

# **INTEGRATED RESEARCH LIMITED AND CONTROLLED ENTITIES**



FINANCIAL REPORT

FOR THE YEAR-ENDED

30 JUNE 2016

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## **Financial Report - 30 June 2016**

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# Directors' Report

## Review of operations and activities

### Principal activities

Integrated Research Limited's principal activities are the design, development, implementation and sale of systems and applications management computer software for business-critical computing, Unified Communication networks and Payment networks.

### Group overview

Integrated Research has a twenty-eight year heritage of providing performance monitoring, diagnostics and management software solutions for business-critical computing environments.

Since its establishment in 1988, the Company has provided its core Prognosis products to a cross section of large organisations requiring high levels of computing performance and reliability for mission critical business operations.

The Prognosis product range is an integrated suite of monitoring and management software, designed to give an organisation's management and technical personnel operational insight into and optimise the operation of their HP NonStop, distributed system servers, Unified Communications ("UC"), and Payment environments and the business applications that run on these platforms.

Integrated Research has developed its Prognosis products around a fault-tolerant, highly distributed software architecture, designed to achieve high levels of functionality, scalability and reliability with a low total cost of ownership.

Integrated Research services customers in more than 50 countries through direct sales offices in the USA, UK, Germany, Singapore and Australia, and via a global, channel-driven distribution network. Integrated Research's customer base consists of many of the world's largest organisations and includes major stock exchanges, banks, credit card companies, telecommunications companies, computer companies, service providers and manufacturing companies.

The Company generates its revenue from licence fees, recurring maintenance and consulting services. More recently, the Company added testing solution services revenue through the acquisition of the business of IQ Services. Revenue from the sale of licences where there is no post-delivery obligations is recognised in profit at the date of the delivery of the licence key. Revenue from maintenance contracts is recognised rateably over the service agreement, which is typically one year. Revenue from consulting services and testing solution services is recognised over the period the services are delivered.

### Review and results of operations

#### *Overview*

The Company achieved a 12% increase in annual after tax profit over the prior year to \$16.0 million, which is within the guidance provided to the Australian Stock Exchange on July 20, 2016. The strong result was driven through licence sale growth in Unified Communications. The Company saw growth across European and Asia-Pacific markets and saw triple-digit growth in product sales on the Microsoft Skype for business platform.

#### *Revenue*

Revenue for the year was \$84.5 million, an increase of 20% over 2015. Licence fees increased by 11% to \$45.7 million with strong growth from Unified Communications partially offset with lower Infrastructure sales. Maintenance revenues grew 15% over the previous corresponding year despite a lower than historical average customer retention rate of 91%. Revenue from consulting services grew by 33% to \$7.4 million. Revenue was enhanced by a stronger US dollar relative to the prior year. In constant currency, annual revenue increased by 10% compared to the prior year.

The following table presents Company revenues for each of the relevant product groups:

<b>In thousands of AUD</b>	<b>2016</b>	<b>2015</b>	<b>% Change</b>
Unified Communications	50,778	36,485	39%
Infrastructure	20,812	23,177	(10%)
Payments	5,576	5,069	10%
Consulting	7,366	5,548	33%
<b>Total revenue</b>	<b>84,532</b>	<b>70,279</b>	<b>20%</b>

Unified Communications (UC) revenue rose 39% over the previous year driven through an array of large software deals with customers including Cisco, Citigroup, Dell, Ford Motor Company, HSBC, Nationwide Building Society (UK) and T-Systems.. The Company achieved UC licence sales growth across all of the major UC platforms including Microsoft, Avaya and Cisco.

Infrastructure revenues decreased by 10% over the previous year. After a strong above trend performance in HP Non-Stop revenues in 2015, the high margin Infrastructure product line delivered \$20.8 million in revenue for 2016 consistent with the previous five year average. The annual revenue from the Infrastructure product line is highly correlated to the underlying licence renewal profile. The 2017 renewal profile should assist in underpinning a steady performance for that year.

Payments revenue rose 10% over the previous year with strong licence sale growth coming from the UK with a key deal with Barclaycard. The Company has expanded its suite of Payments products by adding new products for additional platforms, vendors and applications, including fraud management, payments analytics and wholesale money transfer applications.

Consulting services showed growth for a seventh year in a row, with revenue increasing 33% to \$7.4 million as customers increasingly look to extend their Prognosis solution to provide greater insight into their Unified Communications, Payments and Infrastructure environments.

The following table presents Company revenues for each of the relevant geographic segments in underlying natural currencies:

	<b>2016</b>	<b>2015</b>	<b>% Change</b>
Americas (USD'000)	41,997	43,621	(4%)
Europe (£'000)	8,438	5,338	58%
Asia Pacific (A\$'000)	10,271	8,866	16%

The Americas strong performance in 2015 was partly driven by a cyclical upswing in Infrastructure from HP-NonStop renewals. The reduction of these renewals in 2016 dragged the overall Americas performance down to finish the year 4% below 2015. The Americas continues to be the largest revenue contributor for the group and the forward Infrastructure renewal pipeline shows a return to historic averages. The Americas performance for 2016 delivered a solid performance in the Unified Communications product line from both the traditional Avaya and Cisco platforms as well as the rapidly growing Microsoft Skype for Business platform.

The Company's strategic investments made in 2015 into Europe paid off in 2016 with revenue growing by 58% to £8.4 million. The growth was across both the UK and Continental Europe with key wins in both Unified Communications and Payments. The key account wins included a handful of large deals such as Barclaycard, HSBC, Nationwide Building Society and T-Systems.

The investment in the Singapore office and the sales team enabled Asia Pacific to grow revenue by 16% to \$10.3 million. The licence growth was delivered across Infrastructure and Unified Communications products.

#### *Expenses*

The Company continued to focus on expanding its capabilities and improving productivity. Total expenses were \$64.5 million, up 22% against the prior year. The increase in cost was driven by three factors. Firstly the annualisation of investments made part way through the 2015 financial year; secondly, additional cost carried from the acquisition of the Testing Solutions business; and thirdly, the higher cost base was driven through a lower Australian dollar giving rise to higher offshore translated costs. In constant currency, expenses were up 14%. The number of staff at the end of the current year was 231 (2015: 222). The following table presents the Company's cost base compared to the preceding year:

<b>In thousands of AUD</b>	<b>2016</b>	<b>2015</b>
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
<b>Total expenses</b>	<b>64,527</b>	<b>52,812</b>

Research and development expenditure of \$13.6 million was 16% of total revenue. Prognosis 11 was released in June 2016 and will provide the Company with further growth opportunities in coming periods. Product enhancements in Call Recording Assurance, Skype for Business and Unified Communications for service providers should see revenue realisation in the 2017 financial year and beyond. Development activities in Payments will enable visibility into new technology roll-outs such as Apple Pay. In addition, the Company continues to maintain certification with all the major Unified Communications platforms, the only vendor to do so.

Net research and development expenses are represented as follows:

<b>In thousands of AUD</b>	<b>2016</b>	<b>2015</b>
Gross research and development spending	14,007	13,215
Capitalisation of development expenses	(9,565)	(9,037)
Amortisation of capitalised expenses	9,140	8,253
<b>Net research and development expenses</b>	<b>13,582</b>	<b>12,431</b>

#### **Shareholder returns**

Returns to shareholders remain strong through the payment of partly franked dividends:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net profit (\$'000)	\$16,029	\$14,251	\$8,489
Basic EPS	9.42¢	8.41¢	5.03¢
Dividends per share	6.5¢	7.5¢	5.0¢
Dividend franking percentage	58%	35% <sup>f</sup>	33%
Return on equity	39%	39%	28%

## Financial position

The following table presents key items from the consolidated statement of financial position:

In thousands of AUD	2016	2015
<b>Assets:</b>		
Cash and cash equivalents (current)	8,544	15,323
Trade and other receivables (current and non-current)	52,390	38,272
Intangible assets (non-current)	21,972	17,020
<b>Liabilities:</b>		
Deferred revenue (current and non-current)	25,946	22,523
<b>Equity</b>	<b>41,046</b>	<b>36,132</b>

The Company's end of year cash position was \$8.5 million, down 44% compared to the prior year. The reduction in year end cash has been driven primarily by the change in customer buying patterns where there has been a greater take-up of term based renewal contracts over perpetual upfront cash arrangements. Whilst this purchasing change has reduced cash in the short term, the increase in the term contract activity bodes well for the future as the renewal opportunities will provide a compounding revenue effect in future periods. The Company has completed two years of a three year transition and sees the 2018 financial year as the time when this revenue compounding will begin to take effect and as a result drive an improvement to both cashflow from operations as well as underpin revenue growth. In the short term, there is the possibility of working capital fluctuations and as a result, the Company has established a three year \$10 million multicurrency debt facility to fund these fluctuations. During the year, \$1.5 million was drawn down from the debt facility but was repaid before the end of the year. The Company remains free of debt as at 30 June 2016.

Trade and other receivables increased by 42% over the preceding year due to three factors. Firstly, a strong increase in sales toward the end of the year; secondly a weaker Australian dollar resulting in higher translated US dollar debtors; and thirdly an increase in deferred payment terms with customers who seek to make regular annual payments over the term of their committed contract.

The increase in intangible assets arose primarily from the acquisition of the IQ Services business.

The consolidated statement of financial position presented at page 37 together with the accompanying notes provides further details.

## Outlook and Strategy for 2017

Hundreds of thousands of businesses rely on billions of Unified Communications interactions everyday to run their business; IR Prognosis ensures the quality of experience and optimises these mission critical internal and external customer interactions. On the Payments side of the business hundreds of millions of people rely on billions of payments transactions daily, IR Prognosis oils the smooth operation of their daily lives and of the business economy that we all depend on.

Prognosis derives its competitive advantage from its unique intellectual property (IP) and design that enables real time insight, monitoring, fault root cause analysis, business and operational analytics, performance management and optimisation. The solution is highly scalable, extremely flexible and delivers very deep visibility into the diversity of systems and applications that it manages. As such, Prognosis is ideally suited to complex, high transaction volume, mission critical and high traffic environments.

Competition exists in each of the markets in various forms. Firstly, some of the large telephony and payment vendors provide their own performance management software, although this is generally inferior to the capability of Prognosis and does not solve the problem where heterogeneous multi-vendor environments exist, as is most often the case. Secondly, some of the large solution software vendors also provide performance management capabilities, but this is typically not their core specialisation. Lastly, the Company from time to time competes with smaller, start-up niche vendors. The Company remains focused on sustaining its competitive advantage through continuing innovation that comes from its research and development program.

Through deep visibility, forensic analysis into the root cause of problems, extensive analytics at multiple levels and recently, new automation capabilities, Prognosis enables proactive and rapid resolution of issues, capacity management as well as operational, cost and user experience optimisation.

The solution provides insight into potential issues before they become business-critical. Prognosis helps users improve their operational maturity by proactively minimising expensive outages, lowering costs, improving user satisfaction, retaining and growing customers and optimising IT operations and resources. Prognosis is progressively using its real time access to big data volumes to deliver insights into a customer's business that goes beyond improving and optimising operational efficiency. Through real time access and analysis Prognosis Business Insights reveals business and customer trends that are leveraged for economic, fraud management and competitive advantage.

The Company's growth strategy is to create, sell and support Prognosis-based products and services that deliver profitable growth from existing markets and customers, as well as creating new products that open new markets.

The Company currently focuses on three core markets: Infrastructure, Communications and Payments. The Company is actively building a fourth core market in the Contact Centre space. While growth in the Contact Centre solutions has been strong, this has not yet become a material part of the business.

The Infrastructure market for Integrated Research includes users of high-end computing systems such as the HP NonStop platform for financial, telecommunication, trading, manufacturing and other high-volume, high-value mission critical transaction environments. NonStop is an important part of HP's server strategy and remains at the operational core of many of the world's largest companies. The Company continues to invest in Prognosis for Nonstop to be aligned with HP and its customers. Prognosis for Distributed Systems (Windows, Unix and Linux) is mostly sold alongside the Company's NonStop and Unified Communications products as customers seek a common monitoring interface for all platforms, or convert applications from one platform to another.

The Communications segment includes users of IP Telephony and Unified Communications (UC) applications such as audio communication, video, messaging, collaboration, mobility and presence. The Company anticipates growth in this segment through the ongoing shipment of IP based video, telephony and other endpoints as well as the increasing value per endpoint through the use of UC applications. UC networks are becoming more pervasive, more mission critical and more complex and as such they require effective performance and user experience management. Prognosis is strongly positioned to benefit from this need. The company will continue to invest in R&D to expand the suite of Prognosis for UC products

to cover more platforms, vendors and applications, and by doing so increase the Company's addressable market and revenue potential.

IR has been a trusted Microsoft Unified Communications partner since 2010, helping customers and partners successfully plan, deploy, test, operate and optimize Skype for Business. In March 2016 IR Prognosis for Unified Communications completed certification as an IT Pro Tool certified solution for Skype for Business. Skype for Business IT Pro Tools partners help customers accelerate deployment and adoption of Skype for Business and migration from existing legacy communications systems. This ensures Microsoft customers can deliver the best possible experience for their users. Prognosis sales to customers using Skype for Business was a significant contributor to the growth in the Company's Unified Communications product line and represents a major growth opportunity in the future. Microsoft Skype for Business is the fastest growing Unified Communications solution in the market today. Last month Prognosis was named as the only solution recommended by Microsoft for both the Essentials and Advanced category of their Skype Operations Framework, the best practices required for successful Skype for Business implementations.

Prognosis has ensured voice and video quality and performance for Cisco Unified Communications solutions since 2000 and manages many of the largest and most complex Cisco implementations across the globe. Over the past year the Company has collaborated with Cisco to achieve compliance with both the US Government Federal Information Processing Standards (FIPS 140-2) and the Federal Risk and Authorization Management Program (FedRAMP).

The Company has expanded its suite of Payments solutions by adding new products for additional platforms, vendors and applications, including new technology for roll-outs such as Apple Pay. This expands the company's addressable market in the Payments segment and increases revenue potential. The Company will maintain this strategy in the Payments market. The strategic alliance with ACI, a global leader in the payments market, continues to support the Company's Payments business. In FY2016 the Company expanded its leverage into the Payments market by growing relationships with additional payments software vendors including FIS (Efund Corporation) in Asia Pacific. These new relationships are expected to deliver further growth over the coming years.

IR Consulting Services provide Prognosis customers with implementation, customisation and training services to ensure that they get the most out of their investment in Prognosis. Consulting Services also help IR configure unique and repeatable solutions that extend the use and value of Prognosis. Consulting Services achieved growth in FY2016 for the seventh consecutive year. The Company will continue to invest in people and processes to grow consulting revenue and margin.

On 1 July 2015 IR completed the acquisition of US based IQ Services. The acquisition expands IR's Prognosis product line to now include best in class Virtual Customer<sup>®</sup> testing capabilities. Automated Virtual Customers<sup>®</sup> behave like an army of secret shoppers that test Unified Communications and Contact Center systems to ensure they deliver the high quality customer experience real customers expect and demand. Embedded into Prognosis, the cloud based end-to-end automated testing as a service becomes the markets only fully integrated proactive systems management and testing product solution for UC and contact centers. The acquisition provides IR with an expanded offering to new and existing customers with unique competitive advantage as well as geographic expansion opportunities for the acquired products into Europe and Asia, as IQ Services previously only operated in North America. The integration of the acquisition is substantially complete. Bookings growth in FY2016 driven by solution synergies is expected to continue in FY2017 realising the potential of the acquisition going forward.

In FY2015 the Company started a three year transition to reduce the number of one-off perpetual licence sales and correspondingly increase the number of recurring term licences. The Company has now completed two years of the three year transition from perpetual to recurring term arrangements. The Company has managed to show healthy growth through each of the first two bridging years despite the lower initial cash and revenue of recurring term arrangements. The three year term licences that were signed in FY2015 are coming up for renewal in FY2018 and the Company expects that will provide a platform for cashflow and revenue growth.

Prognosis has proven to be a sticky solution in the past with historical renewal rates of above 90%. To maximize the benefit of compounding recurring term renewals that will accelerate from FY2018 and



beyond the Company will focus on activities that will secure those renewals. These activities will include account management focus to ensure customer adoption and satisfaction as well as expansion of share of wallet. Analysis of the Company's customer base of over 1,200 enterprise customers shows significant potential to expand the number of IR solutions sold to each customer. Prognosis is a modular solution and customers will typically purchase only a small subset of those modules on their initial purchase. Subsequent purchases may include additional solutions such as Reporting and Analytics, Video Management, Testing solutions, Contact Centre and Call Recording Assurance to name some of the most commonly applicable. These are sold at rates per user per year that vary between 12.5% to 300% of the initial purchase price.

The Company has also proven it's capability to acquire new customers, adding over 100 new logos in FY2016. The compounding impact of recurring term renewals, expansion of share of wallet and continued focus on new customer acquisition are three significant factors that management expects to support growth through FY2017 and beyond.

The Company continues to invest in its R&D capability through the use of the Agile development methodology which has improved the rate and quality of software production for the Company.

## Directors and senior management

### Directors

The directors of the Company at any time during or since the end of the financial year are listed below:

#### **Steve Killelea, AM**

*Non-Executive Director and Chairman*

Steve founded Integrated Research in August 1988 and held the position of Managing Director and Chief Executive Officer until retiring from his executive position in November 2004. He was appointed as a Non-Executive Director in November 2004 and elected Chairman in July 2005. Steve is also Chairman of the Institute for Economics and Peace, Smarter Capital and The Charitable Foundation and for activities involved with these he has received a number of international awards including the Order of Australia, Luxemburg Peace Prize and has been nominated for the Nobel Peace prize. He is also active in the financial community with investments in many high tech companies. Steve's current term will expire no later than the close of the 2018 Annual General Meeting.

Listed company directorships held in the past three years: None.

Age: 67 years.

#### **Darc Dencker-Rasmussen, MAICD**

*Managing Director and Chief Executive Officer*

Darc was appointed CEO and Managing Director of Integrated Research in October, 2013. Darc is a seasoned 25-year IT and enterprise software professional with extensive international experience in building and growing Software as a Service (SaaS) and Cloud based businesses. Darc was Chief Operating Officer and served as Executive Director at TrustedCloud (formerly IntraPower ASX:IPX). Prior to joining TrustedCloud, Mr Rasmussen served as Senior Vice President of CRM (Customer Relationship Management) at SAP in Germany and led SAP's Strategic Initiative to build and grow their CRM business worldwide. Darc also served as Director and Vice President for Asia Pacific for Softbrands (acquired by Infor) and built their significant regional footprint.

Listed company directorships held in the past three years other than listed above: None.

Age: 56 years.

#### **Nick Abrahams, B Comm, LLB (Hons), MFA**

*Non-Executive Director*

Nick was appointed as a Director in September 2014. Mr. Abrahams is highly experienced in corporate, intellectual property and international law pertaining to the technology industry, with over 20 years' experience as a private practice lawyer. He has worked extensively internationally representing Australian high-tech companies as well as working for three years with a law firm in Japan. Mr Abrahams also spent time working in the United States in the late nineties and was an executive with Warner Brothers in Los Angeles, followed by a period as a senior executive at listed technology company, Spike Networks, also in Los Angeles. Mr Abrahams returned to legal practice in 2002 and is a partner of and leads the Asian technology practice of a global law firm. Nick's current term will expire no later than the close of the 2017 Annual General Meeting.

Listed company directorships held in the past three years other than listed above: None.

Age: 50 years.

#### **Alan Baxter, BSc, Dip Ed**

*Independent Non-Executive Director*

Alan was appointed as a Director in June 2009. Alan has over forty years' experience in Information Technology covering a broad range of the industry's activities. These include many years in a variety of roles with IBM Australia, CEO of DMR Consulting in Australia and COO of Fujitsu Consulting's global operations from London. He was non-executive Chairman of Fujitsu Australia & New Zealand, a director of Mincom Ltd, non-executive Chairman of Konekt Limited and also of Innogence Limited. He is a non-executive director of CPT Global, a publicly listed technology consulting company. Alan's current term will expire no later than the close of the 2018 Annual General Meeting.

Listed company directorships held in the past three years other than listed above: None.

Age: 71 years.

**Paul Brandling**, BSc Hons, MAICD

*Independent Non-Executive Director*

Paul was appointed a Director in August 2015. He worked in the information technology industry for 28 years and has broad experience in hardware, services and software. He has previously held the positions of Vice President and Managing Director of Hewlett-Packard South Pacific plus Vice President and Managing Director of Compaq South Pacific. From 2001 to 2012, Paul was a member of the International CEO Forum (Australia) and served as a Director of the Australian Information Industry Association (AIIA) from 2002 to 2011. Mr Brandling was a Director of Amcom Telecommunications Limited until its acquisition and was a Director of Vocus Communications Limited until February 2016. He is currently a Director of cyber security specialist Tesseract Limited. Paul's current term will expire no later than the close of the 2018 Annual General Meeting. Listed companies directorships held in the past three years other than listed above: None.

Age: 58 years.

**Garry Dinnie**, BCom, FCA, FAICD, FAIM, MIIA(Aust)

*Independent Non-Executive Director*

Garry was appointed a Director in February 2013. He is a Director & Chair of the Audit & Risk Committee of CareFlight Limited, Australian Settlements Limited and a Director of a number of private companies. He is also the Chair or member of a number of Audit & Risk Committees of NSW public sector and private sector entities. He was previously a partner with Ernst & Young for 25 years specialising in audit, advisory and IT services. Garry's current term will expire no later than the close of the 2016 Annual General Meeting.

Listed company directorships held in the past three years other than listed above: Inabox Group Limited

Age: 64 years.

**Peter Lloyd**, MAICD

*Non-Executive Director*

Peter was appointed director in July 2010. He has over 40 years' experience on computing technology, and in the sales and marketing of computer software products and services. For the past 31 years, Peter has been specifically involved in the provision of payments solutions for banks and financial institutions. He is currently the proprietor of The Grayrock Group Pty Ltd, a management consultancy company focussing on the payments industry, and a Non-Executive Director of Taggle Pty Ltd. Peter's current term will expire no later than the close of the 2016 Annual General Meeting. Listed companies directorships held in the past three years: None.

Age: 62 years.

## **Company Secretary**

**David Purdue**, BEc, MBA, Grad Dip CSP, FCA, FGIA, FCIS, GAICD

David was appointed Company Secretary in July 2012. David was also the Company's Global Commercial Manager until his retirement in July 2016. Prior to this, David spent three years at Integrated Research's Colorado office to manage the Americas finance operations. David is a Chartered Accountant and Chartered Secretary with over 25 years experience in both professional practice and industry.

## Senior management

### **Peter Adams, B.Com, CA – Chief Financial Officer**

Peter joined Integrated Research in March 2008 and is responsible for overseeing the Company's finance and administration, including regulatory compliance and investor relations. Peter is a Chartered Accountant with over 25 years experience. He has held a number of senior accounting and finance roles, including seven years as CFO with Infomedia (an ASX-listed technology company), six years with Renison Goldfields (ex ASX top 100 Resources Company) and two years with Transfield Pty Ltd. Peter's career began with Arthur Andersen, where he was responsible for managing large audit clients.

### **Alex Baburin, B.App. Sc – Chief Operations Officer**

Alex Baburin joined Integrated Research in November 2006 and is responsible for the Company's software development and global support activities. Alex has over 25 years experience in the development, creation and management of high-technology hardware and software products for Honeywell and Siemens. Before joining Integrated Research he was responsible for general management of the Siemens Access Control product line globally and for much of that time was based in Germany.

### **Jason Barker, BA (hons) Senior Vice President, Asia Pacific, Middle East & Africa**

Jason joined IR in October 2014 and is responsible for all business operations across the Asia Pacific, Middle East & Africa regions. Jason joins with 20 years' experience in Technology, Media & Telecommunications most recently as Vice President Sales, Asia Pacific at Acision where, based out of Singapore, he was responsible for leadership of the Sales team across the region. Prior to this Jason spent 5 years in Australia leading Asia Pacific teams with Subex and SurfKitchen and before this held several European focussed roles, based out of the UK.

### **Andre Cuenin, BSc, MBA – President Americas & VP European Field Operations**

Andre joined Integrated Research in October 2008 and is responsible for all business operations in both the Americas and Europe region. Andre has over 25 years experience in IT sales, including VP of Field Operations at Stratavia, where he was responsible for sales and professional services marketing worldwide. Prior to this he spent 15 years with CA (previously known as Computer Associates) in several senior management positions including VP of Worldwide Sales Operations.

### **Heidi Newbery, BSc, GDip Psych, GDip HR – General Manager – Human Resources**

Heidi is responsible for the Human Resources and Learning Development functions which includes responsibility for aligning strategic HR initiatives with the Business Strategy that enable a high performance culture. Heidi has over 18 years HR, sales, or adult learning experience mostly within global organisations in the software or technology industry.

### **Kevin Ryder – M.Mgt, MBA - Chief Marketing Officer, Global Marketing**

Kevin joined IR in October 2013 and as Chief Marketing Officer is responsible for product marketing, strategic alliances, partner programs and marketing communications. Kevin has over 25 years sales and marketing experience in the ICT industry, including leadership roles in Europe, North America, Asia and Australia. Most recently he was the Enterprise Marketing Director at Microsoft and prior to that, GM of Marketing at KAZ Group (now owned by Fujitsu). Kevin was also GM for Eicon Technology and in that role was responsible for establishing the Asia Pacific regional office in Sydney and successfully growing the business.

The directors present their report together with the Financial Statements of Integrated Research Limited (“the consolidated entity”), being the Company and its controlled entities, for the year ended 30 June 2016 and the Auditor’s Report thereon.

## Results

The net profit of the consolidated entity for the 12 months ended 30 June 2016 after income tax expense was \$16.0 million.

## Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

		<b>Cents Per share</b>	<b>Total Amount \$’000</b>	<b>Date of Payment</b>
Final 2015 – Ordinary shares	35% franked	4.0	6,793	22 Sep 2015
Interim 2016 – Ordinary shares	55% franked	3.0	5,113	20 Apr 2016
Final 2016 – Ordinary shares	60% franked	3.5	5,970	13 Oct 2016

## Events subsequent to reporting date

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 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.

## Future developments

Likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations are referred to generally in the Review of Operations and Activities Report.

Further information on likely developments including expected results would in the Directors’ opinion, result in unreasonable prejudice to the Company and has therefore not been included in this Report.

## Directors and company secretary

Details of current directors’ qualifications, experience, age and special responsibilities are set out on pages 9 to 10. Details of the company secretary and his qualifications are set out on page 10.

## Officers who were previously partners of the audit firm

No officers of the Company were partners of the current audit firm during the financial year.

## Directors' meetings

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2016, and the numbers of meetings attended by each director were:

	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings		Strategy Committee Meetings	
	A	B	A	B	A	B	A	B
Alan Baxter	12	12	-	-	4	4	1	1
Paul Brandling	10	10	7	5	-	-	6	6
Nick Abrahams	12	12	8	8	-	-	-	-
Garry Dinnie	12	12	8	8	4	4	-	-
Peter Lloyd	11	12	3	3	-	-	7	7
Steve Killelea	12	12	-	-	4	4	7	7
Darc Rasmussen	12	12	-	-	-	-	7	7

A: Number of meetings attended.

B: Number of meetings held during the time the directors held office or was a member of the board or committee during the year.

## State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

## Environmental regulation

The consolidated entity's operations are not subject to significant environmental regulations under either Commonwealth or State legislation.

## Directors' interests

The relevant interest of each director in the shares, options or performance rights over ordinary shares issued by the companies in the consolidated entity and other relevant bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares in Integrated Research			Options	Performance rights
	Directly held	Beneficially held	Total	Number of options	Number of rights
Alan Baxter	-	197,000	197,000	-	-
Darc Rasmussen	279,273	56,351	335,624	-	250,000
Garry Dinnie	-	-	-	-	-
Steve Killelea	89,497,339	337,612	89,834,951	-	-
Nick Abrahams	-	2,000	2,000	-	-
Paul Brandling	10,202	-	10,202	-	-
Peter Lloyd	-	-	-	-	-

## Share options and performance rights

### Options and performance rights granted to directors and senior executives

During or since the end of the financial year, the Company granted performance rights for no consideration over unissued ordinary shares in Integrated Research Limited to the following named directors and executive officers of the consolidated entity as part of their remuneration:

	Number of performance rights granted	Performance hurdle	Exercise price	Expiry date
<b>Directors</b>				
Darc Rasmussen	250,000*	Yes	Nil	Oct 2016
<b>Executive Officers</b>				
Peter Adams	25,000	Yes	Nil	Mar 2019
Alex Baburin	15,000	Yes	Nil	Mar 2019
Jason Barker	30,000	Yes	Nil	Mar 2019
Andre Cuenin	85,000	Yes	Nil	Mar 2019
Kevin Ryder	15,000	Yes	Nil	Mar 2019

The performance rights were granted under the Integrated Research Performance Rights and Option Plan (established November 2011). The Company will either issue shares or make an on-market purchase for Mr Rasmussen upon his vesting conditions being satisfied.

\*This is the third tranche of the original plan granted on 14 November 2013 of 850,000 rights. Tranche 1 and 2 of 600,000 rights vested in October 2015.

### Unissued shares under performance rights

Unissued ordinary shares of Integrated Research Limited under performance rights at the date of this report are as follows:

Performance rights		
Expiry date	Exercise price	Number of shares
Oct 2016	Nil	150,000
Oct 2016	Nil	250,000
Sep 2017	Nil	465,000
Sep 2017	Nil	85,000
Oct 2017	Nil	700,000
Sep 2018	Nil	93,800
Dec 2018	Nil	60,000
Mar 2019	Nil	195,000
Total performance rights		1,998,800

Performance rights do not entitle the holder to participate in any share issue of the Company or any other body corporate.

## **Indemnification and insurance of officers and auditors**

### **Indemnification**

The Company has agreed to indemnify the directors of the Company on a full indemnity basis to the full extent permitted by law, for all losses or liabilities incurred by the director as an officer of the Company including, but not limited to, liability for negligence or for reasonable costs and expenses incurred, except where the liability arises out of conduct involving a lack of good faith.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to Ernst & Young during or since the financial year.

### **Insurance**

During the financial year Integrated Research Limited paid a premium to insure the directors and executive officers of the consolidated entity and related bodies corporate.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against officers in their capacity as officers of the consolidated entity.

### **Remuneration report**

The Company's Remuneration Report, which forms part of this Directors' Report, is on pages 17 to 27.

### **Corporate governance**

A statement describing the Company's main corporate governance practices in place throughout the financial year is on pages 28 to 34.



## **Non-audit services**

During the year Ernst and Young, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit & Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit & Risk Committee to ensure they do not impact the integrity and objectivity of the auditor, and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *F1 Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is on page 74 and forms part of the Directors' Report.

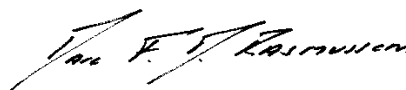
## **Rounding of amounts to nearest thousand dollars**

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 and in accordance with that Class order, amounts in the Financial Statements and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.



Steve Killelea  
Chairman



Daro Rasmussen  
Chief Executive Officer

Dated at North Sydney this 22nd day of August 2016

# Remuneration report (audited)

## Remuneration policies

Remuneration levels for key management personnel and secretaries of the Company, and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally and the objectives of the Company's remuneration strategy.

Key management personnel (including directors) have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structure takes into account:

- The capability and experience of the directors and senior executives
- The directors and senior executives ability to control the relevant segment's performance
- The consolidated entity's performance including:
  - The consolidated entity's earnings
  - The growth in share price and returns on shareholder wealth

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance based incentives.

## Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually through a process that considers individual, segment and overall performance of the consolidated entity. In addition, external remuneration surveys provide periodic analysis to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

## Performance-linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided as either options or performance rights over ordinary shares of Integrated Research Limited under the rules of the share plans.

### *Short-term incentive bonus*

The Nomination and Remuneration Committee is responsible for setting the key performance indicators (KPIs) for the Chief Executive Officer, and for approving the KPIs for the senior executives who report to him. The KPIs generally include measures relating to the consolidated entity, the relevant segment, and the individual, and include financial, people, customer, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the consolidated entity and to its strategy and performance.

The financial performance objectives vary with position and responsibility and are aligned with each respective year's budget. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes and staff development.

At the end of the financial year the Nomination and Remuneration Committee assesses the actual performance of the CEO against the KPIs set at the beginning of the financial year. A percentage of the predetermined maximum amounts for each KPI is awarded depending on results. The committee recommends the cash incentive to be paid to the CEO for approval by the board.

## Remuneration Report (audited) (continued)

### *Long-term incentive*

Prior to the 2012 financial year, options were issued to executive directors and other senior executives under the Employee Share Option Plan. In November 2011, the Company established a new plan titled Integrated Research Performance Rights and Options Plan ("IRPROP"). Performance rights are issued to executive directors and other senior executives under the IRPROP. The ability of executive directors to exercise either options or performance rights is conditional on the consolidated entity achieving certain profit after tax (PAT) performance hurdles over the vesting period. PAT was considered the most appropriate performance hurdle given its intrinsic link to creating shareholder wealth.

### Consequences of performance on shareholder wealth

In considering the consolidated entity's performance and benefits for shareholder wealth, the Nomination and Remuneration Committee has regard to the following indices in respect of the current financial year and the previous four financial years:

	2016	2015	2014	2013	2012
New licences (\$'000)	45,725	41,031	28,048	26,632	28,861
Net profit (\$'000)	16,029	14,251	8,489	9,078	9,035
Dividends paid (\$'000)	11,906	10,162	9,278	8,413	7,512
Closing share price	\$2.250	\$1.690	\$0.995	\$1.035	\$0.665
Change in share price	\$0.560	\$0.695	(\$0.04)	\$0.37	\$0.39

Net profit and new licence sales are considered in setting the STI, as two of the financial performance targets are profit after tax and new licences.

The Nomination and Remuneration Committee considers that the above performance linked structure is generating the desired outcomes.

### Key Management Personnel

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

#### Directors (full year)

Steve Killelea – Chairman  
Nick Abrahams  
Alan Baxter  
Peter Lloyd  
Garry Dinnie  
Darc Rasmussen- Chief Executive Officer

#### Directors (part year)

Paul Brandling - (Joined August 2015)

#### Other key management personnel (full year)

Peter Adams - Chief Financial Officer  
Alex Baburin - Chief Operations Officer  
Jason Barker – Senior Vice President Asia Pacific  
Andre Cuenin - President Americas & VP European Field Operations  
Kevin Ryder - Chief Marketing Officer  
David Purdue - Company Secretary

## **Remuneration Report (audited) (continued)**

### **Service agreements**

Service contracts for current executive directors and current senior executives are unlimited in term but capable of termination by either party according to a period specified in the employment contract and the consolidated entity retains the right to terminate the contract immediately by payment in lieu of notice or a severance payment or an amount for redundancy equal to the scale of payments prescribed in the NSW Employment Protection Act.

Mr Darc Rasmussen, Chief Executive Officer, has a contract of employment with Integrated Research Limited dated 26 August 2013, which provides for specific notice and severance undertakings of up to three months compensation depending on the particular circumstances. Mr Rasmussen can terminate his employment by giving three months prior notice in writing.

Mr Peter Adams, Chief Financial Officer, has a contract of employment with Integrated Research Limited dated 23 January 2008, which provides for specific notice and severance undertakings of up to three months compensation depending on the particular circumstances. Mr Adams can terminate his employment by giving three months prior notice in writing.

Mr Alex Baburin, Chief Operations Officer, has a contract of employment with Integrated Research Limited dated 18 October 2006, which provides for specific notice and severance undertakings of up to one month's compensation depending on the particular circumstances. Mr Baburin can terminate his employment by giving one month's prior notice in writing.

Mr Jason Barker - Vice President, APAC, has a contract of employment with Integrated Research Limited dated 21 August 2014 which provides for specific notice and severance undertakings of one month compensation depending on the particular circumstances. Mr Barker can terminate his employment by giving one month prior notice in writing.

Mr Andre Cuenin, President Americas & VP European Field Operations, has a contract of employment with Integrated Research Inc dated 22 September 2008, which provides for specific notice and severance undertakings of one month's compensation depending on the particular circumstances. Mr Cuenin can terminate his employment by giving one month's prior notice in writing.

Mr David Purdue, Company Secretary and Global Commercial Manager, had a contract of employment with Integrated Research Limited dated 27 May 2008. Mr Purdue retired in July 2016 from the position of Global Commercial Manager. Mr Purdue continues in the role of Company Secretary.

Mr Kevin Ryder – Chief Marketing Officer, Global Marketing, has a contract of employment with Integrated Research Limited dated 14 October 2013, which provides for specific notice and severance undertakings of one month compensation depending on the particular circumstances. Mr Ryder can terminate his employment by giving one month prior notice in writing.

## **Remuneration Report (audited) (continued)**

### **Non-executive directors**

Total remuneration for all non-executive directors last voted upon at the Annual General Meeting in November 2013 is not to exceed \$750,000 per annum.

Director's base fees in FY2016 were \$70,000 per annum inclusive of compulsory superannuation. The chairman receives the base fee by a multiple of two. Director's fees cover all main board activities and committee membership. Directors can elect to salary sacrifice their directors fees into superannuation.

Non-executive directors do not receive performance related compensation or retirement benefits.

### **Directors' and executive officers' remuneration**

Details of the nature and amount of each major element of the remuneration of each of the key management personnel director of the Company and each of the executives and relevant group key management executives are reported below.

The estimated value of options and performance rights disclosed is calculated at the date of grant using the Binomial option pricing model, adjusted to take into account the inability to exercise options during the vesting period. Further details of options and performance rights granted during the year are set out below.

"Executive officers" are officers who are involved in, or who take part in, the management of the affairs of Integrated Research Limited and/or related bodies corporate. Remuneration for overseas-based employees has been translated to Australian dollars at the average exchange rates for the year.

No director or executive appointed during the year received a payment as part of his or her consideration for agreeing to hold the position.

**Remuneration Report (audited) (continued)**

	Short term			Post-employment	Long term	Share-based payments	Other compensation	Total	Proportion of remuneration	
	Salary & fees	Bonus	Non-cash benefits	Superannuation contribution	Long service leave	Value of options and rights	Termination benefit		Performance related	Value of options and rights
2016 In AUD	\$	\$	\$	\$	\$	\$	\$	\$		
<b>Directors</b>										
<i>Non-executive</i>										
Nick Abrahams	63,927	-	-	6,073	-	-	-	70,000	-	-
Alan Baxter	63,927	-	-	6,073	-	-	-	70,000	-	-
Paul Brandling (appointed August 2015)	55,239	-	-	5,248	-	-	-	60,487	-	-
Garry Dinnie	63,927	-	-	6,073	-	-	-	70,000	-	-
Peter Lloyd	63,927	-	-	6,073	-	-	-	70,000	-	-
Steve Killelea (Chairman)	127,854	-	-	12,146	-	-	-	140,000	-	-
<i>Executive</i>										
Darc Rasmussen	500,000	102,662	4,532	19,308	10,446	105,936	-	742,884	14%	14%
<b>Executive officers (excluding directors)</b>										
Peter Adams	291,797	49,385	4,532	19,308	6,086	40,842	-	411,950	12%	10%
Alex Baburin	278,953	27,410	-	32,572	5,651	37,718	-	382,304	7%	10%
Jason Barker	346,535	210,662	-	23,104	-	38,707	-	619,008	34%	6%
Andre Cuenin	342,998	343,350	16,707	10,159	-	23,774	-	736,988	47%	3%
David Purdue	199,613	15,000	4,532	19,308	3,976	16,904	-	259,333	6%	6%
Kevin Ryder	244,242	48,013	380	31,380	5,402	27,716	-	357,133	13%	8%
Total compensation: key management (consolidated, including directors)	2,642,939	796,482	30,683	196,825	31,561	291,597	-	3,990,087		

**Remuneration Report (audited) (continued)**

	Short term			Post-employment	Long Term	Share-based payments	Other compensation	Total	Proportion of remuneration	
	Salary & fees	Bonus	Non-cash benefits	Superannuation contribution	Long service leave	Value of options and rights	Termination benefit		Performance related	Value of options and rights
<b>2015</b>										
<b>In AUD</b>	\$	\$	\$	\$	\$	\$	\$	\$		
<b>Directors</b>										
<i>Non-executive</i>										
Nick Abrahams (appointed September 2014)	50,158	-	-	4,765	-	-	-	54,923	-	-
Alan Baxter	63,927	-	-	6,073	-	-	-	70,000	-	-
Kate Costello (retired September 2014)	13,277	-	-	1,261	-	-	-	14,538	-	-
Garry Dinnie	63,927	-	-	6,073	-	-	-	70,000	-	-
Peter Lloyd	63,927	-	-	6,073	-	-	-	70,000	-	-
Steve Killelea (Chairman)	127,854	-	-	12,146	-	-	-	140,000	-	-
Clyde McConaghy (retired November 2014)	23,276	-	-	2,211	-	-	-	25,487	-	-
<i>Executive</i>										
Darc Rasmussen	500,000	162,000	4,532	18,783	15,201	280,619	-	981,135	17%	29%
<b>Executive officers (excluding directors)</b>										
Peter Adams	281,519	62,863	4,532	18,783	8,156	27,109	-	402,962	16%	7%
Alex Baburin	272,965	42,728	-	27,408	7,610	27,109	-	377,820	11%	7%
Jason Barker (appointed October 2014)	233,182	129,973	-	15,818	-	17,826	-	396,799	33%	4%
Andre Cuenin	292,143	370,449	13,886	8,764	-	54,828	-	740,070	50%	7%
David Purdue	201,685	-	4,532	18,783	4,991	15,081	-	245,072	-	6%
Kevin Ryder	225,473	34,478	-	24,343	6,306	13,463	-	304,063	11%	4%
Jonathan Stern (resigned July 2014)	5,408	-	-	-	-	-	-	5,408	-	-
Total compensation: key management (consolidated, including directors)	2,418,721	802,491	27,482	171,284	42,264	436,035	-	3,898,277		

## Remuneration Report (audited) (continued)

### Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company and each of the named Company executives and relevant group executives are detailed below:

	Short term incentive bonuses		
	Included in remuneration \$ (A)	% vested in year	% forfeited in year (B)
<b>Directors</b>			
Darc Rasmussen	102,662	41%	59%
<b>Executives</b>			
Peter Adams	49,385	77%	23%
Alex Baburin	27,410	53%	47%
Jason Barker	210,662	99%	1%
Andre Cuenin	343,350	77%	23%
David Purdue	15,000	100%	-
Kevin Ryder	48,013	74%	26%

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the short-term incentive bonus scheme for the 2016 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

### Equity instruments

All options refer to options over ordinary shares of Integrated Research Limited, which are exercisable on a one-for-one basis under the Employee Share Option Plan (ESOP).

#### *Options and rights over equity instruments granted as compensation*

No options have been granted to named executives either during or since the end of the financial year. Performance rights granted as compensation are listed in the table below.



## Remuneration Report (audited) (continued)

### Analysis of rights over equity instruments granted as compensation

	Performance rights granted		Percent vested in year	Percent forfeited in year (A)	Financial year in which grant expires	Value yet to vest (\$)	
	Number	Date				Min (B)	Max (C)
<b>Directors</b>							
Darc Rasmussen	350,000	Nov-13	100%	-	2017	-	-
	250,000	Oct-14	100%	-	2017	-	-
	250,000	Oct-15	-	-	2017	nil	216,875
<b>Executives</b>							
Peter Adams	30,000	Oct-12	100%	-	2016	-	-
	100,000	Nov-14	-	-	2018	nil	84,470
	25,000	Dec-15	-	-	2020	nil	46,147
Alex Baburin	30,000	Oct-12	100%	-	2016	-	-
	100,000	Nov-14	-	-	2018	nil	84,470
	15,000	Dec-15	-	-	2020	nil	27,688
Jason Barker	40,000	Nov-14	-	-	2018	nil	33,788
	60,000	Nov-14	-	-	2019	nil	46,494
	30,000	Dec-15	-	-	2020	nil	55,377
Andre Cuenin	50,000	Oct-12	100%	-	2016	-	-
	85,000	Apr-14	-	-	2018	nil	79,639
	100,000	Nov-14	-	-	2018	nil	84,470
	85,000	Dec-15	-	-	2020	nil	156,901
David Purdue	20,000	Oct-12	100%	-	2016	-	-
	50,000	Nov-14	-	-	2018	nil	42,235
Kevin Ryder	75,000	Nov-14	-	-	2018	nil	63,353
	15,000	Dec-15	-	-	2020	nil	27,688

(A) The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the performance hurdles not being achieved or due to the resignation of the executive.

(B) The minimum value of performance rights yet to vest is \$nil as the executives may not achieve the required performance hurdles or may terminate their employment prior to vesting.

(C) The maximum values presented above are based on the values calculated using the Binomial option pricing model as applied in estimating the value of performance rights for employee benefit expense purposes.

## Remuneration Report (audited) (continued)

### Other Transactions with Key Management Personnel

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.

### Equity instruments

All performance rights refer to performance rights over ordinary shares of Integrated Research Limited, which are exercisable on a one-for-one basis under the Integrated Research Performance Rights and Option Plan (IRPROP).

### Key management personnel compensation

The key management personnel compensation are as follows:

In AUD	Consolidated	
	2016	2015
Short-term benefits	3,470,104	3,248,694
Post-employment benefits	196,825	171,284
Long term benefit	31,561	42,264
Equity compensation benefits	291,597	436,035
	<u>3,990,087</u>	<u>3,898,277</u>

## Remuneration Report (audited) (continued)

### Performance rights over equity instruments granted as compensation

The movement during the reporting year in the number of performance rights over ordinary shares in Integrated Research Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Current Year	Held at 1 July 2015	Granted as compensation	Exercised	Other changes*	Held at 30 June 2016	Vested during the year	Vested and exercised at 30 June 2016
<b>Directors</b>							
Darc Rasmussen	600,000	250,000	(600,000)	-	250,000	600,000	600,000
<b>Executives</b>							
Peter Adams	130,000	25,000	(30,000)	-	125,000	30,000	30,000
Alex Baburin	130,000	15,000	(30,000)	-	115,000	30,000	30,000
Jason Barker	100,000	30,000	-	-	130,000	-	-
Andre Cuenin	235,000	85,000	(50,000)	-	270,000	50,000	50,000
David Purdue	70,000	-	(20,000)	-	50,000	20,000	20,000
Kevin Ryder	75,000	15,000	-	-	90,000	-	-

Prior Year	Held at 1 July 2014	Granted as compensation	Exercised	Other changes*	Held at 30 June 2015	Vested during the year	Vested and exercised at 30 June 2015
<b>Directors</b>							
Darc Rasmussen	350,000	250,000	-	-	600,000	-	-
<b>Executives</b>							
Peter Adams	30,000	100,000	-	-	130,000	-	-
Alex Baburin	30,000	100,000	-	-	130,000	-	-
Jason Barker	-	100,000	-	-	100,000	-	-
Andre Cuenin	135,000	100,000	-	-	235,000	-	-
David Purdue	34,500	50,000	(14,500)	-	70,000	14,500	14,500
Kevin Ryder	-	75,000	-	-	75,000	-	-

\* Other changes represent performance rights that expired or were forfeited during the year

Performance rights expire on the earlier of their expiry date or termination of the individual's employment. No performance rights have been granted since the end of the financial year. The performance rights were provided at no cost to the recipients.

## Remuneration Report (audited) (continued)

### Movements in shares

The movement during the reporting period in the number of ordinary shares in Integrated Research Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

<b>Current Year</b>	<b>Held at 1 July 2015</b>	<b>Purchases</b>	<b>Received on exercise of performance rights</b>	<b>Other changes*</b>	<b>Sales</b>	<b>Held at 30 June 2016</b>
<b>Directors</b>						
<i>Non-executive</i>						
Nick Abrahams	-	2,000	-	-	-	2,000
Alan Baxter	197,000	-	-	-	-	197,000
Paul Brandling	-	10,202	-	-	-	10,202
Steve Killelea	94,834,951	-	-	-	(5,000,000)	89,834,951
<i>Executive</i>						
Darc Rasmussen	38,700	17,651	600,000	-	(320,727)	335,624
<b>Executive officers (excluding directors)</b>						
Peter Adams	5,000	-	30,000	-	(15,000)	20,000
Alex Baburin	10,000	-	30,000	-	-	40,000
Andrew Cuenin	-	-	50,000	-	-	50,000
David Purdue	33,250	-	20,000	-	-	53,250

<b>Prior Year</b>	<b>Held at 1 July 2014</b>	<b>Purchases</b>	<b>Received on exercise of options</b>	<b>Other changes*</b>	<b>Sales</b>	<b>Held at 30 June 2015</b>
<b>Directors</b>						
<i>Non-executive</i>						
Alan Baxter	197,000	-	-	-	-	197,000
Kate Costello	199,622	-	-	(199,622)	-	-
Steve Killelea	94,834,951	-	-	-	-	94,834,951
<i>Executive</i>						
Darc Rasmussen	8,700	30,000	-	-	-	38,700
<b>Executive officers (excluding directors)</b>						
Peter Adams	5,000	-	-	-	-	5,000
Alex Baburin	10,000	-	-	-	-	10,000
David Purdue	18,750	-	14,500	-	-	33,250

\* Other changes represent net movement from ceasing to hold office.

Shareholdings at the date of the Directors' Report for existing Key Management Personnel remain unchanged.

### Other transactions with the consolidated entity

There were no other transactions between the key management personnel, or their personally-related entities, and the consolidated entity.

# Corporate Governance Statement

This statement outlines the main corporate governance practices that were in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

## Board of directors and its committees

### *Role of the board*

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including evaluating and approving its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management goals and assessing the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

### *Board process*

To assist in the execution of its responsibilities, the Board has established a number of board committees including a Nomination and Remuneration Committee, an Audit and Risk Committee and a Strategy Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the consolidated entity including board-endorsed policies, a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds twelve scheduled meetings each year and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for its meetings is prepared in conjunction with the chairman, chief executive officer and company secretary. Standing items include strategic matters for discussion, the CEO's report, financial reports, key performance indicator reports and presentations by key executives and external industry experts. Board papers are circulated in advance. Directors have other opportunities, including visits to operations, for contact with a wider group of employees.

### *Director education*

The consolidated entity follows an induction process to educate new directors about the nature of the business, current issues, the corporate strategy and expectations of the consolidated entity concerning performance of directors. In addition executives make regular presentations to the board to ensure its familiarity with operational matters. Directors are expected to access external continuing education opportunities to update and enhance their skills and knowledge.

## Corporate Governance Statement (continued)

### *Independent advice and access to company information*

Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. A copy of the advice received by the director is made available to all other members of the board.

### *Composition of the board*

The names of the directors of the company in office at the date of this report are set out on pages 9 to 10 of this report.

The company's constitution provides for the board to consist of between three and twelve members. At 30 June 2016 the board members were comprised as follows:

- Mr Steve Killelea – Non Executive Director (Chairman)
- Mr Nick Abrahams – Non-Executive Director
- Mr Alan Baxter – Independent Non Executive Director
- Mr Paul Brandling – Independent Non Executive Director
- Mr Garry Dinnie – Independent Non Executive Director
- Mr Peter Lloyd – Non Executive Director
- Mr Darc Rasmussen – Executive Director (Chief Executive Officer)

The election of Mr Killelea, who holds a majority of the company's issued shares, as non-executive chairman, does not comply with the ASX Corporate Governance Council recommendation that the chairman be an independent director. However, the board is satisfied that the company benefits from Mr Killelea's experience and knowledge gained through his long involvement with Integrated Research and his associations throughout the information technology industry. Mr Killelea founded Integrated Research in 1988 and was the CEO and managing director of the company until his retirement in November 2004.

Mr Abrahams was appointed as a Non-Executive Director in September 2014. While there are good arguments that Mr Abrahams is in fact independent, he has been classified as not independent due to a pre-existing business relationship between Mr Abrahams and Mr Killelea. The board is satisfied that the company benefits from Mr Abrahams' experience and knowledge gained through his more than 20 year career as a lawyer assisting technology companies in Australia and overseas.

At each Annual General Meeting one-third of directors, any director who has held office for three years and any director appointed by directors in the preceding year must retire, then being eligible for re-election. The CEO is not required to retire by rotation.

The composition of the board is reviewed on a regular basis to ensure that the board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the board would benefit from the services of a new director with particular skills, the Nomination and Remuneration Committee, in conjunction with the board, determines the selection criteria for the position based on the skills deemed necessary for the board to best carry out its responsibilities. The committee then selects a panel of candidates and the board appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

The composition of the board during the year ended 30 June 2016 did not comply with the ASX Corporate Governance Council recommendation that the majority of the board should be independent directors. However, the Company is working toward compliance through the appointment of Mr. Paul Brandling who is an Independent Non-Executive Director.

The company secretary is accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

## Corporate Governance Statement (continued)

### *Nomination and Remuneration Committee*

The Nomination and Remuneration Committee has a documented charter, approved by the board. The Nomination and Remuneration Committee is a committee of the board of directors and is empowered by the board to assist it in fulfilling its duties to shareholders and other stakeholders. In general, the committee has responsibility to: 1) ensure the company has appropriate remuneration policies designed to meet the needs of the company and to enhance corporate and individual performance and 2) review board performance, select and recommend new directors to the board and implement actions for the retirement and re-election of directors.

### *Responsibilities Regarding Remuneration*

The Committee reviews and makes recommendations to the board on:

- The appointment, remuneration, performance objectives and evaluation of the chief executive officer.
- The remuneration packages for senior executives.
- The Company's recruitment, retention and termination policies and procedures for senior executives.
- Executive remuneration and incentive policies.
- Policies on employee incentive plans, including equity incentive plans.
- Superannuation arrangements.
- The remuneration framework and policy for non-executive directors.
- Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies and industry surveys. Remuneration packages include a mix of fixed remuneration, performance-based remuneration and equity-based remuneration.

### *Responsibilities Regarding Nomination*

The Committee develops and makes recommendations to the board on:

- The CEO and senior executive succession planning.
- The range of skills, experience and expertise needed on the board and the identification of the particular skills, experience and expertise that will best complement board effectiveness.
- A plan for identifying, reviewing, assessing and enhancing director competencies.
- Board succession plans to maintain a balance of skills, experience and expertise on the board.
- Evaluation of the board's performance.
- Appointment and removal of directors.
- Appropriate composition of committees.

The terms and conditions of the appointment of non-executive directors are set out in a letter of appointment, including expectations for attendance and preparation for all board meetings, expected time commitments, procedures when dealing with conflicts of interest, and the availability of independent professional advice.

The performance of the chief executive officer and the board was undertaken in the reporting period identifying both strengths and development actions. The performance of other senior management was conducted by the chief executive officer.

The members of the Nomination and Remuneration Committee during the year were:

- Mr Alan Baxter – Independent Non-Executive (Chairman)
- Mr Garry Dinnie – Independent Non-Executive Director
- Mr Steve Killelea – Non-Executive

A matrix of skills and diversity of the board as required by the ASX corporate governance recommendations is available on the Company's website at [www.ir.com](http://www.ir.com).

The Nomination and Remuneration Committee meets at least twice a year and as required. The Committee met four times during the year under review.

## Corporate Governance Statement (continued)

### *Audit and Risk Committee*

The Audit and Risk Committee has a documented charter, approved by the board. The charter states that all members must be non-executive directors with a majority being independent. The chairman may not be the chairman of the board. The committee advises on the establishment and maintenance of a framework of risk management and internal control of the consolidated entity.

The members of the Audit and Risk Committee during the year were:

- Mr Nick Abrahams – Non-Executive Director
- Mr Garry Dinnie – Independent Non-Executive (Chairman)
- Mr Peter Lloyd – Non-Executive (up to November 2016)
- Mr Paul Brandling – Independent Non Executive Director (from December 2016)

While the Committee is chaired by an independent director who is not chair of the Board, during first five months of the year the number of independent directors did not form a majority of the Audit and Risk Committee as recommended by the ASX Corporate Governance recommendations. In December 2015, the Company moved toward compliance on this matter with the appointment of Paul Branding (Independent Non-Executive Director) to the Committee.

During the year, the Audit and Risk Committee provided the Board with updates to the Company's risk management register (with the Board approving this document).

The external auditor, Chief Executive Officer and Chief Financial Officer are invited to Audit and Risk Committee meetings at the discretion of the committee. The committee met eight times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 13.

The external auditor met with the audit committee/board eight times during the year, two of which included time without the presence of executive management. The Chief Executive Officer and the Chief Financial Officer declared in writing to the board that the company's financial reports for the year ended 30 June 2016 comply with accounting standards and present a true and fair view, in all material respects, of the company's financial condition and operational results. This statement is required annually.

The main responsibilities of the Audit and Risk Committee as set out in the charter include:

- Serve as an independent party to monitor the financial reporting process and internal control systems.
- Review the performance and independence of the external auditors and make recommendations to the board regarding the appointment or termination of the auditors.
- Review the scope and cost of the annual audit, negotiating and recommending the fee for the annual audit to the board.
- Review the external auditor's management letter and responses by management.
- Provide an avenue of communication between the auditors, management and the board.
- Monitor compliance with all financial statutory requirements and regulations.
- Review financial reports and other financial information distributed to shareholders so that they provide an accurate reflection of the financial health of the company.
- Monitor corporate risk management and assessment processes, and the identification and management of strategic and operational risks.
- Enquire of the auditors of any difficulties encountered during the audit, including any restrictions on the scope of their work, access to information or changes to the planned scope of the audit.



## Corporate Governance Statement (continued)

The Audit and Risk Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

- To discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed.
- Prior to announcement of results:
  - To review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings.
  - To recommend the Board approval of these documents.
  - Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
- To finalise half-year and annual reporting:
  - Review the draft financial report and recommend board approval of the financial report.
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

### *Strategy Committee*

The Strategy Committee has a documented charter, approved by the board and is responsible for reviewing strategy and recommending strategies to the board to enhance the company's long-term performance. The committee is comprised of at least three members, including the chairman of the board and the Chief Executive Officer. The board appoints a member of the committee to be chairman.

The members of the Strategy Committee during the year were:

- Mr Steve Killelea (Chairman) – Non-Executive
- Mr Darc Rasmussen – Executive
- Mr Alan Baxter – Independent Non-Executive (up to October 2016)
- Mr Peter Lloyd – Non-Executive
- Mr Paul Brandling – Independent Non-Executive (from November 2016)

The Strategy Committee is responsible for:

- Review and assist in defining current strategy.
- Assess new strategic opportunities, including M&A proposals and intellectual property developments or acquisitions.
- Stay close to the business challenges and monitor operational implementation of strategic plans.
- Endorse strategy and business cases for consideration by the full board.

The Committee met seven times during the year under review.

## Corporate Governance Statement (continued)

### Risk management

Under the Audit and Risk Charter, the Audit and Risk Committee reviews the status of business risks to the consolidated entity through integrated risk management programs ensuring risks are identified, assessed and appropriately managed and communicated to the board. Major business risks arise from such matters as actions by competitors, government policy changes and the impact of exchange rate movements.

Comprehensive policies and procedures are established such that:

- Capital expenditure above a certain size requires board approval.
- Financial exposures are controlled, including the use of forward exchange contracts.
- Risks are identified and managed, including internal audit, privacy, insurances, business continuity and compliance.
- Business transactions are properly authorised and executed.

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

#### *Internal control framework*

The board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The board has instigated the following internal control framework:

- Financial reporting – Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared monthly.
- Continuous disclosure – Identify matters that may have a material effect on the price of the Company's securities, notify them to the ASX and post them to the Company's website.
- Quality and integrity of personnel – Formal appraisals are conducted at least annually for all employees.
- Investment appraisals – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures and levels of authority.

#### *Internal Audit*

The Company does not have an internal audit function but utilises its financial resources as needed to assist the board in ensuring compliance with internal controls.

#### *Material Exposure to economic, environmental and social sustainability risks*

By the nature of the industry that the Company participates in, exposures to economic, environmental and social sustainability risks are not considered material.

### Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

#### *Conflict of interest*

Each Director must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board considers that a significant conflict exists the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the consolidated entity are set out in Remuneration report page 17 to 27.

## Corporate Governance Statement (continued)

### *Code of conduct*

The consolidated entity has advised each director, manager and employee that they must comply with the code of conduct. The code aligns behaviour of the board and management with the code of conduct by maintaining appropriate core values and objectives. It may be reviewed on the company's website and includes:

- Responsibility to the community and fellow employees to act with honesty and integrity, and without prejudice.
- Compliance with laws and regulations in all areas where the company operates, including employment opportunity, occupational health and safety, trade practices, fair dealing, privacy, drugs and alcohol, and the environment.
- Dealing honestly with customers, suppliers and consultants.
- Ensuring reports and other information are accurate and timely.
- Proper use of company resources, avoidance of conflicts of interest and use of confidential or proprietary information.

### *Equal Employment Opportunity*

The Company has a policy on Equal Employment Opportunity with the provision that commits to a workplace that is free of discrimination of all types. It is Company policy to hire, develop and promote individuals solely on the basis of merit and their ability to perform without prejudice to race, colour, creed, national origin, religion, gender, age, disability, sexual orientation, marital status, membership or non membership of a trade union, status of employment (whether full or part-time) or any other factors prohibited by law. The board is satisfied that the Equal Employment Opportunity policy is sufficient without the need to further establish a separate policy on gender diversity as required by the ASX Corporate Governance Council recommendation.

### *Trading in company securities by directors and employees*

Directors and employees may acquire shares in the company, but are prohibited from dealing in company shares whilst in possession of price sensitive information, and except in the periods:

- From 24 hours to 42 days after the release of the company's half-yearly results announcement.
- From 24 hours to 56 days after release of the company's annual results announcement.

Directors must obtain the approval of the Chairman of the board and notify the Company Secretary before they buy or sell shares in the company, subject to board veto. The company advises the ASX of any transactions conducted by directors in shares in the company.

Participants in the Company's Performance Rights program are specifically prohibited to hedge the exposure to the Integrated Research share price during the vesting period in respect of the unvested performance rights.

## Communication with shareholders

The board provides shareholders with information using a comprehensive continuous disclosure policy which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, posting them on the Company's website ([www.ir.com](http://www.ir.com)), and issuing media releases. Disclosures under this policy are in addition to the periodic and other disclosures required under the ASX Listing Rules and the Corporations Act. More details of the policy are available on the Company's website.

The Chief Executive Officer and the Chief Financial Officer are responsible for interpreting the Company's policy and where necessary informing the board. The Company Secretary is responsible for all communication with the ASX.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration Report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

## 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
<b>Revenue</b>			
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
<b>Total revenue</b>		<b>84,532</b>	<b>70,279</b>
<b>Expenditure</b>			
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)
<b>Total expenditure</b>	4	<b>(64,527)</b>	<b>(52,812)</b>
<b>Other gains and (losses)</b>	5	<b>1,347</b>	<b>1,502</b>
<b>Profit before finance income and tax</b>		<b>21,352</b>	<b>18,969</b>
Finance income	6	34	297
<b>Profit before tax</b>		<b>21,386</b>	<b>19,266</b>
Income tax expense	8	(5,357)	(5,015)
<b>Profit for the year</b>		<b>16,029</b>	<b>14,251</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit</b>			
Gain/(loss) on cash flow hedge taken to equity		247	(317)
Foreign exchange translation differences		(46)	915
<b>Other comprehensive income</b>		<b>201</b>	<b>598</b>
<b>Total comprehensive income for the year</b>		<b>16,230</b>	<b>14,849</b>
<i>Profit attributable to:</i>			
Members of Integrated Research		16,029	14,251
<i>Total comprehensive income attributable to:</i>			
Members of Integrated Research		16,230	14,849
<i>Earnings per share attributable to members of Integrated Research:</i>			
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 40 to 70.

## Consolidated statement of financial position

As at 30 June 2016

In thousands of AUD	Notes	Consolidated	
		2016	2015
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>39,506</b>	<b>41,863</b>
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>49,454</b>	<b>34,395</b>
<b>Total assets</b>		<b>88,960</b>	<b>76,258</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>34,921</b>	<b>30,589</b>
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>12,993</b>	<b>9,537</b>
<b>Total liabilities</b>		<b>47,914</b>	<b>40,126</b>
<b>Net assets</b>		<b>41,046</b>	<b>36,132</b>
<b>Equity</b>			
Issued capital	23	1,667	1,667
Reserves	23	1,726	935
Retained earnings		37,653	33,530
<b>Total equity</b>		<b>41,046</b>	<b>36,132</b>

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 40 to 70.

## Consolidated statement of changes in equity

For the year ended 30 June 2016

<b>Consolidated</b>						
<b>In thousands of AUD</b>	<b>Share capital</b>	<b>Hedging reserve</b>	<b>Translation reserve</b>	<b>Employee benefit reserve</b>	<b>Retained earnings</b>	<b>Total</b>
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

<b>Consolidated</b>						
<b>In thousands of AUD</b>	<b>Share capital</b>	<b>Hedging reserve</b>	<b>Translation reserve</b>	<b>Employee benefit reserve</b>	<b>Retained earnings</b>	<b>Total</b>
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 40 to 70.*

## Consolidated statement of cash flows

For the year ended 30 June 2016

In thousands of AUD	Notes	Consolidated	
		2016	2015
<b>Cash flows from operating activities</b>			
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)
<b>Net cash provided by operating activities</b>	27	16,218	21,419
<b>Cash flows from investing activities</b>			
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)	-
<b>Net cash used in investing activities</b>		(11,205)	(9,870)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,500	-
Repayment of borrowings		(1,500)	-
Payment of dividend	23	(11,906)	(10,162)
<b>Net cash used in financing activities</b>		(11,906)	(10,162)
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(6,893)	1,387
Cash and cash equivalents at 1 July		15,323	13,300
Effects of exchange rate changes on cash		114	636
<b>Cash and cash equivalents at 30 June</b>	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 40 to 70.



# 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”).

The financial report was authorised for issue by the directors on 22 August 2016.

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 Legislative Instrument 2016/191 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:

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
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. The Company is still assessing the impact of these standards.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2018
AASB 16 'Leases'	1 January 2019	30 June 2019

## **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) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- i) in the principal market for the assets or liability; or
- ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

## **Note 1. Significant accounting policies (continued)**

### **e) Fair value measurement (continued)**

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **f) 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.

### **g) 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.

### **h) 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 (l)). 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.

## **Note 1. Significant accounting policies (continued)**

### **h) Property, plant and equipment (continued)**

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

### **i) 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 (l)).

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

#### *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.

#### *Customer Relationships*

Customer relationships are initially measured at fair value and amortised over the estimated useful life, but no more than five years.

### **j) 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.

### **k) Cash and cash equivalents**

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

## **Note 1. Significant accounting policies (continued)**

### **l) 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.

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 their risk 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.

### **m) 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.

## **Note 1. Significant accounting policies (continued)**

### **n) 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.

### **o) Trade and other payables**

Trade and other payables are stated at their amortised cost.

### **p) 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 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.

### **q) 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.

## **Note 1. Significant accounting policies (continued)**

### **r) 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.

### **s) 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.

### **t) 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(l). The impairment testing requires judgements over future cashflow streams and assumptions used in the calculations.



## **Note 1. Significant accounting policies (continued)**

### **t) Significant accounting judgements, estimates and assumptions (continued)**

#### *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 on 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.

### **u) 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)

	Americas		Europe		Asia Pacific		Corporate Australia <sup>1</sup>		Eliminations		Consolidated	
<b>In thousands of AUD</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
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
<b>Total revenue</b>											<b>84,532</b>	<b>70,279</b>
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)
<b>Profit for the year</b>											<b>16,029</b>	<b>14,251</b>
Capital additions <sup>3</sup>	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

	Americas (USD)		Europe (GBP)	
<b>In local currency<sup>2</sup></b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
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

<sup>1</sup> Corporate Australia includes both the research and development, hedging and corporate head office functions of the Integrated Research Limited.

<sup>2</sup> Segment results represented in local currencies as reviewed by the Chief Operating Decision Maker.

<sup>3</sup> 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 current year actual results and revised forecast EBITDA for FY17 and FY18. The contingent consideration is based upon IQ Services achieving EBITDA milestones over the three years between 1 July 2015 and 30 June 2018. There are catch-up mechanisms over the three year period with the potential final payment ranging between \$nil and \$3.5 million.

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:

In thousands of AUD	Consolidated	
	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)

In thousands of AUD	Note	Consolidated	
		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

In thousands of AUD	Consolidated	
	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.

In AUD	Consolidated	
	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:		
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: 170,918,803), calculated as follows:

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

### Weighted average number of shares used as the denominator

(Number)	Consolidated	
	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

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

## Note 11. Trade and other receivables

### Current

In thousands of AUD	Consolidated	
	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

In thousands of AUD	Consolidated	
	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:

In thousands of AUD	Consolidated	
	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:

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

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

Total property, plant and equipment		Consolidated	
In thousands of AUD		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)

<b>Plant and Equipment</b> <b>In thousands of AUD</b>	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
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

<b>Leasehold Improvements</b> <b>In thousands of AUD</b>	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
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:

<b>Consolidated</b> <b>In thousands of AUD</b>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
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

In thousands of AUD	Consolidated	
	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:

<b>In thousands of performance rights</b>	<b>2016</b>	<b>2015</b>
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

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

## Note 21. Provisions

### Current

<b>In thousands of AUD</b>	<b>Note</b>	<b>Consolidated</b>	
		<b>2016</b>	<b>2015</b>
Employee benefits	19	2,618	2,327
		2,618	2,327

### Non-current

<b>In thousands of AUD</b>	<b>Note</b>	<b>Consolidated</b>	
		<b>2016</b>	<b>2015</b>
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
<b>2016</b>				
Final 2015	4.0	6,793	35% franked	22 Sep 2015
Interim 2016	3.0	5,113	55% franked	20 Apr 2016
Total amount		<u>11,906</u>		
<b>2015</b>				
Final 2014	2.5	4,224	35% franked	12 Sep 2014
Interim 2015	3.5	5,938	35% franked	20 Mar 2015
Total amount		<u>10,162</u>		

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:

In thousands of AUD	Company	
	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:

In thousands of AUD	Consolidated			
	Liabilities		Assets	
	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:

In thousands of AUD	Consolidated			
	Net profit		Retained earnings	
	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				

In thousands of AUD	Consolidated			
	Net profit		Retained earnings	
	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 the 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 AS'000	2015 AS'000	2016 AS'000	2015 AS'000
<b>Consolidated</b>								
<u>Sell US Dollar</u>								
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)
<u>Sell Euros</u>								
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)	-
<u>Sell Sterling</u>								
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 contract 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 maximum expense to credit risk at the reporting date is the carrying value of each class of financial assets described at Note 11.

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:

In thousands of AUD	Consolidated	
	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:

In thousands of AUD	Consolidated	
	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
<i>Parent entity:</i>			
Integrated Research Limited	Australia		
<i>Subsidiaries of Integrated Research Limited:</i>			
Integrated Research Inc	USA	100%	100%
Integrated Research Singapore Pte Limited	Singapore	100%	100%
Integrated Research UK Limited	UK	100%	100%
<i>Subsidiaries of Integrated Research UK Limited:</i>			
Integrated Research Germany GmbH	Germany	100%	-

## Note 27. Reconciliation of cash flows from operating activities

In thousands of AUD	Consolidated	
	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)
<i>Change in operating assets and liabilities:</i>		
(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:

In AUD	Consolidated	
	2016	2015
Short-term benefits	3,470,104	3,248,694
Post-employment benefits	196,825	171,284
Long term benefit	31,561	42,264
Equity compensation benefits	291,597	436,035
	3,990,087	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

In thousands of AUD	Parent Entity	
	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.

## Directors' declaration

In accordance with a resolution of the directors of Integrated Research Limited, we state that:

1. In the opinion of the directors:

(a) the financial statements and notes of Integrated Research Limited for the financial year ended 30 June 2016 are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (ii) complying with Accounting Standards and the Corporations Regulations 2001;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

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


2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the board.

Dated at North Sydney this 22nd day of August 2016.



Steve Killelea  
Chairman



Darc Rasmussen  
Chief Executive Officer



## Independent auditor's report to the members of Integrated Research Limited

### *Report on the financial report*

We have audited the accompanying financial report of Integrated Research Limited, which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included by reference in the directors' report.

## Opinion

In our opinion:

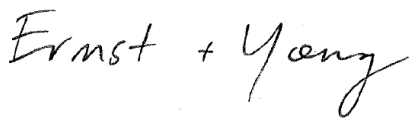
- a. the financial report of Integrated Research Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### *Report on the remuneration report*

We have audited the Remuneration Report included in pages 17 to 27 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Integrated Research Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



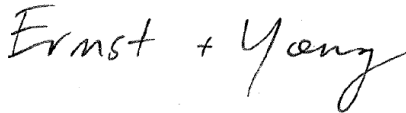
John Robinson  
Partner  
Sydney  
22 August 2016

## Auditor's Independence Declaration to the Directors of Integrated Research Limited

As lead auditor for the audit of Integrated Research Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Integrated Research Limited and the entities it controlled during the financial year.



Ernst & Young



John Robinson  
Partner  
22 August 2016