation between income tax expense and profit before tax

In thousands of AUD	Consolidated 2016	2015
Profit before tax	21,386	19,266
Income tax using the domestic corporate tax rate of 30%	6,416	5,780
Increase in income tax expense due to:		
Non-deductible expenses	257	303
Effect of tax rates in foreign jurisdictions	192	121
Other	158	244
Prior year adjustments	126	(98)
Decrease in income tax expense due to:		
R&D tax incentive	(1,273)	(1,335)
Write-back of deferred consideration for acquisition	(519)	-
Income tax expense	5,357	5,015

Note 9. Earnings per share

The calculation of basic and diluted earnings per share at 30 June 2016 was based on the profit attributable to ordinary shareholders of $16,029,000 (2015: $14,251,000); a weighted number of ordinary shares outstanding during the year ended 30 June 2016 of 170,239,391 (2015: 169,409,027); and a weighted number of ordinary shares (diluted) outstanding during the year ended 30 June 2016 of 171,653,017 (2015: 170,190,803), calculated as follows:

	Consolidated	
In thousands of AUD	**2016**	**2015**
Profit for the year	16,029	14,251

Weighted average number of shares used as the denominator

	Consolidated	
(Number)	**2016**	**2015**
Number for basic earnings per share:		
Ordinary shares	170,239,391	169,409,027
Effect of employee share plans on issue	1,413,626	1,509,776
Number for diluted earnings per share	171,653,017	170,918,803
Basic earnings per share (AUD cents)	9.42	8.41
Diluted earnings per share (AUD cents)	9.34	8.34

Note 10. Cash and cash equivalents

	Consolidated	
In thousands of AUD	**2016**	**2015**
Cash at bank and on hand	8,544	15,323

Note 11. Trade and other receivables

Current

	Consolidated	
In thousands of AUD	**2016**	**2015**
Trade debtors	30,763	25,768
Less: Allowance for doubtful debts	(1,860)	(852)
	28,903	24,916
GST receivable	114	96
	29,017	25,012

Non-current

	Consolidated	
In thousands of AUD	**2016**	**2015**
Trade debtors	23,373	13,260

The credit period on sales ranges from 30 to 90 days. Customers of good credit worthiness can request for extended payment plans over the committed term of the licence contract which typically is up to three years.

Ageing of past due but not impaired:

	Consolidated	
In thousands of AUD	**2016**	**2015**
Past due 30 days	832	873
Past due 60 days	1,200	1,697
Past due 90 days	374	654
Total	2,406	3,224

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	Consolidated	
In thousands of AUD	**2016**	**2015**
Balance at beginning of year	852	858
Amounts written off during the year	(455)	(1,010)
Increase in provision	1,463	1,004
Balance end of year	1,860	852

The consolidated entity has used the following criteria to assess the allowance loss for trade receivables and as a result is unable to specifically allocate the allowance to the ageing categories shown above:

- historical bad debt experience;
- the general economic conditions;
- an individual account by account specific risk assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

Included in the consolidated entity's trade receivable balance are debtors which are 90 days past due at the reporting date which the consolidated entity has not provided for as there has been no significant change in credit quality and the consolidated entity believes that the amounts are still considered recoverable. The consolidated entity does not hold any collateral over these balances.

Note 12. Other current assets

In thousands of AUD	Consolidated 2016	2015
Other prepayments	1,607	1,325
Fair value of hedge asset – forward foreign exchange contracts	174	19
	1,781	1,344

Note 13. Other financial assets

In thousands of AUD	Consolidated 2016	2015
Deposits	824	804

The carrying amount of other financial assets is a reasonable approximation of their fair value.

Note 14. Property, plant and equipment

Plant and Equipment In thousands of AUD	Consolidated 2016	2015
At cost	3,887	3,389
Accumulated depreciation	(2,579)	(2,073)
	1,308	1,316

Leasehold Improvements In thousands of AUD	Consolidated 2016	2015
At cost	2,368	2,279
Accumulated depreciation	(1,883)	(1,626)
	485	653

Total property, plant and equipment In thousands of AUD	Consolidated 2016	2015
At cost	6,255	5,668
Accumulated depreciation	(4,462)	(3,699)
Total written down amount	1,793	1,969

Note 14. Property, plant and equipment (continued)

Plant and Equipment	**Consolidated**	
In thousands of AUD	**2016**	**2015**
Carrying amount at start of year	1,316	933
Additions	308	831
Acquired through business acquisition	231	-
Disposals	(6)	(10)
Effects of foreign currency exchange	28	43
Depreciation expense	(569)	(481)
Carrying amount at end of year	1,308	1,316

Leasehold Improvements	**Consolidated**	
In thousands of AUD	**2016**	**2015**
Carrying amount at start of year	653	747
Additions	3	173
Acquired through business acquisition	104	-
Disposals	-	(67)
Effects of foreign currency exchange	(11)	31
Depreciation expense	(264)	(231)
Carrying amount at end of year	485	653

Note 15. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	**Assets**		**Liabilities**		**Net**	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Intangible assets	-	-	5,183	5,067	(5,183)	(5,067)
Trade and other payables	355	273	-	-	355	273
Employee benefits	1,051	1,117	-	-	1,051	1,117
Provisions	774	428	-	-	774	428
Other current liabilities	437	670	-	-	437	670
Unrealised foreign exchange gain	-	-	-	487	-	(487)
Unrealised foreign exchange loss	142	-	-	-	142	-
Deferred tax assets/(liabilities)	2,759	2,488	5,183	5,554	(2,424)	(3,066)
Set off of deferred tax asset	(1,267)	(1,146)	(1,267)	(1,146)	-	-
Net deferred tax assets/(liabilities)	1,492	1,342	3,916	4,408	(2,424)	(3,066)

Note 15. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year:

For year ended 30 June 2016 In thousands of AUD	Consolidated Balance 1 July 15	 Recognised in income	 Recognised in equity	 Balance 30 June 16
Intangible assets	(5,067)	(116)	-	(5,183)
Trade and other payables	273	82	-	355
Employee benefits	1,117	(66)	-	1,051
Provisions	428	346	-	774
Other current liabilities	670	(233)	-	437
Unrealised foreign exchange gain	(487)	487	-	-
Unrealised foreign exchange loss	-	142	-	142
	(3,066)	642	-	(2,424)

For year ended 30 June 2015 In thousands of AUD	Consolidated Balance 1 July 14	 Recognised in income	 Recognised in equity	 Balance 30 June 15
Intangible assets	(4,842)	(225)	-	(5,067)
Trade and other payables	252	21	-	273
Employee benefits	965	152	-	1,117
Provisions	416	12	-	428
Other current liabilities	893	(223)	-	670
Unrealised foreign exchange gain	-	(487)	-	(487)
Unrealised foreign exchange loss	115	(115)	-	-
	(2,201)	(865)	-	(3,066)

Note 16. Intangible assets

The balance of capitalised intangible assets comprises :

Cost

In thousands of AUD	Consolidated Software development	Third party software	Goodwill	Customer Relationship	Total
Balance at 1 July 2014	26,899	1,167	-	-	28,066
Fully amortised & offset	(5,672)	(250)	-	-	(5,922)
Internally developed	9,037	-	-	-	9,037
Purchased	-	126	-	-	126
Effects of foreign currency exchange	-	14	-	-	14
Balance at 30 June 2015	30,264	1,057	-	-	31,321
Balance at 1 July 2015	30,264	1,057	-	-	31,321
Fully amortised & offset	(8,127)	-	-	-	(8,127)
Acquired through business acquisition	844	94	3,204	779	4,921
Internally developed	9,565	-	-	-	9,565
Purchased	-	152	-	-	152
Effects of foreign currency exchange	-	-	85	21	106
Balance at 30 June 2016	32,546	1,303	3,289	800	37,938

Amortisation

In thousands of AUD	Consolidated Software development	Third party software	Goodwill	Customer Relationship	Total
Balance at 1 July 2014	10,855	954	-	-	11,809
Fully amortised & offset	(5,672)	(250)	-	-	(5,922)
Amortisation for year	8,253	150	-	-	8,403
Effects of foreign currency exchange	-	11	-	-	11
Balance at 30 June 2015	13,436	865	-	-	14,301
Balance at 1 July 2015	13,436	865	-	-	14,301
Fully amortised & offset	(8,127)	-	-	-	(8,127)
Amortisation for year	9,421	216	-	165	9,802
Effects of foreign currency exchange	-	(5)	-	(5)	(10)
Balance at 30 June 2016	14,730	1,076	-	160	15,966

Carrying amounts

In thousands of AUD	Consolidated Software development	Third party software	Goodwill	Customer Relationship	Total
Balance at 30 June 2015	16,828	192	-	-	17,020
Balance at 30 June 2016	17,816	227	3,289	640	21,972

Note 17. Goodwill

Goodwill through business combination has been allocated to the applicable cash generating unit for impairment testing. Management has identified the Group as the cash generating unit (the Prognosis CGU) to which the carrying value of goodwill is allocated for impairment testing. Management performs its annual impairment testing at least annually. The carrying value of goodwill at 30 June 2016 is $3,289,000. The goodwill resides in the Company's American subsidiary, Integrated Research Inc. and is therefore subject to movements in foreign exchange rates. A reconciliation of the movement in goodwill is included in note 16.

The recoverable amount of the Prognosis CGU has been determined using a value in use approach. The value in use of the Prognosis CGU has been based on the detailed financial projections approved by the Board of Directors covering a five year period and the terminal value.

The following key assumptions were used for value in use calculation:

1. Cash flow forecasts
The cash flow forecasts are based upon a Board approved 2017 budget and projections for the subsequent four years of the Prognosis CGU.

2. Discount rate
Discount rate of 11% applied for value in use calculation is based on the post-tax weighted average of capital cost applicable to the Prognosis CGU.

3. Terminal value

The terminal growth rate after the five year projection period has been calculated using a growth rate of 3% which is determined by Management based on their assessment of expected long term annual growth for the software industry.

The impairment testing indicates existence of sufficient headroom in the current year therefore no impairment is recognised in the Prognosis CGU at 30 June 2016.

With regard to the assessment of the value in use of the Prognosis CGU, management believe that a reasonable change in any of the above key assumptions would not cause the carrying values to materially exceed their recoverable amounts.

Note 18. Trade and other payables

	Consolidated	
In thousands of AUD	**2016**	**2015**
Trade and other creditors	8,513	7,241
	8,513	7,241

The average credit period on trade and other payables is 30 days.

Note 19. Employee benefits

Current

In thousands of AUD	Consolidated 2016	2015
Liability for annual leave	1,889	1,684
Liability for long service leave	729	643
	2,618	2,327

Non-current

In thousands of AUD	Consolidated 2016	2015
Liability for long service leave	408	399

Pension plans

Employees of the consolidated entity accumulate pension benefits through statutory contributions by the entities in the consolidated entity as required by the laws of the jurisdictions in which they operate, supplemented by individual contributions.

Share based payments

Performance Rights

On 21 November 2011, the consolidated entity established the Integrated Research Performance Rights and Options Plan (IRPROP). The plan enables the Company to offer performance rights to eligible employees to obtain shares in Integrated Research at no cost contingent upon performance conditions being met. The performance conditions include either a service period with performance components or a service period with a net after tax profit hurdle. The performance rights are automatically exercised into shares upon the performance conditions being met. The following performance rights were granted during the period:

Grant Date	Number of Rights	Earliest Vesting Date	Expiry date
Oct-14*	250,000	Oct 2016	Oct 2016
Aug-15	94,900	Aug 2018	Sep 2018
Dec-15	195,000	Feb 2019	Mar 2019

* This is the third tranche of the original plan granted on 14 November 2013 of 850,000 rights

The fair value of the performance rights including assumptions used are as follows:

Grant date	Aug 2015	Dec 2015
Fair value at measurement date	$2.0075	$1.8459
Share price	$2.210	$2.090
Exercise price	nil	nil
Expected volatility	50%	50%
Contractual life (expressed in days)	1,096	1,193
Expected dividends	3.20%	3.80%
Risk-free interest rate	2.00%	2.00%
(based on 3 year treasury bonds)		

The fair values of services received in return for performance rights granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Binomial option-pricing model.

Note 19. Employee benefits (continued)

During the year ended 30 June 2016, the consolidated entity recognised an expense through profit of $655,000 related to the fair value of performance rights (2015: $728,000).

The following table provides the movement in performance rights during the year:

In thousands of performance rights	2016	2015
Outstanding at the beginning of the year	2,405	1,937
Forfeited during the year	(186)	(465)
Exercised during the year	(760)	(712)
Granted during the year	540	1,645
Outstanding at the end of the year	1,999	2,405
Exercisable at the end of the year (vested)	-	-

Note 20. Deferred consideration for acquisition

Current

		Consolidated	
In thousands of AUD	Note	2016	2015
Deferred consideration for acquisition	3	2,036	-
		2,036	-

Note 21. Provisions

Current

		Consolidated	
In thousands of AUD	Note	2016	2015
Employee benefits	19	2,618	2,327
		2,618	2,327

Non-current

		Consolidated	
In thousands of AUD	Note	2016	2015
Employee benefits	19	408	399
Lease make good		573	500
		981	899

Note 22. Other liabilities

Current

In thousands of AUD	Consolidated 2016	2015
Fair value of hedge liabilities - forward foreign exchange contracts	42	604

Non-Current

In thousands of AUD	Consolidated 2016	2015
Other creditors	477	405

Note 23. Capital and reserves

Share capital

In thousands of shares	Ordinary shares 2016	2015
On issue 1 July	169,671	168,959
Issued against employee performance right exercised	760	712
On issue 30 June	170,431	169,671

Effective 1 July 1998, the Company Law Reform Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company’s residual assets.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the consolidated entity, as well as from the translation of liabilities that hedge the consolidated entity’s net investment in a foreign subsidiary.

Employee benefit reserve

The employee benefit reserve arises on the grant of either share options or performance rights to employees under the Integrated Research Performance Rights and Option Plan (established November 2011) or the Employee Share Option Plan (established October 2000). Refer to note 19 for further details.

Note 23. Capital and reserves (continued)

Dividends

Dividends recognised in the current year by the company are:

In thousands of AUD	Cents per share	Total amount	Franked/ unfranked	Date of payment
2016				
Final 2015	4.0	6,793	35% franked	22 Sep 2015
Interim 2016	3.0	5,113	55% franked	20 Apr 2016
Total amount		11,906		
2015				
Final 2014	2.5	4,224	35% franked	12 Sep 2014
Interim 2015	3.5	5,938	35% franked	20 Mar 2015
Total amount		10,162		

After the end of the financial year, the following dividend was proposed by the directors. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial statements:

In thousands of AUD	Cents per share	Total amount	Franked/ unfranked	Date of payment
Final 2016	3.5	5,970	60% franked	13 Oct 16

The final dividend declared of 3.5 cents together with the interim dividend paid in March 2016 of 3.0 cents takes total dividends for the 2016 financial year to 6.5 cents.

Franking account disclosure:

	Company	
In thousands of AUD	**2016**	**2015**
Adjusted franking account balance	1,613	1,020
Impact on franking account balance of dividends not recognised	(1,535)	(1,019)

Note 24. Financial instruments

Capital risk management

The consolidated entity manages its capital to ensure that controlled entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of treasury management.

The capital structure of the consolidated entity consists of cash and cash equivalents and equity attributable to equity holders of the company, comprising issued capital, reserves, and retained earnings as disclosed in Notes 10 and 23 respectively.

Borrowing Facility

On 21 December 2015, the Company established an AUD 10 million multicurrency revolving cash advance facility. The purpose of the facility is to fund working capital requirements and the deferred consideration for the IQ Services business acquisition. The facility was drawn down by $1.5 million during the year and was repaid before year end.

The facility is secured by a General Security Agreement with a deed of cross guarantee including the parent entity, Integrated Research UK Limited, and Integrated Research Inc. The facility is also subject to certain debt covenants including a leverage ratio, interest cover ratio and capitalisation ratio. The Company met all the covenant requirements during the year.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Financial risk management objectives

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated entity's financial management framework. The Board has an established Audit and Risk Committee, which is responsible for developing and monitoring the consolidated entity's financial management policies. The Committee provides regular reports to the Board of Directors on its activities.

The Audit and Risk Committee oversees how Management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks.

The main risks arising from the consolidated entity's financial instruments are currency risk, credit risk, liquidity risk and cash flow interest rate risk.

The consolidated entity seeks to minimise the effects of these risks, where deemed appropriate, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the consolidated entity's policies on foreign exchange risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and cash flow interest rate risks. The consolidated entity enters into foreign exchange forward contracts to hedge the exchange rate risk arising from transactions not recorded in an entity's functional currency.

Note 24. Financial instruments (continued)

Foreign currency risk management

The consolidated entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amount of the consolidated entity's foreign currency denominated monetary assets and monetary liabilities at the reporting date that are denominated in a currency that is different to the functional currency of the respective entities undertaking the transactions is as follows:

	Consolidated			
	Liabilities		Assets	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**
US Dollar	62	56	5,380	1,949
Euro	-	-	689	2,450
UK Sterling	-	-	1	1

Foreign currency sensitivity

At 30 June 2016, if the US Dollar, Euro and UK sterling weakened or strengthened against the Australian dollar by the percentage shown, with all other variables held constant, net profit for the year would increase (decrease) by:

	Consolidated			
	Net profit		Retained earnings	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**
US Dollar Impact	591	272	591	272
Euro Impact	77	210	77	210
UK Sterling Impact	-	-	-	-
Change in currency (i) – 10% decrease				

	Consolidated			
	Net profit		Retained earnings	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**
US Dollar Impact	(483)	(223)	(483)	(223)
Euro Impact	(63)	(172)	(63)	(172)
UK Sterling Impact	-	-	-	-
Change in currency (i) – 10% increase				

(i) This has been based on the change in the exchange rate against the Australian dollar in the financial years ended 30 June 2016 and 30 June 2015.

The sensitivity analysis has been based on the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates based on historical volatility.

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year end exposure does not necessarily reflect the exposure during the course of the year. The consolidated entity includes certain subsidiaries whose functional currencies are different to the consolidated entity presentation currency. The main operating entities outside of Australia are based in the United States, the United Kingdom and Singapore. As stated in the consolidated entity's accounting policies per Note 1, on consolidation the assets and liabilities of these entities are translated into Australian dollars at exchange rates prevailing at the year end date. The income and expenses of these entities is translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are transferred to a foreign exchange translation reserve. The consolidated entity's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the United States Dollar and the Australian Dollar and the UK Sterling.

Note 24. Financial instruments (continued)

Forward foreign exchange contracts

The consolidated entity is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily United States Dollar, UK Sterling and Europe Euro.

The consolidated entity uses forward exchange contracts to hedge its foreign currency risk. The forward exchange contracts have maturities of less than two years after the year end date.

The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and measures them at fair value. The following table details the forward foreign currency contracts outstanding as at reporting date:

Outstanding contracts	Average Exchange Rate		Foreign Currency		Contract Value		Fair Value	
	2016	2015	2016 FC'000	2015 FC'000	2016 A$'000	2015 A$'000	2016 A$'000	2015 A$'000
Consolidated								
Sell US Dollar								
Less than 3 months	0.72	0.84	1,650	2,850	2,287	3,378	61	(334)
3 to 6 months	0.73	0.84	1,400	1,200	1,914	1,431	20	(141)
6 to 9 months	0.73	0.76	1,150	1,850	1,581	2,436	21	(1)
9 to 12 months	0.74	0.77	1,050	1,950	1,419	2,536	(10)	(39)
Sell Euros								
Less than 3 months	0.65	0.69	240	370	370	534	10	(3)
3 to 6 months	0.64	0.67	50	95	78	141	2	1
6 to 9 months	0.65	0.68	125	175	192	259	1	1
9 to 12 months	0.66	-	130	-	198	-	(2)	-
Sell Sterling								
Less than 3 months	0.52	0.54	100	250	192	461	11	(50)
3 to 6 months	0.53	0.50	25	100	47	198	2	(7)
6 to 9 months	0.53	0.50	50	100	95	199	3	(8)
9 to 12 months	0.51	0.49	100	75	196	152	13	(3)
							132	(584)

These hedge assets and liabilities are classified as a level 2 fair value measurement, being derived from inputs provided from financial institutes, rather than quoted prices that are observable for the asset either directly (ie as prices) or indirectly (i.e. derived from prices). The fair value measurement of the OTC forward contact would not qualify as Level 1 as there is not a quoted price for the actual contract, even though data used to value the contract may be derived entirely from active foreign-exchange and interest-rate market.

Interest rate risk management

The consolidated entity is exposed to interest rate risk on the cash held in bank deposits. Cash in bank and term deposits of $9,192,000 were held by the consolidated entity at the reporting date, attracting an average interest rate of 1.70% (2015: 2.36%). If interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's net profit would increase/(decrease) by +/-$45,960 (2015: +/- $79,855).

Note 24. Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The largest single counterparty exposure with any one customer is with Avaya with a receivable balance at 30 June 2016 of $7.0 million (2015: $7.23 million). Ongoing credit evaluation is performed on the financial condition of accounts.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the consolidated entity's short, medium and long-term funding and liquidity management requirements.

The consolidated entity manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

All creditor and other payables shown in Note 18 for both 2016 and 2015 carry no interest obligation.

Fair value of financial instruments
The carrying value of financial assets and financial liabilities of the consolidated entity is a reasonable approximation of their fair value. The fair value of non-current debtors for 2016 are presented in the following table:

	Consolidated	
In thousands of AUD	**Carrying amount**	**Fair value**
Non-current debtors	23,373	23,980
	23,373	23,980

For non-current trade debtors Integrated Research has considered a discount rate to recognise the net present value of the debtors. Level 3 inputs have been considered including corporate borrowing rates, size of the customer and jurisdiction of the customer. A discounted cashflow model was used to derive the fair value. The range of discount rates was between 3.5% to 5.5%. A 1% increase in the discount rate would lower the fair value of non-current receivables by approximately $216,000. The carrying value of non-current trade debtors for 2015 of the consolidated entity was a reasonable approximation of their fair value.

Note 25. Operating leases

Non-cancellable operating lease rentals is for office space with payables as follows:

	Consolidated	
In thousands of AUD	**2016**	**2015**
Less than one year	1,332	1,475
Between one and five years	2,403	2,663
Greater than five years	-	132
	3,375	4,270

Note 26. Consolidated entities

	Country of incorporation	Ownership interest 2016	2015
Parent entity:			
Integrated Research Limited	Australia		
Subsidiaries of Integrated Research Limited:			
Integrated Research Inc	USA	100%	100%
Integrated Research Singapore Pte Limited	Singapore	100%	100%
Integrated Research UK Limited	UK	100%	100%
Subsidiaries of Integrated Research UK Limited:			
Integrated Research Germany GmbH	Germany	100%	-

Note 27. Reconciliation of cash flows from operating activities

	Consolidated	
In thousands of AUD	**2016**	**2015**
Profit for the year	16,029	14,251
Depreciation and amortisation	10,636	9,114
Provision for doubtful debts	1,008	(6)
Interest received	(154)	(297)
Interest paid	120	-
Share-based payments expense	655	728
Net exchange differences	(70)	(66)
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	(15,125)	(15,409)
(Increase)/decrease in future income tax benefit	(150)	121
(Increase)/decrease in other operating assets	(286)	94
Increase/(decrease) in trade and other payables	1,272	3,167
Increase/(decrease) in other operating liabilities	2,933	7,154
Increase/(decrease) in provision for income taxes payable	(1,515)	1,481
Increase/(decrease) in provision for deferred income taxes	492	744
Increase/(decrease) in other provisions	373	343
Net cash from operating activities	16,218	21,419

Note 28. Key management personnel disclosures

Key management personnel compensation

The key management personnel compensation are as follows:

	Consolidated	
In AUD	**2016**	**2015**
Short-term benefits	3,470,104	3,248,694
Post-employment benefits	197,539	171,284
Long term benefit	41,986	42,264
Equity compensation benefits	291,597	436,035
	4,001,226	3,898,277

Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Note 29. Related parties

At 30 June 2016 Mr Steve Killelea, the Chairman of the Company, owned either directly or indirectly 52.71% of the Company (2015: 55.89%).

Note 30. Parent entity disclosures

Financial Position

	Parent Entity	
In thousands of AUD	**2016**	**2015**
Assets		
Current assets	28,047	24,050
Non-current assets	17,979	18,928
Total Assets	46,026	42,978
Liabilities		
Current Liabilities	8,612	7,295
Non-current liabilities	4,684	5,167
Total Liabilities	13,296	12,462
Net Assets	32,730	30,516
Equity		
Issued Capital	1,667	1,667
Employee benefits Reserve	2,161	1,571
Hedging reserve	50	(197)
Retained Earnings	28,852	27,475
Total Equity	32,730	30,516

Note 30. Parent entity disclosures (continued)

Financial Performance

In thousands of AUD	Parent Entity 2016	2015
Profit for the year	13,283	13,412
Other comprehensive income	247	(317)
Total comprehensive income	13,530	13,095

Investments in subsidiaries are included at cost.

Note 31. Subsequent events

Dividends

For dividends declared after 30 June 2016 see Note 23 in the financial statements. The financial effect of dividends declared and paid after 30 June 2016 have not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.