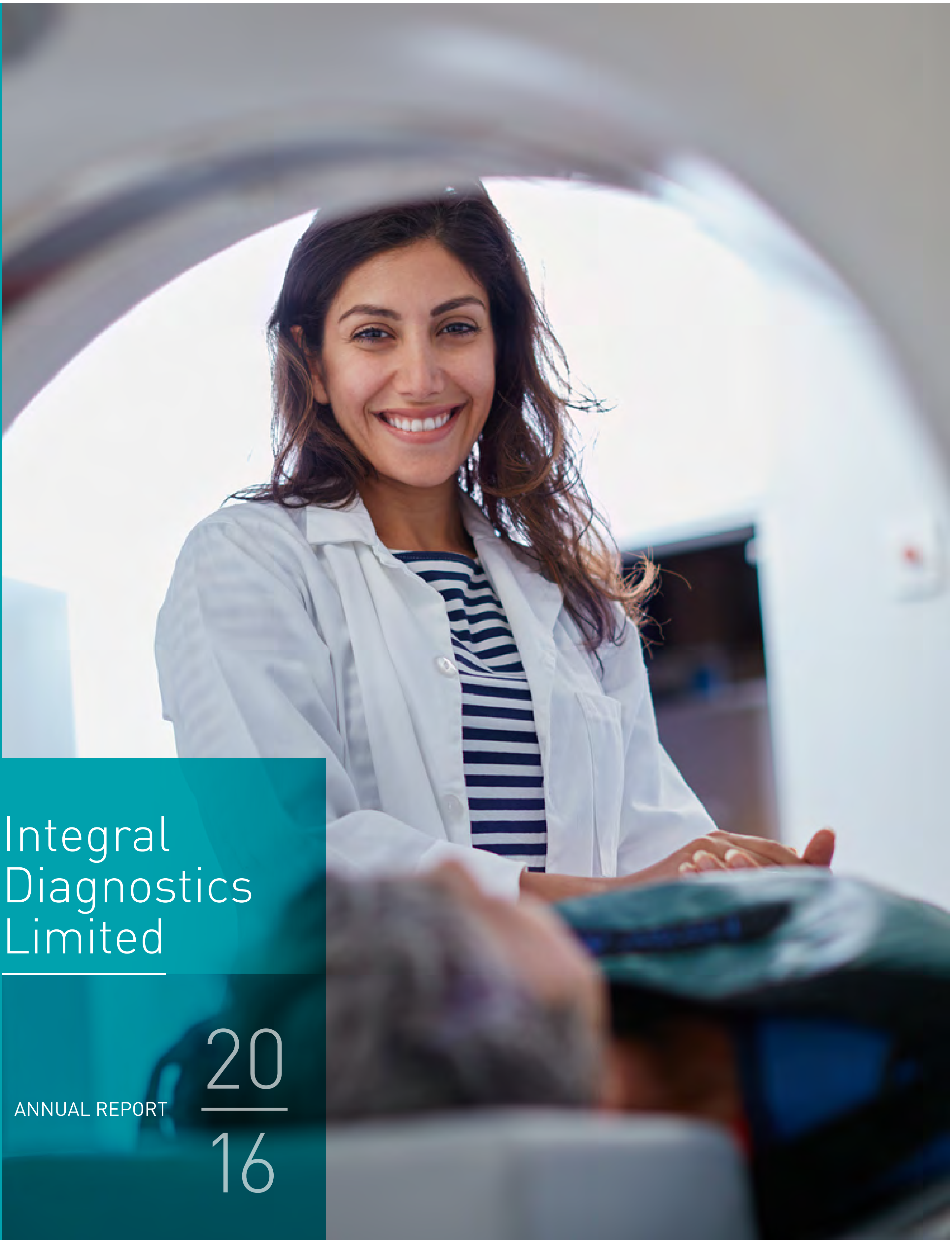

Integral Diagnostics Limited

ANNUAL REPORT 20 16

integral
DIAGNOSTICS

Contents

About Us

We meet the demands of our referrers and patients by providing accessible, comprehensive and highly skilled service.

Our Locations

Victoria

- Ballarat (4 sites)
- Geelong (7 sites)
- Melbourne metropolitan (1 site)
- Outer western areas of Melbourne (10 sites)
- Warrnambool (1 site)

Queensland

- Gold Coast (10 sites)
- Mackay (1 site)
- Toowoomba (1 site)

Western Australia

- South west Western Australia (9 sites)

Chairman's Report

It has been a defining year for Integral Diagnostics, with substantial work undertaken by the Executive and Board to prepare for the IPO and the transition to being a public company.

Dear shareholders,

It is a pleasure to present to Integral Diagnostics shareholders the company's full year Annual Report, our first since debuting on the Australian Securities Exchange (ASX) on 21 October 2015.

It has been a defining year for Integral Diagnostics, with substantial work undertaken by the Executive and Board to prepare for the IPO and the transition to being a public company.

Integral Diagnostics comprises three core brands of South Coast Radiology (Queensland) founded in 1967, Lake Imaging (Victoria) founded in 2002, and Global Diagnostics (Western Australia) founded in 1997. Each of the brands has strong regional market positions, operates in key hospital sites, is strong in higher value and more complex modalities, and operates with highly skilled radiologists and technical professionals.

'Integral Diagnostics was able to grow patient examination volumes by 4.8% in FY16 against industry growth of 3.7%, as referenced to Medicare data for the States in which we operate.'

Performance of the resilient business model

Integral Diagnostics was able to deliver growth across all key financial metrics in the 2016 financial year (FY16). Pro forma revenue was up 4.9% to $167.8 million, while EBITDA was up 0.9% to $34.9 million.

As previously flagged to the market, the actual performance of Integral Diagnostics over FY16 was slightly below prospectus forecast. Despite the unexpected and rapid decline in referrals industry wide experienced from November 2015 due to proposed Government policy initiatives, the FY16 performance clearly shows resilience of our business model. Integral Diagnostics was able to grow patient examination volumes by 4.8% in FY16 against industry growth of 3.7%, as referenced to Medicare data for the States in which we operate.

Conservative balance sheet and maiden dividend

Integral Diagnostics has the capital structure in place to support continued investment in facilities, people and resources to underpin organic growth, while also pursuing attractive value accretive acquisitions as they arise – such as the acquisition of Western District Radiology and the remaining 50% interest in South West MRI Pty Ltd, announced in FY16 and effective from 1 July 2016.

We have a conservative balance sheet with net debt of $44.9 million, and gearing at 1.3x pro forma FY16 EBITDA. Reflecting the Company's strong balance sheet, financial performance and growth opportunities, your Directors were pleased to announce the Company's maiden dividend as a listed entity, declaring a fully franked dividend of 4.0 cents per share payable on 4 October 2016.

Positioned to capitalise on attractive long-term industry fundamentals

The long-term industry fundamentals remain, and underpin attractive future growth opportunities for Integral Diagnostics. Australia has a growing and ageing population requiring greater healthcare support. Community expectations for accessible, higher-quality healthcare and diagnosis continue to rise. New imaging technologies being developed will markedly improve efficiency and aid diagnosis and early recognition of disease.

We expect referrals and examination volumes to recover over time. While referral patterns are showing signs of recovery, there still remains some regulatory uncertainty around changes to bulk billing incentives. We look forward to the Government's stated intention to reintroduce Medicare schedule rebate indexation by 2020, given that diagnostic imaging has operated without indexation since 1998.

'The long-term industry fundamentals remain, and underpin attractive future growth opportunities for Integral Diagnostics.'

Commitment to strong governance

I would like to formally thank my Board colleagues and in particular acknowledge the contributions of pre-IPO Directors Dr Alex Meakin, Dr Don Barrie, Mark Jago and Rob Radcliffe-Smith. Dr Sally Sojan and Dr Chien Ping Ho have continued on the Board throughout providing valuable clinical perspective and insight. The Board welcomed Rupert Harrington (Executive Chairman of Advent) and two independent Non-Executive Directors with deep listed company experience, Garry Hounsell and John Atkin, who head up our Audit, Risk and Compliance and People and Remuneration Committees respectively. The new Board is individually and jointly committed to high standards of corporate governance, with the culture of your Board being one of constructive questioning that allows issues to be fully debated. The work of the new Board, together with the Executive led by John Livingston, has been considerable and I thank them all for their contribution and dedicated efforts.

The Board extends a special thank you to all our staff from the front desk to the radiographers, sonographers, nuclear medicine technologists, support staff and medical specialist radiologists who have all contributed to the history and success of Integral Diagnostics to date in serving patients and referrers in each of their communities. Thank you to the patients and referrers for choosing our service and we look forward to continuing to work in partnership to deliver best-in-class diagnostic imaging solutions.

On behalf of my fellow Directors, we look forward to welcoming shareholders to the Annual General Meeting in November. Thank you for your support given the importance of the best diagnostic imaging services for millions of Australians wherever they may live.

Yours sincerely,

Helen Kurincic
Chairman

Managing Director and Chief Executive Officer's Report

With an eye to market fundamentals and to ensure Integral Diagnostics is best positioned to capture further growth over the longer term, we will continue to invest in technology, sites, infrastructure and people, while also pursuing value accretive acquisition opportunities as they arise.

Dear shareholders,

Following our first year trading as a publicly listed company, I am pleased to report that Integral Diagnostics continued to grow revenue and earnings, underpinned by above market growth in patient examination volumes.

Overview

Despite challenging market conditions for the entire industry, Integral Diagnostics was able to deliver growth across all key financial metrics in FY16. This clearly showed the strength and resilience of the Company's business model.

Operationally, it has been a busy year, delivering on all of the key business growth initiatives, in line with our strategy as outlined in the prospectus. These projects build on our capacity within many of the markets that we operate in including:

- Opening of new premises in Ocean Grove, Sunbury and Toowoomba.
- Installing additional MRIs in Geelong, Sunbury and Toowoomba.
- Investments in other state-of-the-art equipment to expand services and replace existing equipment.
- Acquisition of Western District Radiology and the remaining 50% interest in South West MRI.

Notwithstanding our investment in physical assets, we continue to manage our staffing levels to ensure delivery of high-quality radiology services, accommodate expected growth and to enable the business to function effectively.

Building relationships with our hospital partners continued, with expansion of both facilities and services across the Group. The addition of the St John of God Hospital service in Warrnambool, following the acquisition of Western District Radiology, further strengthens this network and we look forward to working in this new market with them into the future.

Changing regulatory outlook

The market growth rate for diagnostic imaging services across the industry slowed late in the first half of FY16 due to Government policy initiatives and an increased level of Government and media attention that changed referral patterns.

We are seeing an improved regulatory outlook for FY17. As part of the Federal election campaign, the Government announced that it will delay previously flagged changes to bulk-billing incentives to allow for an independent evaluation to be carried out.

In recognition of the benefits that early detection of disease has in our communities, and the ability for the healthcare system to better manage patient outcomes, the Government also announced that it would invest up to $50 million per annum back into the system if bulk-billing incentives change.

Lastly, the Government also announced the planned reintroduction of indexation to the diagnostic imaging section of the Medicare benefits schedule, to be timed alongside GP indexation. This is dependent upon the bulk-billing incentives change, but is anticipated to resume in 2020, and will mark the first time since 1998 that Medicare benefits schedule rebates for diagnostic imaging will be indexed.

Focused on patient outcomes

At the core of our value proposition is patient outcomes. As part of a continual drive to maintain high patient and referrer satisfaction levels, we focus on having:

- the best technology;
- the best people;
- the ability to realise value from network benefits; and
- operational excellence.

Our ability to harness efficiency gains through the deployment of new technologies across our networks will improve patient and referrer outcomes, allow our staff to help more patients in their communities, and deliver returns to investors above our cost of capital.

Clinical leadership

Supporting the focus on best practice, the National Clinical Leadership Committee and State Clinical Leadership Committees have worked to develop and implement policies and work practices in order for our Company to achieve clinical best practice and services for our patients and referrers.

Our people

Integral Diagnostics continues to support the training and development of our people at both an undergraduate and post graduate level by providing the opportunity for students both medical and imaging technologist, opportunities for placement, while at the same time supporting post graduate training in other specialties such as ultrasound and MRI.

Community engagement

Integral Diagnostics is committed to making a positive contribution to the people, environment and communities in which it delivers its services. The Integral Diagnostics corporate responsibility program is designed to coordinate efforts to make improvements in people's lives by concentrating on specific programs within our communities (locally, nationally and internationally). Since 2013, our corporate responsibility has been international with the establishment of the Tonga Radiology Twinning Project. Each year Integral Diagnostics employees visit Tonga to provide training and education to local employees, and in addition Tonga employees visit our Australian facilities to gain valuable insight.

Outlook

With an eye to market fundamentals and to ensure Integral Diagnostics is best positioned to capture further growth over the longer term, we will continue to invest in technology, sites, infrastructure and people, while also pursuing value accretive acquisition opportunities as they arise.

Finally I would like to recognise the contribution by our people throughout the 2016 financial year. I am proud of the commitment of our doctors and imaging team to support our referrers by providing the best possible imaging and diagnosis to our patients. This is ably supported through our dedicated administrative and support teams, who are vital in linking our services together. By focusing on our commitment to improving the healthcare outcome of our patients, operational excellence, our people, investment in technology and future growth opportunities, we look forward to a successful year ahead.

Yours sincerely,

John Livingston
Managing Director and
Chief Executive Officer

'Our ability to harness efficiency gains through the deployment of new technologies across our networks will improve patient and referrer outcomes, allow our staff to help more patients in their communities, and deliver returns to investors above our cost of capital.'

Directors' Report
For year ended 30 June 2016

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Integral Diagnostics Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the year ended 30 June 2016.

The information referred to below forms part of, and is to be read in conjunction with, this Directors' Report:

- the Operating and Financial Review (OFR) on pages 20 to 25;
- the Remuneration Report on pages 13 to 18.

Directors

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

Helen Kurincic (Independent Non-Executive Chairman)	
John Livingston (Managing Director and Chief Executive Officer)	
Dr Chien Ping Ho (Executive Director)	
Dr Sally Sojan (Executive Director)	
John Atkin (Independent Non-Executive Director)	Appointed on 1 October 2015
Garry Hounsell (Independent Non-Executive Director)	Appointed on 1 October 2015
Rupert Harrington (Non-Executive Director)	Appointed on 1 October 2015
Gregory Hughes (Executive Director)	Resigned on 30 September 2015
Dr Alexius Meakin (Executive Director)	Resigned on 30 September 2015
Robert Radcliffe-Smith (Non-Executive Director)	Resigned on 30 September 2015
Mark Jago (Non-Executive Director)	Resigned on 30 September 2015
Dr Donald Barrie (Executive Director)	Resigned on 31 July 2015

Principal activities

During the financial year, the principal activity of the Group was the provision of diagnostic imaging services.

Business strategies, prospects and likely developments

The OFR on pages 20 to 25 of the Annual Report sets out information on the business strategies, prospects and likely development for the future financial years.

Review and results of operations

A review of the operations of the Group during the financial year, the results of those operations and the financial position of the Group is contained in the OFR on pages 20 to 25.

Dividends paid in the year ended 30 June 2016

Dividends paid/payable during the financial year were as follows:

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Dividend paid to shareholders of the Company at $1.97 per share paid on 14 August 2014	-	5,100
Dividend paid to shareholders of the Company at $0.48 per share paid on 1 April 2015	-	2,000
Dividend paid to shareholders of the Company at $0.71 per share paid on 26 June 2015	-	3,000
Dividend paid by Global Diagnostics (Australia) Pty Ltd to non-controlling interests at $18.56 per share paid on 23 December 2014	-	160
Dividend paid by Global Diagnostics (Australia) Pty Ltd to non-controlling interests at $36.56 per share on 23 June 2015	-	327
	-	10,587

Significant changes in the state of affairs

On 21 October 2015, the Company successfully completed its Initial Public Offering (IPO) and listed on the Australian Securities Exchange (ASX) under the ASX code IDX. Total proceeds raised in the offer were $133.692 million, of which $100.523 million was paid to shareholders for existing shares, and $33.169 million related to the issue of new shares and was paid to the Company. $20 million of the proceeds was used to repay debt, with the residual used to pay transaction costs relating to the IPO, and the balance made available for use in the operations of the business.

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

Matters subsequent to the end of the financial year

On 1 July 2016, the Group acquired the Western District Radiology business and the remaining 50% interest in South West MRI Pty Ltd for the total consideration of $5 million, being $3.725 million cash payment and $1.275 million of issued shares (908,056 shares issued at $1.4041 per share). This acquisition fits the Company's strategic criteria and further strengthens the Group's position in the south west region of Victoria. See Note 38 to the financial statements for full details of this transaction.

Subsequent to year end, a fully franked dividend of 4 cents per share was declared on 25 August and will be paid on 4 October 2016.

On 29 August 2016, Advent Funds sold its 20,655,000 shares in Integral Diagnostics Limited that were released from escrow on 26 August 2016. The sale of these shares by Advent Funds has resulted in a change in substantial shareholders as notified to the market on 29 August 2016.

On 6 September 2016 it was announced that the Company had entered into a Memorandum of Understanding with Siemens Healthineers Enterprise Services and Solutions to run a global pilot over the next three years to enhance the effectiveness and efficiencies of existing healthcare services.

Partnering with Siemens Healthineers as part of its global pilot will enable the Company to identify and have access to technological solutions ahead of the market. These solutions will have the potential of providing greater focus and efficiencies for the Company's people, patients and referrers.

Being part of the global pilot program will allow the Company to better explore and have early access to innovative and disruptive technologies to drive reviews of current healthcare models and create new opportunities to meet the needs of patients.

Other than as disclosed in the financial statements, the Directors are not aware of any other matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Environmental regulations

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law. During the financial year the Group was not convicted of any breach of environmental regulations.

Information on Directors

Helen Kurincic
Independent Non-Executive Chairman
MBA, FAICD, Grad Dip Wom Stud, PBC Crit Care, Cert Nsg

Helen Kurincic is the Chairman of Integral Diagnostics and has 20 years of Executive and board level experience in the healthcare industry. Helen was the Chief Operating Officer and Director of Genesis Care from its earliest inception in 2007, creating and developing Australia's first and largest radiation oncology and cardiology network across 115 metropolitan and regional locations providing private and public services. Prior to that Helen held various Executive and Non-Executive healthcare sector roles including Non-Executive Director of DCA Group Ltd, an ASX 100 company operating diagnostic imaging services in Australia and United Kingdom and residential aged care in Australia and New Zealand; Non-Executive Director of AMP Capital Investors Domain Principal Group (creating largest private provider of aged care in Australia); CEO of Benetas; and board member of Melbourne Health and Orygen Research Centre. Helen has also been actively involved in healthcare Government policy reform including appointments by Health Ministers as Chair of the Professional Programs and Services Committee for the Fourth Community Pharmacy Agreement, member of the Minister's Implementation Taskforce and Minister's Reference Group for the Long Term Reform of Aged Care. Helen was awarded the 2002 Telstra Victorian Businesswoman of the Year.

Other current directorships	None
Former directorships (in the last three years)	None
Special responsibilities	Member of the Audit, Risk and Compliance Committee and People and Remuneration Committee
Interests in shares	420,870 ordinary shares (indirectly)

John Livingston
Managing Director and Chief Executive Officer
BAppSci (Med Rad), GradDipHSc (Edu), GradCertBus (Mgt), GAICD

John Livingston is a founding partner of Integral Diagnostics.

John has more than 20 years' experience in healthcare, working in both public and private radiology settings. As one of the founding partners of Lake Imaging, John has grown the business through the introduction of new services, greenfield facilities and various mergers and acquisitions which have resulted in Integral Diagnostics moving towards a national platform; namely the arrangements with St John of God and South Western MRI in Victoria; Global Diagnostics in Western Australia and South Coast Radiology in Queensland.

John was awarded the AGFA International award for Development of Digital Imaging Solutions in 2005. He has presented in Australia and abroad on the digital radiology environment, as well as business strategies and systems within the commercial sector. With a special interest in the enhancement of radiology efficiency, John is considered an industry leader in the use of innovation to enhance referrer and patient outcomes.

Before moving into the private radiology sector, John held senior radiology positions in the public sector.

Other current directorships	None
Former directorships (in the last three years)	None
Special responsibilities	None
Interests in shares	2,467,230 ordinary shares (indirectly)

Dr Chien Ping Ho
Executive Director
MBBS, FRANZCR, GAICD

Dr Chien Ping Ho is a fellow of the Royal Australian and New Zealand College of Radiologists and an accredited MRI supervising radiologist.

Upon completion of his radiology training at The Royal Melbourne Hospital, Dr Ho undertook advanced training at three London hospitals – Chelsea and Westminster Hospital, The Royal National Orthopaedic Hospital and University College Hospital.

During this time he completed an MRI/musculoskeletal fellowship and also spent time as a staff specialist. Dr Ho commenced with Lake Imaging in 2004 and is currently a consultant radiologist for Integral Diagnostics in Victoria. Dr Ho has considerable experience across all radiology modalities with a special interest in musculoskeletal and body imaging.

Other current directorships	None
Former directorships (in the last three years)	None
Special responsibilities	Chair of the National Clinical Leadership Committee
Interests in shares	2,467,230 ordinary shares (indirectly)

Dr Sally Sojan
Executive Director
MBBS, FRANZCR, FAANMS, GAICD

Dr Sally Sojan graduated from the University of Queensland with a medical degree. Dr Sojan completed her radiology fellowship at the Princess Alexandra Hospital in Brisbane. Dr Sojan then completed her nuclear medicine and PET qualifications at The Royal Brisbane Hospital and The Royal Adelaide Hospital followed by an MRI fellowship at The Mater Private Hospital in Brisbane.

Dr Sojan commenced working at South Coast Radiology where she established the first PET service on the Gold Coast. Her specialty interests include nuclear medicine and PET and musculoskeletal MRI. Sally has previously been a member of the south coast Radiology Management Group and chaired the SCR Board meetings for seven years.

Other current directorships	None
Former directorships (in the last three years)	None
Special responsibilities	Member of the National Clinical Leadership Committee
Interests in shares	1,095,000 ordinary shares (indirectly)

Garry Hounsell
Independent Non-Executive Director
BBus (Accounting), FCA, FAICD

Garry was a senior partner of Ernst & Young and Chief Executive Officer and Country Managing Partner of Arthur Andersen. Garry is currently a Director of Treasury Wine Estates Limited (since 2012), Dulux Group Limited (since 2010) and Spotless Group Holdings Limited (since 2014). Garry is currently the Audit Committee Chair for Treasury Wine Estates Limited, Dulux Group Limited and Spotless Group Holdings Limited. Garry was Chairman of PanAust Limited (2008 to 2015) and eMitch (2006 to 2008) and a Director of Qantas Airways Limited (2005 to 2015), Orica Limited (2004 to 2012), Nufarm Limited (2004 to 2012) and Mitchell Communications Group Limited (2008 to 2010).

Other current directorships	Treasury Wine Estates Limited, Dulux Group Limited, Spotless Group Holdings Limited
Former directorships (in the last three years)	PanAust Limited, Qantas Airways Limited
Special responsibilities	Chair of the Audit, Risk and Compliance Committee and member of the People and Remuneration Committee
Interests in shares	20,000 ordinary shares (directly) and 30,000 ordinary shares (indirectly)

Information on Directors continued

John Atkin
Independent Non-Executive Director
BA, LLB, FAICD

John Atkin is currently independent Chairman of GPT Metro Office Fund and a Non-Executive Director of IPH Limited. John is currently the Nomination and Remuneration Committee Chair of IPH Limited. John was Managing Director of The Trust Company Limited from 2009 to 2013 prior to its successful merger with Perpetual Limited. Prior to joining The Trust Company, John was the managing partner and Chief Executive Officer of leading Australasian law firm Blake Dawson (now Ashurst). Before this, John was a senior mergers and acquisitions partner of Mallesons Stephen Jaques (now King & Wood Mallesons). John is Chairman of the Australian Outward Bound Foundation and a member of the board of the State Library of New South Wales Foundation.

Other current directorships	IPH Limited
Former directorships (in the last three years)	Aurizon Holdings Limited
Special responsibilities	Chair of the People and Remuneration Committee and member of the Audit, Risk and Compliance Committee
Interests in shares	91,623 ordinary shares (indirectly)

Rupert Harrington
Non-Executive Director
BTech, MSc, CDipAF

Rupert Harrington is a major shareholder and Executive Chairman of Advent, a leading Australian private equity manager. Rupert has been involved in private equity since 1987 and is considered to be one of the founders of the Australian industry. Prior to Advent, Rupert had eight years' general management experience at both corporate and operational management levels. During Rupert's time at Advent, he has been either a Director or Chairman of 26 investee companies, including businesses operating in the manufacturing, services and high-technology sectors spanning many facets of the investment process at all stages of the growth cycle. He was actively involved in all aspects of Advent's recent healthcare investment in Primary Health Care and Genesis Care.

Other current directorships	Clover Corporation Limited, Bradken Limited
Former directorships (in the last three years)	None
Special responsibilities	Member of the Audit, Risk and Compliance Committee and the People and Remuneration Committee
Interests in shares	52,356 ordinary shares (directly) and 78,534 ordinary shares (indirectly)

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last three years)' quoted above are directorships held in the last three years for listed entities only and excludes directorship of all other types of entities, unless otherwise stated.

Company Secretary

Sonia Joksimovic (BBus, AFIN, FGIA, GAICD) is the Company Secretary. Sonia was appointed on 27 October 2015 and is an experienced chartered secretary with over eight years' experience across listed small market capitalisation, unlisted and private companies, specialising in governance, compliance and other corporate matters.

Meetings of Directors

Director	Board		Audit, Risk and Compliance Committee		People and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Helen Kurincic	11	11	4	4	3	3
John Livingston	11	11	-	-	-	-
Dr Chien Ping Ho	11	10	-	-	-	-
Dr Sally Sojan	11	11	-	-	-	-
Garry Hounsell	11	11	4	4	3	3
John Atkin	11	11	4	4	3	3
Rupert Harrington	11	11	4	4	3	3

Held: represents the number of meetings held during the time the Director held office and since the Company formally listed on the ASX.

Indemnity and insurance of officers

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, Executives and the Company Secretary of the Company, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the officer as an officer of the Company or of a related body corporate.

In accordance with the Company's Constitution, the Company has entered into a deed of indemnity, insurance and access with each of the Company's Directors. Under the deeds of indemnity, insurance and access, the Company must maintain a Directors' and officers' insurance policy insuring a Director (among others) against liability as a Director and officer of the Company and its related bodies corporate until seven years after a Director ceases to hold office as a Director or a related body corporate (or the date any relevant proceedings commenced during the seven-year period have been finally resolved). No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the financial year.

During the financial year, the Company has paid a premium in respect of a contract insuring officers of the Company and its subsidiaries against all liabilities that they may incur as an officer of the Company, including liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the premium or the policy can be disclosed.

Indemnity and insurance of the auditor

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

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

Proceedings on behalf of the Company

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

Directors' Report continued

For year ended 30 June 2016

Non-audit services

Details of the amounts paid or payable to the auditor for the non-audit services provided during the financial year by the auditor are outlined in Note 27 to the financial statements.

The non-audit services provided were largely for work performed pertaining to the IPO.

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

The Directors are of the opinion that the services as disclosed in Note 27 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

Officers of the Company who are former partners of PricewaterhouseCoopers

There are no officers of the Company who are former audit partners of PricewaterhouseCoopers.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

Rounding of amounts

The Company is a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this Report and in the financial statements have been rounded off, except where otherwise stated, in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

This Report is made in accordance with a resolution of Directors.

On behalf of the Directors

Helen Kurincic
Chairman

John Livingston
Managing Director and Chief Executive Officer

23 September 2016
Melbourne

Remuneration Report

For year ended 30 June 2016

The Remuneration Report, which has been audited, outlines the Director and Executive remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The Company listed on the ASX on the 21 October 2015, therefore remuneration information is provided for the year ended 30 June 2016.

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

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

A. Principles used to determine the nature and amount of remuneration

B. Details of remuneration

C. Other transactions with KMP and their related parties

D. Service agreements

E. Additional disclosures relating to KMP

A. Principles used to determine the nature and amount of remuneration

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

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of Executive compensation; and
- transparency.

People and Remuneration Committee

The People and Remuneration Committee (PRC) is governed by the PRC Charter and is responsible for determining and reviewing compensation arrangements for the Directors, Executive Directors, Executives and Senior Management including:

(a) Review and recommend arrangements for remuneration including contract terms, annual remuneration and participation in any short and long-term incentive plans.

(b) Review major changes and developments in the Company's remuneration, superannuation, recruitment, retention and termination policies and procedures.

(c) Review and approve short-term incentive strategy, performance targets and bonus payments.

(d) Review and recommend to the Board the remuneration arrangements for the Chairman and the Non-Executive Directors of the Board, including fees, travel and other benefits.

(e) Be satisfied that the Committee, the Board and management have available to them sufficient information and external advice to ensure informed decision-making regarding remuneration.

The PRC also reviews and makes recommendations to the Board in regards to 'people' by monitoring and reviewing the Senior Management performance assessment process, reviewing major changes and developments in the personnel practices and industrial relations strategies of the Group, senior leadership succession planning, Director induction and overseeing the effectiveness of the Diversity Policy.

The following Non-Executive Directors, three of whom are regarded as independent, were members of the PRC since its formation in October 2015:

John Atkin – Chairman	Independent, Non-Executive Director
Helen Kurincic	Independent, Non-Executive Director
Garry Hounsell	Independent, Non-Executive Director
Rupert Harrington	Non-Independent, Non-Executive Director

Executives do not participate in any remuneration matters under the PRC Charter. The PRC meets quarterly or as often as necessary in order to fulfil its role.

Non-Executive Directors' remuneration arrangements

Under the Constitution, the Board decides the remuneration to which each Director is entitled for his or her service as a Director. However, the total aggregate amount provided to all Non-Executive Directors for their services as Directors must not exceed in any financial year the amount fixed by the Company in general meeting. This amount has been fixed at $1,000,000.

For the initial year of listing, the annual base Non-Executive Director fees currently agreed to be paid by the Company are $200,000 to the Chairman and $100,000 to each of the other Non-Executive Directors. Rupert Harrington was not entitled to a Non-Executive Director fee for the first year following listing.

The following additional annual fees will also be paid to Committee members, except the Chairman:

- $20,000 will be paid to the Chair of the Audit, Risk and Compliance Committee and $10,000 will be paid to each member of that Committee; and
- $12,000 will be paid to the Chair of the People and Remuneration Committee and $6,000 will be paid to each member of that Committee.

All Directors' fees include superannuation.

The PRC reviewed Directors' fees during the year and determined that they were appropriate and no changes have been made to the fee structure for the 2017 financial year.

Executive Directors' remuneration arrangements – Dr Chien Ping Ho and Dr Sally Sojan

Dr Chien Ping Ho and Dr Sally Sojan are deemed to be Executive Directors as they are employed as radiologists by the Company. The key terms of their employment contracts as radiologist shareholders are consistent with all radiologist shareholders and include a fixed salary at market rate. Radiologist salaries include costs for indemnity insurance and relevant radiation licences.

Dr Chien Ping Ho and Dr Sally Sojan are entitled to receive Medical Director fees for representative Clinical Leadership roles up to $100,000 in aggregate. They do not receive remuneration in their capacity as Directors.

Executive remuneration arrangements

The Executive remuneration and reward framework currently has three components:

- base pay and non-monetary benefits;
- short-term performance incentives; and
- other remuneration such as superannuation and leave entitlements.

The combination of these comprises the Executives' total remuneration.

The Executive remuneration is reviewed annually by the PRC, based on individual and business performance, the overall performance of the Group and comparable market data.

The short-term incentives (STI) program is designed to align the targets of the business with the Executives responsible for meeting those targets. Financial and non-financial targets and KPIs are reviewed annually by the PRC and approved by the Board to ensure STI payments are aligned with the short-term objectives of the business whilst consistent with the long term strategy of the Company.

STI payments for the year ended 30 June 2016 were based on the performance of the business against the following Executive KPIs:

- 60% financial target based on achievement of prospectus revenue and net profit after tax and amortisation; and
- 40% non-financial targets such as safety and quality, business development, stakeholder engagement and organisational capability transformation.

Except for the cash incentives pertaining to the IPO as set out on page 16, no STI payments have been made or approved for the year ended 30 June 2016.

For 30 June 2016, the financial performance KPI required the achievement of prospectus revenue and net profit after tax and amortisation (NPATA). The achievement of this KPI was a gateway hurdle to being assessed against the other KPI's for STI payment. Given that prospectus revenue and NPATA were not met the achievement of the additional KPIs was not assessed for the purpose of determining the payment of a STI. The maximum STI opportunity for 30 June 2016 was $352,000 of which nil was deemed to be payable to the Executive by the Board.

Currently there are no equity-based long-term incentives (LTIs) in place.

Use of remuneration consultants

The Board ensures that any recommendations made by consultants in relation to remuneration arrangements of KMP at Integral Diagnostics must be made directly to the Board without any influence from management. The arrangements in place ensure any advice is independent of management and includes management not being able to attend Board or Committee meetings where recommendations relating to their remuneration are discussed.

During the financial year ended 30 June 2016, the Board engaged Godfrey Remuneration Group Pty Ltd (GRG) remuneration consultants to provide a report on market benchmarking of Senior Executive remuneration.

The scope of the report and all discussions with GRG were undertaken by the Chair of the PRC and the Chair of the Board together with Non-Executive Directors of the PRC.

No discussions were held between GRG and the Executive KMP. Accordingly, the Board is satisfied that the recommendations made by GRG are free from undue influence by any member of the KMP to whom the recommendations relate.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of KMP of the Group are set out in the following tables.

The KMP of the Group consisted of the Directors of Integral Diagnostics Limited and the following Executives:

- Craig Bremner – Chief Financial Officer; and
- Gregory Hughes – Chief Operating Officer and HR Director.

	Short-term benefits		Post-employment benefits	Long-term benefits	
2016[1]	Cash salary and fees $	Cash incentive[2] $	Superannuation $	Long service leave $	Total $
Non-Executive Directors					
Helen Kurincic	166,667	-	15,833	-	182,500
Garry Hounsell	86,301	-	8,199	-	94,500
John Atkin	83,643	-	7,857	-	91,500
Rupert Harrington	-	-	-	-	-
Mark Jago[3]	-	-	-	-	-
Robert-Radcliff Smith[4]	-	-	-	-	-
Executive Directors					
John Livingston	486,018	120,000	19,308	14,709	640,035
Dr Chien Ping Ho[5]	563,355	-	19,308	16,988	599,651
Dr Sally Sojan[6]	591,020	-	25,000	8,336	624,356
Dr Alexius Meakin[7]	162,885	-	7,705	2,256	172,846
Dr Donald Barrie[8]	61,406	-	4,826	724	66,956
	2,201,295	120,000	108,036	43,013	2,472,344
Other Key Management Personnel					
Craig Bremner	294,218	80,000	19,308	9,250	402,776
Gregory Hughes	294,218	-	19,308	9,250	322,776
	588,436	80,000	38,616	18,500	725,552

1. In accordance with the Corporations Act, as this is the first year in which the Company is reporting on remuneration for each KMP, the Company is not required to provide comparative information for the prior year.
2. Cash incentives made to Executives in the current year relate solely to performance during the Company's IPO preparation and process. No STI payments were deemed by the Board to be payable to the Executive for performance for the year ended 30 June 2016. The above table does not include payments made to John Livingston, Craig Bremner and Gregory Hughes of $117,189, $47,372 and $47,372 respectively which relate to the 2015 financial year and were prior to the IPO.
3. Resigned as a Director 30 September 2015 – received no remuneration for 2016.
4. Resigned as a Director 30 September 2015 – received no remuneration for 2016.
5. Remuneration includes Medical Director fees from October 2016.
6. Remuneration includes Medical Director fees from October 2016.
7. Resigned as a Director 30 September 2015 – remuneration disclosed is from 1 July – 30 September 2015 only.
8. Resigned as a Director 31 July 2015 – remuneration disclosed is from 1 July – 31 July 2015 only.

The proportion of remuneration paid in the 2016 financial year and linked to performance is as follows:

Director 2016	At risk
Non-Executive Directors	
Helen Kurincic	-
John Atkin	-
Garry Hounsell	-
Rupert Harrington	-
Executive Directors	
John Livingston	18.7%
Dr Chien Ping Ho	-
Dr Sally Sojan	-
Other Key Management Personnel	
Craig Bremner	19.9%
Gregory Hughes	-

C. Other transactions with KMP and their related parties

	Consolidated 30 June 2016 $
Payment for goods and services	
Consulting fees paid to Helen Kurincic pre IPO, a Director of the Group	60,000
Consulting fees paid to Garry Hounsell pre IPO, a Director of the Group	25,000
Consulting fees paid to John Atkin pre IPO, a Director of the Group	25,000
Cleaning fees paid to GJJ Hughes Pty Ltd of which Gregory Hughes is related to	17,800
Payment for rental of buildings to Eleven Eleven How Pty Ltd of which Chien Ping Ho, John Livingston, Gregory Hughes and Craig Bremner are related to	592,166
Payment for rental of buildings to Perhaps Holdings Pty Ltd of which Chien Ping Ho and John Livingston are related to	65,391
Payment for rental of buildings to Kiwi Blue Pty Ltd of which Chien Ping Ho and John Livingston are related to	193,182
Monies paid for subscription of new ordinary shares by John Atkin	175,000
Monies paid for subscription of new ordinary shares by Rupert Harrington	249,656

All transactions with KMP are made on commercial arm's-length terms and conditions and in the ordinary course of business. The Board has an established Related Party Transaction Policy, that is overseen by the Audit, Risk and Compliance Committee, to ensure that related party transactions are managed and disclosed in accordance with the Corporations Act, ASX Listing Rule 10.1 and accounting requirements and in accordance with good governance obligations, to ensure that financial benefit is not given to related parties without approval by the Board, and where required, shareholders.

The related party transactions for building rentals and cleaning were historical arrangements in place when the business was privately held. It is the Board's policy that independent reviews will be undertaken on any renewals and these reviews will be overseen by the Audit, Risk and Compliance Committee.

D. Service agreements

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

Chief Executive Officer (CEO)

The CEO is employed under an ongoing contract with a minimum term of three years, which expires on 31 July 2017.

Under the terms of the contract:

- The CEO receives fixed remuneration of $505,680 per annum, which includes superannuation.
- The CEO's STI opportunity is $192,000.
- Fixed remuneration has an annual indexation of 2% or CPI, whichever is higher subject to satisfactory individual and business performance as determined by the Company acting reasonably.

Termination provisions for Executives

An Executive's employment may be terminated by the Company if there are changes outside its control that will materially harm the business and its shareholders, or there is continued and unremedied poor performance, provided in each case it has provided 12 months' notice in writing. The Executives may not terminate their employment during the minimum term. After expiry of the minimum term, the Executive's employment will continue until terminated by either party providing six months' notice in writing. The Executive may be paid in lieu of all or part of the notice period. Notwithstanding the above, the Company may terminate the Executive's employment without notice for serious misconduct.

E. Additional disclosures relating to KMP

Shareholding

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

Ordinary shares	Balance at the completion of the IPO	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
Helen Kurincic	420,870	-	-	-	420,870
John Livingston	2,467,230	-	-	-	2,467,230
Dr Chien Ping Ho	2,467,230	-	-	-	2,467,230
Dr Sally Sojan	1,095,000	-	-	-	1,095,000
John Atkin	91,623	-	-	-	91,623
Garry Hounsell	-	-	50,000	-	50,000
Rupert Harrington	130,710	-	-	-	130,710
Craig Bremner	2,467,230	-	-	-	2,467,230
Gregory Hughes	2,467,230	-	-	-	2,467,230
	11,607,123	-	50,000	-	11,657,123

The Remuneration Report has been audited.

Auditor's Independence Declaration

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

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Integral Diagnostics Limited and the entities it controlled during the period.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
23 September 2016

Operating and Financial Review
For the year ended 30 June 2016

The purpose of this Operating and Financial Review is to provide shareholders with additional information regarding the Company's operations, financial position, business strategies and prospects. The review complements the Financial Report on pages 26 to 63 and the ASX announcement and full year results presentation dated 25 August 2016.

Integral Diagnostics Limited (ASX: IDX) is an Australian healthcare services company whose main activity is providing diagnostic imaging services to general practitioners, medical specialists and allied health professionals (referrers) and their patients. These services are provided through a network of 45 sites, including 12 hospital sites, in three regional geographic markets under three core brands – Lake Imaging (Victoria), South Coast Radiology (Queensland) and Global Diagnostics (Western Australia).

Diagnostic imaging involves a set of techniques that non-invasively produces images of the human body for clinical analysis and medical intervention. Images can be produced using a variety of modalities, including:

- radiography (X-ray);
- ultrasound;
- computed tomography (CT);
- magnetic resonance imaging (MRI); and
- nuclear medicine (which includes positron emission tomography (PET)).

The images produced by diagnostic imaging are a critical tool for referrers in diagnosing and deciding on a form of treatment for patients.

Year in review

Financial performance

A summary statutory and pro forma income statement in line with the prospectus lodged on 9 October 2015 is outlined in the following tables:

Summary of statutory income statement ($million)	Actual 2016	Forecast[1] 2016
Total revenue	167.8	169.6
EBITDA	28.2	29.8
EBIT	19.5	20.8
NPAT	11.4	12.4
NPATA	11.8	12.8
EPS (cents)	8.2	8.9

1. Pro forma forecast financial information is consistent with the information disclosed in the prospectus lodged with ASIC on 9 October 2015.

Summary of pro forma income statement ($million)	Actual[1] 2016	Forecast[2] 2016
Total revenue	167.8	169.6
EBITDA	34.9	37.3
EBIT	26.2	28.4
NPAT	16.6	17.9
NPATA	17.0	18.3
EPS (cents)	11.9	12.9

1. Pro forma actual has been prepared consistent with the information disclosed in the prospectus lodged with ASIC on 9 October 2015.
2. Pro forma forecast financial information is consistent with the information disclosed in the prospectus lodged with ASIC on 9 October 2015.

As previously flagged to the market, the actual performance of Integral Diagnostics over FY16 was slightly below prospectus forecast. In light of the unexpected and rapid decline in referrals industry wide given uncertainty around Government policy, the FY16 performance clearly shows the resilience of our business model. Integral Diagnostics was able to grow patient examination volumes by 4.8% in FY16 against industry growth of 3.7%, as referenced to Medicare data for the States in which we operate.

Summary of pro forma income statement[1] ($million)	Actual 2016	Actual 2015
Total revenue	167.8	160.0
EBITDA	34.9	34.6
EBIT	26.2	25.4
NPAT	16.6	15.8
NPATA	17.0	16.2

1. Pro forma actual has been prepared consistent with the information disclosed in the prospectus lodged with ASIC on 9 October 2015.

The pro forma result reflected the resilience of the business against short-term industry headwinds.

- Revenue grew 4.9%:
  - short-term industry uncertainty reduced referral patterns from November 2015.
  - MRI, CT and X-ray volume growth above Medicare data in the States in which we operate.
  - organic growth across all businesses.
- Expense growth of 5.9% in line with prospectus forecasts:
  - full year impact of new radiologists employed late FY15.
  - investment in staff and systems to support future growth.
- EBITDA growth of 0.9% primarily due to slower growth in revenues compared to committed expenditures.
- Free cash flow conversion of 71.9%.

Operating performance overview

During the period, in addition to successfully completing its IPO, the Company:

- signed a new long-term contract extension with the West Australian Country Health Service relating to the provision of services at Bunbury Hospital;
- moved into new premises at Toowoomba (Queensland) offering an expanded range of services with an additional MRI machine in December 2015 being the only provider to have both 1.5T and 3T MRI systems in Toowoomba;
- developed a new comprehensive site at Sunbury (Victoria) in April 2016, which offers an expanded range of services including the only provider of MRI services in the Sunbury region;
- contributed to the refurbishment of facilities at St John of God Hospital, Geelong site, catering for an expanded range of services including an additional MRI;
- moved into new premise at Ocean Grove (Victoria) in December 2015, providing increased capacity to meet growing demand in the Bellarine Peninsula region;
- continued to invest in state-of-the-art equipment, both to expand services and replace existing equipment to ensure equipment is within age parameters outlined by the Commonwealth Government in order for patients to receive the maximum potential reimbursement for their diagnostic imaging service; and
- announced the acquisition of Western District Radiology and the remaining 50% interest in South West MRI Pty Ltd.

Management remains focused on executing the strategy of the Company articulated during the IPO process, and believes the Company remains attractively positioned to strategically capitalise on the demand for diagnostic imaging services and delivery of high-quality, comprehensive services to referrers and patients alike.

Year in review continued

Regulatory outlook

On Tuesday 15 December 2015, the Federal Government released its Mid-Year Economic and Fiscal Outlook (MYEFO) outlining intended changes to the bulk-billing incentives to pathology and diagnostic imaging service providers. At this time, Integral Diagnostics estimated that, if implemented from 1 July 2016 and without mitigation by Integral Diagnostics management, the potential impact on revenue (based on the last 12 months' revenue) would be approximately 2% – 3%.

Media reports about alleged over-servicing in the healthcare system and the Government's proposed cuts to bulk-billing incentives had the effect of disrupting traditional Diagnostic Imaging referral patterns, and overall industry volume growth rates decreased from 5.0% in 2015 to 3.0% in 2016 (based on national Medicare data – financial years).

In the lead-up to the Federal election and since then, the regulatory outlook has improved. The Federal Government has now deferred the flagged changes to bulk billing to allow for an independent evaluation to be completed. They have also announced that they are prepared to invest up to a further $50 million per annum back into the system if bulk-billing changes occur and that indexation to the diagnostic imaging schedule of fees would resume in conjunction with indexation for general practitioners.

Company outlook

The longer-term industry fundamentals that underpin lasting and attractive future growth opportunities are:

- population growth;
- the ageing population;
- growing consumer expectations; and
- medical and technological advances.

In the short-term, while referral patterns are showing signs of recovery, there still remains some uncertainty – both regulatory and the time it will take for referral patterns to return to historical growth rates.

After having successfully acquired Western District Radiology and the remaining 50% interest in South West MRI Pty Ltd, we continue to evaluate other acquisition opportunities. We take a disciplined approach to acquisitions, and any opportunities we pursue must be consistent with our strategic growth criteria.

With an eye to market fundamentals, and to ensure Integral Diagnostics is best positioned to capture further growth over the longer-term, we will continue to invest in technology, sites, infrastructure, and people. Overall, we expect to generate a modest improvement in FY17 revenue and earnings when compared to FY16.

A summary of the balance sheet as at 30 June 2016 and in comparison to the pro forma balance sheet disclosed in the prospectus lodged on 9 October 2015 is presented below.

Balance sheet	30 June 2016 Actual $'M	30 June 2015 Pro forma $'M
Cash and cash equivalents	23.6	9.6
Trade and other receivables	5.5	4.8
Other current assets	2.9	2.1
Total current assets	32.0	16.4
Property, plant and equipment	46.6	38.0
Intangible assets	97.7	98.4
Deferred tax asset	4.8	6.3
Total non-current assets	149.1	142.6
TOTAL ASSETS	181.1	159.1
Trade and other payables	10.4	10.1
Current tax liabilities	1.1	2.7
Borrowings	6.7	6.4
Provisions	9.5	8.6
Other current liabilities	–	3.2
Total current liabilities	27.7	31.0
Borrowings	61.8	53.4
Provisions	7.2	6.2
Other non-current liabilities	0.4	0.5
Total non-current liabilities	69.4	60.1
TOTAL LIABILITIES	97.1	91.1
NET ASSETS	84.0	68.0

- Working capital of $4 million is driven by strong cash holdings.
- Property, plant and equipment increased by $8.6 million due to ongoing investment in state-of-the-art equipment and opening of new and refurbished sites.
- Provisions (excluding tax) have increased $1.9 million. This increase is primarily due to the provisions associated with employee benefits.
- Net tax balances have decreased mainly due to higher deferred tax liabilities recognised on PPE depreciation differences.
- Net debt decreased by $5.3 million.

Year in review continued

Company outlook continued

Cash flow

A summary of the pro forma and statutory cash flows as at 30 June 2016 and as compared to the prospectus lodged on 9 October 2015 are presented below.

Summary of pro forma cash flow ($ million)	Actual[1] 2016	Forecast[2] 2016
Free cash flow	25.1	30.5
Growth capital expenditure	(7.8)	(6.1)
Net cash flow before financing and taxation	17.3	24.4
Tax paid	(7.8)	(7.1)
Interest and other costs paid on borrowings	(2.8)	(3.0)
Net change in borrowings	8.7	7.6
Net cash flows	15.4	21.9

1. Pro forma actual have been prepared consistent with the basis set out in the prospectus lodged with ASIC on 9 October 2015.
2. Pro forma forecast financial information is consistent with the information disclosed in the prospectus lodged with ASIC on 9 October 2015.

Summary of statutory cash flow ($ million)	Actual 2016	Forecast[1] 2016
Free cash flow	18.1	23.3
Growth capital expenditure	(7.8)	(6.1)
Net cash flow before financing and taxation	10.3	17.1
Tax paid	(7.8)	(7.1)
Interest and other costs paid on borrowings	(2.7)	(3.2)
Proceeds from issue of shares	33.2	33.2
Net change in borrowings	6.0	5.0
Net payment of bank facilities	(20.0)	(20.0)
Deferred consideration	(3.2)	(3.2)
Offer transaction costs in equity	(1.8)	(2.6)
Net cash flows	14.0	19.2

1. Statutory forecast financial information is consistent with the information disclosed in the prospectus lodged with ASIC on 9 October 2015.

- Pro forma free cash flows of $25.1 million are lower than forecast by $5.4 million due to a lower than expected EBITDA of $2.4 million and changes in working capital forecast being $2.6 million less than forecast.
- Growth capital expenditure was $1.7 million higher than expected due to ongoing investment in state-of-the-art equipment and opening of new and refurbished sites for future growth.

Business opportunities and risks

The following are key opportunities that may impact Integral Diagnostics's financial and operating result in future periods:

- Ability to leverage off the growing demand for diagnostic imaging services through our current network.
- Utilisation of high-quality systems to deliver best-in-class patient and referrer outcomes.
- Ability to leverage off our strong market position, diversified service model and sources of funding to develop growth opportunities.
- Identification of new business opportunities through development of the existing business, capacity expansion or further acquisitions.
- Ability to leverage off and be first to market with new technology and innovation.
- Ability to leverage of our attractive specialist healthcare model to attract, retain and grow the radiologist group.
- Retention of our experienced management team and Board to drive growth and sustainability through the business.

Business opportunities and risks continued

The following are key risks that may impact Integral Diagnostics's financial and operating result in future periods:

- Changes to or breaches of laws, Government policies and regulations may impact the ability of Integral Diagnostics to continue to operate.
- Inadequate Commonwealth Government rebates for diagnostic imaging services may reduce demand for services.
- Changes to capital sensitivity rules could result in Integral Diagnostics having to refurbish current diagnostic imaging equipment or acquire new equipment earlier than intended.
- Integral Diagnostics's service agreements and related property leases may be breached, terminated or not renewed.
- Integral Diagnostics may be unable to recruit and retain radiologists and technical professionals.
- Integral Diagnostics's relationship with radiologists and technical professionals may deteriorate.
- Relationships with referrers may deteriorate resulting in a decrease in volume levels.
- Integral Diagnostics may suffer reputational damage resulting in a deterioration of its competitive position.
- Labour costs may increase.
- Failure of technical infrastructure.

Risk management

Since the listing of the Company on the ASX, Integral Diagnostics has been working towards the development of an enterprise risk management framework that includes the development and maintenance of risk registers within each business and at a consolidated group level for the most material risks. This risk management framework will help to create a best practice, consistent and rigorous approach to identifying, analysing and evaluating risks.

The framework will be overseen by the Audit Risk and Compliance Committee and will be actively managed by the Executive Committee. It will be consistent with AS/NZ31000:2009 and will be subject to regular review by internal risk audit. Our Audit Risk and Compliance Committee Charter is also available in the Corporate Governance section of our website.

The Board has also established a National Clinical Leadership Committee (National CLC) and State Clinical Leadership Committees (State CLCs) under the National and State Clinical Leadership Committees Charter, which provides a framework for the National CLC and State CLCs to work together to develop and implement policies and work practices in order for Integral Diagnostics to achieve clinical best practice and service for its patients and referrers.

The responsibilities of the National CLC include reviewing any recommendations arising from adverse incidents from the State CLCs and to share learnings to prevent recurrence.

Future prospects

Integral Diagnostics operates in a growing healthcare market where there is an increasing demand for diagnostic services arising from growing and ageing populations, new tests and preventative medicine.

Integral Diagnostics has a long history in the regions it operates in. Across the regional areas in each state in which it operates, Integral Diagnostics is a market leader by number of sites. This gives Integral Diagnostics a competitive advantage to maintain its position as well as increase its share of diagnostic imaging services in its regions.

Integral Diagnostics operates with a group of radiologists and equipment that has capacity to provide an increasing number of diagnostics imaging services particularly in higher complexity modalities given Integral Diagnostics's MRI licenses and investment in MRI and nuclear medicine/PET equipment. Integral Diagnostics invests in state-of-the-art equipment to provide high-quality services to its patients and referrers.

Integral Diagnostics will continue to operate in the diagnostic imaging market and pursue its strategy of expansion through organic growth and merger and acquisitions in existing and new regions.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Revenue			
Revenue	5	167,770	151,213
Interest income		263	189
Total revenue and other income		168,033	151,402
Expenses			
Consumables	6	(8,365)	(8,701)
Employee benefits expense	6	(95,406)	(83,785)
Depreciation and amortisation expense	6	(8,720)	(8,606)
Transaction costs	6	(6,990)	(10,035)
Equipment related expenses		(6,056)	(5,975)
Occupancy expenses		(11,724)	(10,191)
Other expenses		(10,991)	(8,882)
Finance costs	6	(3,333)	(4,298)
Total expenses		(151,585)	(140,473)
Operating profit		16,448	10,929
Share of profits of associates accounted for using the equity method		2	12
Profit before income tax expense		16,450	10,941
Income tax expense	7	(5,062)	(6,136)
Profit for the year from continuing operations		11,388	4,805
Other comprehensive income, net of tax		–	–
Total comprehensive income		11,388	4,805
Profit is attributable to:			
Non-controlling interest		–	305
Owners of Integral Diagnostics Limited		11,388	4,500
		11,388	4,805
Total comprehensive income is attributable to:			
Non-controlling interest		–	305
Owners of Integral Diagnostics Limited		11,388	4,500
		11,388	4,805
Earnings per share attributable to the owners of Integral Diagnostics Limited		Cents	Cents
Basic earnings per share	37	8.2	3.8
Diluted earnings per share	37	8.2	3.8

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As at 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Assets			
Current assets			
Cash and cash equivalents	8	23,620	9,596
Trade and other receivables	9	5,544	4,789
Other assets	10	2,450	2,062
Inventory	11	333	–
Total current assets		31,947	16,447
Non-current assets			
Property, plant and equipment	12	46,629	37,959
Intangibles	13	97,725	98,372
Deferred tax asset	14	4,804	3,259
Total non-current assets		149,158	139,590
Total assets		181,105	156,037
Liabilities			
Current liabilities			
Trade and other payables	15	10,397	10,538
Borrowings	16	6,762	13,712
Income tax payable		1,107	2,727
Provisions	17	9,519	8,646
Other financial liabilities	18	–	3,150
Total current liabilities		27,785	38,773
Non-current liabilities			
Borrowings	19	61,781	68,741
Derivative financial instruments		365	451
Provisions	20	7,254	6,232
Total non-current liabilities		69,400	75,424
Total liabilities		97,185	114,197
Net assets		83,920	41,840
Equity			
Contributed capital	21	82,760	50,743
Reserves	22	(11,862)	(10,537)
Retained profits	23	13,022	1,634
Total equity		83,920	41,840

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Contributed capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2014	2,531	(3,849)	7,721	1,889	8,292
Profit/(loss) after income tax expense	–	–	4,500	305	4,805
Other comprehensive income, net of tax	–	–	–	–	–
Total comprehensive income	–	–	4,500	305	4,805
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (Note 21)	25,476	–	–	–	25,476
Issue of ordinary shares as part of business combination (Note 21)	22,536	–	–	–	22,536
Issue of ordinary shares as consideration of investment	200	–	–	–	200
Share-based payments	–	128	–	–	128
Transaction with non-controlling interest reserve	–	(6,816)	–	(2,194)	(9,010)
Dividends paid (Note 24)	–	–	(10,587)	–	(10,587)
Balance at 30 June 2015	50,743	(10,537)	1,634	–	41,840

	Contributed capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2015	50,743	(10,537)	1,634	–	41,840
Profit after income tax expense	–	–	11,388	–	11,388
Other comprehensive income, net of tax	–	–	–	–	–
Total comprehensive income	–	–	11,388	–	11,388
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (Note 21)	32,017	(194)	–	–	31,823
Transaction with non-controlling interest reserve	–	(1,197)	–	–	(1,197)
Share-based payments	–	66	–	–	66
Balance at 30 June 2016	82,760	(11,862)	13,022	–	83,920

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
For the year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Cash flows from operating activities			
Receipts from customers		166,804	151,192
Payments to suppliers and employees		(131,706)	(114,042)
Transaction costs relating to acquisition of subsidiaries		(189)	(10,035)
Interest and other finance costs paid		(3,067)	(3,847)
Income taxes paid		(7,787)	(6,156)
Net cash from operating activities	36	24,055	17,112
Cash flows from investing activities			
Payments for purchase of subsidiary, net of cash acquired	32	–	(66,619)
Payments for property, plant and equipment		(17,222)	(1,954)
Proceeds from disposal of property, plant and equipment		300	409
Interest received		263	189
Net cash used in investing activities		(16,659)	(67,975)
Cash flows from financing activities			
Proceeds from issue of shares	21	33,170	27,400
IPO transaction costs	21	(8,104)	(1,724)
Proceeds from borrowings		17,043	67,788
Repayment of borrowings		(31,134)	(21,130)
Dividends paid to Company shareholders	24	–	(10,100)
Dividends paid to non-controlling interests in subsidiaries	24	–	(487)
Settlement of deferred consideration	18	(3,150)	–
Transactions with non-controlling interests	22	(1,197)	(7,959)
Net cash from financing activities		6,628	53,788
Net increase in cash and cash equivalents		14,024	2,925
Cash and cash equivalents at the beginning of the financial year		9,596	6,671
Cash and cash equivalents at the end of the financial year	8	23,620	9,596

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Note 1. General information

The Financial Report covers Integral Diagnostics Limited as a Group consisting of Integral Diagnostics Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Integral Diagnostics Limited's functional and presentation currency and are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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

1111 Howitt Street
Wendouree VIC 3355

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 August 2016. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New, revised or amending accounting standards and interpretations adopted

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

Any new, revised or amending accounting standards or interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 31.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Integral Diagnostics Limited as at 30 June 2016 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where the Group loses control over a subsidiary, it derecognises the assets (including goodwill), liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Current and non-current classification

Assets and liabilities are presented in the Consolidated Statement of Financial Position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in a normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Note 2. Significant accounting policies continuned

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful lives are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Rounding of amounts

The Company is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off'. Amounts in this Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

New accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2016. The Group's assessment of the impact of these new or amended accounting standards and interpretations, most relevant to the Group is set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the Consolidated Statement of Financial Position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in the finance costs). For classification within the Consolidated Statement of Cash Flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019. On adoption the asset and liabilities will be grossed up by the value of leased assets, which we are unable to quantify until adoption as it is dependent on the number of leased properties held at that date, from adoption operating lease costs will be allocated to amortisation and interest charges which will be below the EBITDA line.

AASB 15 Revenue from contracts with customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018. The changes in revenue recognition requirements in AASB 15 are not expected to have a significant impact on the timing and amount of revenue recorded in the financial statements, or result in significant additional disclosures.

Note 3. Critical accounting judgements, estimates and assumptions

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

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 13. The recoverable amounts of cash-generating units have been determined based on value-in-use (VIU) calculations. These calculations require the use of assumptions, including anticipated sales growth, long-term growth rate and the post-tax discount rate.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assessed impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use (VIU) calculations, in conjunction with the goodwill impairment testing which incorporates a number of key estimates and assumptions.

Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the Consolidated Statement of Financial Position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Note 4. Operating segments

Identification of reportable operating segments

The Group comprised the single business segment of the operation of diagnostics imaging facilities.

Major customers

During the year ended 30 June 2016, there was no external revenue greater than 10% to any one customer (2015: nil).

Operating segment information

As the Group operates in a single business and geographic segment, these financial statements represent the required financial information of that segment.

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM) which includes the KMP of the Company. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Revenue

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Sales revenue		
Services revenue	165,435	149,788
Other revenue		
Other revenue	2,335	1,425
Revenue	167,770	151,213

Accounting policy for revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Rendering of services revenue is recognised when the service is rendered for the provision of medical imaging services. The point of sale is deemed to be at the time the image is taken.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established. Other revenue largely includes compensation payments received under equipment and leasehold contracts as well as labour cost charges to hospitals and Government (trainees and paid parental leave).

Note 6. Expenses

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	751	977
Plant and equipment	6,633	5,464
Motor vehicles	104	100
Office furniture and equipment	587	1,422
Total depreciation	8,075	7,963
Amortisation		
Customer contracts	645	643
Total depreciation and amortisation	8,720	8,606
Transaction costs		
Stamp duty on acquisition of South Coast Radiology business and investment in Lake Imaging Holdings	–	5,825
Professional fees and other costs on acquisition of South Coast Radiology business and investment in Lake Imaging Holdings	115	3,747
IPO transaction costs	6,321	–
Fees relating to other transactions	554	463
Total transaction costs	6,990	10,035
Finance costs		
Interest and finance charges paid/payable	3,151	4,145
Funding/establishment costs	182	153
Finance costs expensed	3,333	4,298
Net loss/(gain) on disposal		
Net loss/(gain) on disposal of property, plant and equipment	177	277
Employee benefits expense		
Employee benefits	79,448	69,431
Superannuation contributions	5,477	4,830
Labour supply	10,481	9,524
Total employee benefits expense	95,406	83,785

Minimum lease payments recognised as operating lease expense were $8.316 million (2015: $7.304 million). Costs of inventories recognised as expense were $8.365 million (2015: $8.701 million).

Accounting policy for finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Note 7. Income tax expense

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Income tax expense		
Current tax	6,517	7,147
Deferred tax – origination and reversal of temporary differences	(1,545)	(828)
Adjustment recognised for prior periods	90	(183)
Aggregate income tax expense	5,062	6,136
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (Note 14)	(1,545)	(828)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	16,450	10,941
Tax at the statutory rate of 30%	4,935	3,282
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment costs	19	24
Transactions costs and fair value movements	18	3,013
	4,972	6,319
Adjustment recognised for prior periods	90	(183)
Income tax expense	5,062	6,136

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Note 8. Current assets – cash and cash equivalents

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Cash on hand	15	13
Cash at bank	23,605	9,583
	23,620	9,596

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Current assets – trade and other receivables

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Trade receivables	5,199	4,646
Less: Provision for impairment of receivables	(63)	(88)
	5,136	4,558
Other receivables	408	231
	5,544	4,789

Impairment of receivables

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

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Opening balance	88	98
Additional provisions recognised	66	28
Receivables written off during the year as uncollectable	(91)	(38)
Closing balance	63	88

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $1.812 million as at 30 June 2016 ($0.878 million as at 30 June 2015).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Past due 31 to 60 days	1,278	364
Past due 61 to 90 days	164	184
Past due more than 91 days	370	330
	1,812	878

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 to 60 days. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate fair value.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 10. Current assets – other

	Consolidated 30 June 2016 $'000	Consolidated 30 June 2015 $'000
Accrued revenue	745	533
Prepayments	1,584	1,463
Security deposits	43	44
Other current assets	78	22
	2,450	2,062

Note 11. Inventory

	Consolidated 30 June 2016 $'000	Consolidated 30 June 2015 $'000
Film, contrast, drugs and needles	333	–
	333	–

Accounting policy for inventory

Inventory is valued at the lower of cost and net realisable value. Inventory has been recognised based on categories of high-value items used in the production of medical images that the Company holds in large volumes including film, contrast, drugs and needles. Costs of inventories recognised as expense were $8.365 million (2015: $8.701 million).

Note 12. Non-current assets – property, plant and equipment

	Consolidated 30 June 2016 $'000	Consolidated 30 June 2015 $'000
Leasehold improvements – at cost	14,055	9,753
Less: Accumulated depreciation	(3,811)	(3,137)
	10,244	6,616
Plant and equipment – at cost	52,660	42,952
Less: Accumulated depreciation	(20,439)	(15,410)
	32,221	27,542
Motor vehicles – at cost	418	418
Less: Accumulated depreciation	(280)	(176)
	138	242
Office furniture and equipment – at cost	7,854	6,161
Less: Accumulated depreciation	(3,828)	(2,602)
	4,026	3,559
	46,629	37,959

Reconciliations

(a) Reconciliations of the written down values of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Office furniture and equipment $'000	Total $'000
Balance at 1 July 2014	4,957	11,110	322	1,469	17,858
Additions	893	6,772	20	1,828	9,513
Additions through business combinations (Note 32)	1,806	15,502	–	1,931	19,239
Disposals	(63)	(378)	–	(247)	(688)
Depreciation expense	(977)	(5,464)	(100)	(1,422)	(7,963)
Balance at 30 June 2015	6,616	27,542	242	3,559	37,959
Additions	4,419	11,858	–	1,245	17,522
Disposals/write-offs	(40)	(546)	–	(191)	(777)
Depreciation expense	(751)	(6,633)	(104)	(587)	(8,075)
Balance at 30 June 2016	10,244	32,221	138	4,026	46,629

(b) Property, plant and equipment includes the following amounts where the Group is a lessee under a finance lease at the beginning and end of the current and previous financial year are set out below:

	Leasehold improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Office furniture and equipment $'000	Total $'000
Net book value at 30 June 2015	1,332	19,992	38	889	22,251
Net book value at 30 June 2016	4,065	26,318	116	355	30,854

Property, plant and equipment secured under finance leases

Refer to Note 19 for further information on property, plant and equipment secured under finance leases.

Accounting policy for property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Leasehold improvements	5 – 20 years
Plant and equipment	4 – 15 years
Motor vehicles	5 – 8 years
Office furniture and equipment	3 – 15 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 13. Non-current assets – intangibles

	Consolidated 30 June 2016 $'000	Consolidated 30 June 2015 $'000
Goodwill – at cost	89,704	89,704
Brand names – at cost	7,000	7,000
Customer contracts – at cost	2,456	2,456
Less: Accumulated amortisation	(1,435)	(788)
	1,021	1,668
	97,725	98,372

Reconciliations

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

Consolidated	Goodwill $'000	Brand names $'000	Customer contracts $'000	Total $'000
Balances at 1 July 2014	11,284	–	2,456	13,740
Additions through business combinations (Note 32)	78,420	7,000	–	85,420
Amortisation expense	–	–	(788)	(788)
Balance at 30 June 2015	89,704	7,000	1,668	98,372
Additions through business combinations (Note 32)	–	–	–	–
Amortisation expense	–	–	(647)	(647)
Balance at 30 June 2016	89,704	7,000	1,021	97,725

Impairment test for goodwill and intangibles

Goodwill and intangible assets are reviewed for impairment by management at the cash-generating unit (CGU) level. Recognition of CGUs is based on an assessment of the lowest aggregation of assets that generate largely independent cash inflows. As the business continues to integrate and streamline services across its brands the determination of CGUs will be continuously assessed. As at 30 June 2016, three CGUs have been identified, being South Coast Radiology, Lake Imaging and Global Diagnostics Australia. A summary of the goodwill allocation is presented below:

	Note	Consolidated 30 June 2016 $'000	Consolidated 30 June 2015 $'000
Goodwill allocation			
CGU:			
South Coast Radiology	32	78,420	78,420
Lake Imaging		6,330	6,330
Global Diagnostics (Australia)		4,954	4,954
		89,704	89,704

Brand names of $7 million are included within the SCR CGU.

Key assumptions for value-in-use calculations

The recoverable amount of each CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the average growth rates for the industry in which the Group operates.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them:

	South Coast Radiology %	Lake Imaging %	Global Diagnostics (Australia) %
2016 – Long-term growth rate	**3.0**	**3.0**	**3.0**
2016 – Pre-tax discount rate	**14.8**	**14.8**	**14.8**
2015 – Long-term growth rate	3.0	3.0	3.0
2015 – Pre-tax discount rate	16.3	16.3	16.3

Within the value-in-use calculation for the five-year forecast period revenues have been forecast to grow between 4.2% – 4.7% (2015: 3.9% – 4.6%) and 3% (2015: 3%) into perpetuity. The forecast cash flows also includes ongoing investment in property, plant and equipment to maintain the existing base and in 2017 to invest in further technology and expansion.

The pre-tax discount rate would need to increase by more than 1.8% or the growth rate decline by more than 1.55% for there to be any impairment of the intangible and property, plant and equipment balances.

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less an impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Brand names

Significant costs associated with brand names are not amortised but are tested for impairment annually on the same basis and within the same VIU calculation as outlined above and are carried at cost.

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between one and four years. The contracts consist of Global Diagnostics (Australia), a 100% owned subsidiary of the Company, providing radiology reporting services to the Western Australia Country Health Service in the Pilbara, Wheatbelt and Goldfield regions.

Note 14. Non-current assets – deferred tax

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	3,557	3,203
Provisions for lease make good	519	442
Operating lease borrowings	119	301
Transaction costs	2,486	–
Property, plant and equipment	(1,784)	(270)
Intangible assets	(306)	(500)
Operating lease	213	83
Net deferred tax asset	4,804	3,259
Amount expected to be recovered within 12 months	3,416	3,009
Amount expected to be recovered after more than 12 months	3,479	1,020
Amount expected to be settled within 12 months	(280)	(377)
Amount expected to be settled after more than 12 months	(1,811)	(393)
	4,804	3,259
Movements:		
Opening balance	3,259	1,125
Credited to profit or loss (Note 7)	1,545	828
Additional through business combinations (Note 32)	–	1,306
Closing balance	4,804	3,259

Accounting policy for deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Integral Diagnostics Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax-consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax-consolidated group continue to account for their own current and deferred tax amounts. The tax-consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax-consolidated group. In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax-consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax-consolidated group. The tax-consolidated group has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group, arising under the joint and several liability provisions of the tax consolidation system, in the event of default by the head entity to meet its payment obligations.

Note 15. Current liabilities – trade and other payables

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Trade payables	4,132	3,417
Other payables and accruals	6,265	7,121
	10,397	10,538

Refer to Note 25 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. They are recognised at their fair value. The amounts are unsecured and are usually paid within 30 days of recognition. Due to the short-term nature of these payables, their carrying amount is assumed to approximate fair value.

Note 16. Current liabilities – borrowings

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Borrowings	17	7,389
Lease liability	6,745	6,323
	6,762	13,712

Refer to Note 19 for further information on assets pledged as security and financing arrangements.

Refer to Note 25 for further information on financial instruments.

Note 17. Current liabilities – provisions

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Annual leave	5,051	4,460
Long service leave	4,225	3,912
Employee benefits	243	274
	9,519	8,646

Accounting policy for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Note 18. Current liabilities – other financial liabilities

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Deferred consideration	–	3,150

Deferred consideration relating to the acquisition of the remaining shares in Global Diagnostics (Australia) (transaction completed on 30 June 2015) was paid on 8 December 2015.

Note 19. Non-current liabilities – borrowings

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Borrowings	40,373	53,357
Lease liability	21,408	15,384
	61,781	68,741

Refer to Note 25 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Borrowings	40,390	60,746
Lease liability	28,153	21,707
	68,543	82,453

Assets pledged as security

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the Consolidated Statement of Financial Position, revert to the lessor in the event of default.

Financial arrangements

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

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Total facilities		
Equipment finance facility	15,900	15,900
Cash advance facility (1)	10,500	11,000
Cash advance facility (2)	50,250	52,750
Multi-option facility	15,000	–
Standby letter of credit or guarantee facility	2,000	1,750
Commercial cards facility	300	300
Electronic payaway facility	3,075	2,050
	97,025	83,750
Used at the reporting date		
Equipment finance facility	14,407	15,900
Cash advance facility (1)	10,500	11,000
Cash advance facility (2)	30,250	52,750
Multi-option facility	8,714	–
Standby letter of credit or guarantee facility	1,567	753
Commercial cards facility	30	–
Electronic payaway facility	3,075	2,050
	68,543	82,453
Unused at the reporting date		
Equipment finance facility	1,493	–
Cash advance facility (1)	–	–
Cash advance facility (2)	20,000	–
Multi-option facility	6,286	–
Standby letter of credit or guarantee facility	433	997
Commercial cards facility	270	300
Electronic payaway facility	–	–
	28,482	1,297

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 20. Non-current liabilities – provisions

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Long service leave	1,592	1,185
Deferred rent liability	1,717	1,227
Lease make good	3,945	3,820
	7,254	6,232

Deferred rent liability

Deferred rent liabilities relate to property leases where rent increases prescribed in leases are based on fixed percentage increases, and/or where leases include a rent-free period or other lease incentives. The liability represents the difference between actual rental costs incurred per terms of leases, and calculated expense if the total estimated rental expense over the period of the lease was expensed evenly over the expected term of the lease. The liability reflects that as of the date of this Report, the calculated expense (if the total estimated rental expense was expensed evenly over the expected term of the lease) is greater than actual costs incurred to date. The total liability is expected to fluctuate over time reflecting the cumulative calculations of individual leases. For individual leases, any liability will unwind over the period of the lease.

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms. Property lease agreements include various obligations at the end of the respective lease terms, such as removal of tenant installations and making good any damage caused by installation or removal, removing signage, and other general maintenance obligations (e.g. painting, cleaning). These costs have been estimated for each location, based on specific terms of individual leases, size of the individual sites, and historical experience of costs incurred when vacating a site.

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Deferred rent liability $'000	Lease make good $'000
Consolidated – 2016		
Carrying amount at the start of the year	1,227	3,820
Additional provisions	508	200
Amounts used	(18)	(75)
Carrying amount at the end of the year	1,717	3,945

Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Accounting policy for other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 21. Equity – contributed capital

	Consolidated		Consolidated	
	30 June 2016 Shares	30 June 2015 Shares	30 June 2016 $'000	30 June 2015 $'000
Ordinary shares – fully paid	144,136,101	4,219,468	82,760	50,743

Movements in ordinary share capital

Details	Date	Number of shares	Issue price	$'000
Balance	01 July 2014	2,531,380		2,531
Issue of shares	14 August 2014	822,357	$28.09	23,100
Issue of shares on acquisition of SCR Corporate Pty Ltd	14 August 2014	722,294	$31.20	22,536
Issue of share on exercise of options	14 August 2014	3,205	$31.20	100
Issue of new shares	15 December 2014	71,197	$28.09	2,000
Issue of new shares	31 March 2015	35,598	$28.09	1,000
Issue of new shares	31 March 2015	14,029	$35.64	500
Issue of new shares	31 May 2015	14,029	$37.17	500
Issue of shares on consideration of investment	30 June 2015	5,379	$37.17	200
Less: Share issue transaction costs		–	$0.00	(1,724)
Balance	30 June 2015	4,219,468		50,743
Issue of shares on exercise of options	30 September 2015	5,380	$36.06	194
Share split prior to Initial Public Offering	30 September 2015	122,520,592	$0.00	–
Issue of shares in Initial Public Offering	21 October 2015	17,143,244	$1.91	32,744
Issue of shares to employees in Initial Public Offering	21 October 2015	247,417	$1.72	426
Discount on employee share offer	21 October 2015	–	$0.00	47
Less: Share issue transaction costs net of tax		–		(1,394)
Balance	30 June 2016	144,136,101		82,760

Ordinary shares

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

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

Share buy-back

There is no current on-market share buy-back.

Capital risk management

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

Capital is regarded as total equity, as recognised in the Consolidated Statement of Financial Position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, adjustments may be made to the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Note 21. Equity – contributed capital continued

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

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

Accounting policy for contributed capital

Ordinary shares are classified as equity.

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

Note 22. Equity – reserves

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Share-based payments reserve	–	128
Capital reorganisation reserve	(3,849)	(3,849)
Transactions with non-controlling interest	(8,013)	(6,816)
	(11,862)	(10,537)

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and as part of their compensation for services.

Capital reorganisation reserve

The reserve is used to account for historical capital reorganisation of the Lake Group whereby the assets and liabilities of the acquired party are recorded at their previous book values and no goodwill is recognised. Any difference between the cost of the transaction and the carrying amount of the assets and liabilities are recorded directly in this reserve.

Transactions with non-controlling interest

Transactions with non-controlling interest reserve is used to record the differences arising as a result of transactions with non-controlling interests that do not result in a loss of control.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Share-based payments reserve $'000	Capital reorganisation reserve $'000	Transactions with non-controlling interest $'000	Total $'000
Balance at 1 July 2014	–	(3,849)	–	(3,849)
Recognition of share-based payments	128	–	–	128
Net movement on transactions with non-controlling interest	–	–	(6,816)	(6,816)
Balance at 30 June 2015	128	(3,849)	(6,816)	(10,537)
Recognition of share-based payments	66	–	–	66
Issue of shares to employees	(194)	–	–	(194)
Net movement on transactions with non-controlling interest (Note 32)	–	–	(1,197)	(1,197)
Balance at 30 June 2016	–	(3,849)	(8,013)	(11,862)

Note 23. Equity – retained profits

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Retained profits at the beginning of the financial year	1,634	7,721
Profit after income tax expense for the year	11,388	4,500
Dividend paid (Note 24)	–	(10,587)
Retained profits at the end of the financial year	13,022	1,634

Note 24. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Dividend paid to shareholders of the Company at $1.97 per share paid on 14 August 2014	–	5,100
Dividend paid to shareholders of the Company at $0.48 per share paid on 1 April 2015	–	2,000
Dividend paid to shareholders of the Company at $0.71 per share paid on 26 June 2015	–	3,000
Dividend paid by Global Diagnostics (Australia) Pty Ltd to non-controlling interests at $18.56 per share paid on 23 December 2014	–	160
Dividend paid by Global Diagnostics (Australia) Pty Ltd to non-controlling interests at $36.56 per share paid on 23 June 2015	–	327
	–	10,587

Franking credits

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	14,714	8,197

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Accounting policy for dividends

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

Note 25. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior financial Executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance reports to the Board on a monthly basis.

Market risk

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The policy is to maintain approximately 25% of borrowings at fixed rates using interest rate swaps to achieve this when necessary.

As at the reporting date, the Group had the following interest bearing financial assets and liabilities:

	2016		2015	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash at bank and on deposit	1.6	23,620	1.6	9,583
Borrowings	4.5	(40,025)	4.4	(60,746)
Finance leases	4.9	(28,153)	4.7	(21,707)
Interest rate swaps (notional principal amount)	3.1	(365)	3.1	(451)
Net exposure to cash flow interest rate risk		(44,923)		(73,321)

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

If interest rates were to increase/decrease by 100 (2015: 100) basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

	Basis points increase effect on			Basis points recrease effect on		
	Basis points change	Profit before tax	Effect on equity post tax	Basis points change	Profit before tax	Effect on equity post tax
Consolidated – 2016						
Impact	100	536	375	100	(536)	(375)
Consolidated – 2015						
Impact	100	659	461	100	(659)	(461)

Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. Credit risk for cash deposits is managed by holding all cash deposits with major Australian banks. Credit risk for trade receivables is managed by completing credit checks for new customers. Outstanding receivables are regularly monitored for payments in accordance with credit terms. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and notes to the financial statements. The Group does not hold any collateral.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

The credit risk for derivative financial instruments arises from the potential failure of the counter-party to meet its obligations. The credit risk exposure of forward contracts is the net fair value of these contracts.

Liquidity risk

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

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

Fair value risk

The only item held at fair value in the financial statements is an interest rate derivative which is considered immaterial and as such no further disclosure in relation to fair value has been made.

Subject to the continuance of satisfactory credit ratings and compliance with banking covenants, the bank loan facilities may be drawn at any time and have a maturity of two years and three months (2015: three years and three months). The bank loan facilities are interest-only repayments.

Remaining contractual maturities

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

Consolidated – 2016	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	4,132	–	–	–	4,132
Other payables	–	6,265	–	–	–	6,265
Contingent consideration	–	–	–	–	–	–
Interest-bearing – variable						
Borrowings	4.5	1,997	1,997	41,433	–	45,427
Lease liability	4.9	7,930	10,550	11,717	–	30,197
Total non-derivatives		20,324	12,547	53,150	–	86,021
Derivatives						
Interest rate swaps net settled	3.1	324	41	–	–	365
Total derivatives		324	41	–	–	365

Note 25. Financial instruments continued

Consolidated – 2015	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	3,417	–	–	–	3,417
Other payables	–	7,121	–	–	–	7,121
Contingent consideration	–	3,150	–	–	–	3,150
Interest-bearing – variable						
Borrowings	4.4	7,555	6,685	46,862	–	61,102
Lease liability	4.7	7,818	5,565	10,297	–	23,680
Total non-derivatives		29,061	12,250	57,159	–	98,470
Derivatives						
Interest rate swaps net settled	3.1	312	130	9	–	451
Total derivatives		312	130	9	–	451

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

Note 26. Key management personnel disclosures

Compensation

The aggregate compensation paid to Directors and other members of Key Management Personnel of the Group is set out below:

	Consolidated	
	30 June 2016 $	30 June 2015 $
Short-term employee benefits	3,306,709	570,636
	3,306,709	570,636

Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

	Consolidated	
	30 June 2016 $	30 June 2015 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	204,545	140,000
Other services – PricewaterhouseCoopers		
Due diligence	427,273	135,000
Tax compliance services	42,727	25,000
Tax advice relating to corporate structuring	126,364	68,000
	800,909	368,000

Note 28. Contingent liabilities

The Group has given bank guarantees as at 30 June 2016 of $1.3 million (2015: $1.2 million) to various landlords.

Note 29. Commitments

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Lease commitments – operating		
Within one year	7,574	7,009
One to five years	20,956	13,895
More than five years	3,465	282
	31,995	21,186
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	7,930	7,818
One to five years	22,267	15,863
Total commitment	30,197	23,681
Less: Future finance charges	(2,044)	(1,974)
Net commitment recognised as liabilities	28,153	21,707
Representing:		
Lease liability – current (Note 16)	6,745	6,323
Lease liability – non-current (Note 19)	21,408	15,384
	28,153	21,707

Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

As at 30 June 2016, there were outstanding capital commitments for plant and equipment of $0.3 million (2015: $nil).

Note 30. Related party transactions

Parent entity

Integral Diagnostics Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 33.

Key management personnel

Disclosures relating to Key Management Personnel are set out in Note 26 and the Remuneration Report on pages 13 to 18.

Note 30. Related party transactions continued

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	30 June 2016 $	30 June 2015 $
Other income:		
Management fee received from South West MRI Pty Ltd a joint venture entity	142,383	150,000
Payment for goods and services:		
Employee contractor costs paid to Radsonic and Triexmen Pty Ltd of which Chien Ping Ho, John Livingston, Gregory Hughes and Craig Bremner are related to	–	1,782,296
Consulting fees paid to Helen Kurincic, a Director of the Group	60,000	23,000
Consulting fees paid to Garry Hounsell, a Director of the Group	25,000	–
Consulting fees paid to John Atkin, a Director of the Group	25,000	–
Radiology services provided to South West MRI Pty Ltd a joint venture entity	291,887	308,213
Cleaning fees paid to GJJ Hughes of which Gregory Hughes is related to	17,800	17,500
Other transactions:		
Payment for rental of buildings to Eleven Eleven How Pty Ltd of which Chien Ping Ho, John Livingston, Gregory Hughes and Craig Bremner are related to	592,166	300,610
Payment for rental of buildings to Perhaps Holdings Pty Ltd of which Chien Ping Ho and John Livingston are related to	65,391	65,391
Payment for rental of buildings to Kiwi Blue Pty Ltd of which Chien Ping Ho and John Livingston are related to	193,182	178,233
Subscription for new ordinary shares by Helen Kurincic, a Director of the Group	–	500,000
Subscription for new ordinary shares by Sally Sojan, a Director of the Group	–	285,713
Subscription for new ordinary shares by John Atkin, a Director of the Group	175,000	–
Subscription for new ordinary shares by Rupert Harrington, a Director of the Group	249,656	–

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Current receivables:		
Trade receivables from related parties	155	180

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 31. Parent entity information

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

Statement of Profit or Loss and Other Comprehensive Income

	Parent	
	30 June 2016 $'000	30 June 2015 $'000
Profit after income tax	8,446	9,794
Total comprehensive income	8,446	9,794

Statement of Financial Position

	Parent	
	30 June 2016 $'000	30 June 2015 $'000
Total current assets	11,114	15,636
Total assets	132,839	123,396
Total current liabilities	807	13,775
Total liabilities	41,557	72,457
Equity		
Contributed capital	82,760	50,743
Share-based payments reserve	–	128
Retained profits	8,522	68
Total equity	91,282	50,939

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

The parent entity is party to the deed of cross guarantee, as disclosed in Note 34.

Contingent liabilities

Except as disclosed in Note 28, there are no other contingent liabilities of the parent entity as at 30 June 2016 and 30 June 2015.

Capital commitments – property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2015.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 2, except for the following:

- investments in subsidiaries are accounted for at cost, less an impairment, in the parent entity;
- investments in associates are accounted for at cost, less any impairment, in the parent entity; and
- dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 32. Business combinations

2015

SCR Corporate Pty Ltd, RAD Corporation Pty Ltd and Radploy 4 Pty Ltd ('South Coast Radiology')

On 14 August 2014, the Group acquired 100% of the ordinary shares of SCR Corporate Pty Ltd, RAD Corporate Pty Ltd and Radploy 4 Pty Ltd ('South Coast Radiology') for the total consideration transferred of $89,155,000. The primary reason for the merger was to expand the clinical capacity and capability of the Group, and expand geographic profile of the Group. The goodwill of $78,420,000 is attributable to the workforce (in particular the skill and reputation of radiologists), and the profitability of the business. It will not be deductible for tax purposes. The acquired business contributed revenues of $62,500,000 and profit after tax of $8,621,000 to the Group for the period from 15 August 2014 to 30 June 2015. If the acquisition occurred on 1 July 2014, the full year contributions would have been revenues of $159,786,000 and profit after tax of $7,039,000.

The values identified in relation to the acquisition of South Coast Radiology are final as at 30 June 2015.

Details of the acquisition are as follows:

	Recognised on acquisition fair value $'000
Leasehold improvements	1,807
Plant and equipment	15,502
Office equipment	1,932
Brand name	7,000
Deferred tax asset	1,306
Employee benefits	(3,555)
Lease make good provision	(1,840)
Deferred lease incentive	(974)
Lease liability	(10,443)
Net assets acquired	10,735
Goodwill	78,420
Acquisition date fair value of the total consideration transferred	89,155
Representing:	
Cash paid or payable to vendor	66,619
Integral Diagnostics Limited shares issued to vendor	22,536
	89,155
Cash used to acquire business, net of cash acquired:	
Acquisition date fair value of the total consideration transferred	89,155
Less: 722,294 shares issued by Company (at fair value of $31.20 per shares) as part of the consideration	(22,536)
Net cash used	66,619

Global Diagnostics (Australia) Pty Ltd

On 30 June 2015, the Company acquired the remaining shares in Global Diagnostics (Australia) Pty Ltd it did not already own. The shares were acquired for cash consideration of $7,869,000 and by issuing shares in Lake Imaging Holdings Pty Ltd to the value of $200,000. An additional amount of $69,400 (relating to settlement adjustments arising from the original business combination) was also paid under the terms of the share sale agreement. The primary reason for the purchase of the remaining shares was to obtain complete control of the Company and its strategic direction.

During the financial year deferred consideration on settlement of the acquisition of $3.15 million was paid (Note 18) and an additional amount of $1.197 million (Note 22) was paid to the non-controlling interest as part of the IPO process. These transactions were in accordance with the terms of the acquisition agreement.

Accounting policy for business combinations

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

The consideration transferred is the sum of the acquisition date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

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

Where the business combination is achieved in stages, the Group measures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between and fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

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

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

Business combinations under common control use the principals of corporate reorganisation. The difference between the acquisition date historical book value of assets acquired, liabilities assumed and any non-controlling interest in the acquired and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as a capital reorganisation in reserves, and not as goodwill.

Note 33. Interests in subsidiaries

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

Name of entity	Principal place of business/ country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
Lake Imaging Pty Ltd	Australia	100.00	100.00
Radploy Pty Ltd	Australia	100.00	100.00
Radploy 2 Pty Ltd	Australia	100.00	100.00
Radploy 3 Pty Ltd	Australia	100.00	100.00
Radploy 4 Pty Ltd	Australia	100.00	100.00
Global Diagnostics (Australia) Pty Ltd	Australia	100.00	100.00
SCR Corporate Pty Ltd	Australia	100.00	100.00
RAD Corporate Pty Ltd	Australia	100.00	100.00

Note 34. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

- Integral Diagnostics Limited (formerly known as Lake Imaging Holdings Pty Ltd)
- Lake Imaging Pty Ltd
- Radploy Pty Ltd
- Radploy 2 Pty ltd
- Radploy 3 Pty Ltd
- Radploy 4 Pty Ltd
- Global Diagnostics (Australia) Pty Ltd
- SCR Corporate Pty Ltd
- RAD Corporate Pty Ltd

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare financial statements and a Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission (ASIC).

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Integral Diagnostics Limited, they also represent the 'extended closed group'.

The Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position are the same as the Group and therefore have not been separately disclosed.

Note 35. Interests in joint ventures

Interest in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures are set out below:

Name of entity	Principal place of business/country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
South West MRI Pty Ltd	Australia	50.00	50.00

Lake Imaging Holdings Pty Ltd owns 50% (100 ordinary shares) of South West MRI Pty Ltd, a company set up to provide magnetic resonance imaging (MRI) and associated services. Rafferty Rogan and Houghton Pty Ltd, in its capacity as Trustee for the Ultrasound Service Unit Trust ('Western District Radiology') owns the other 50% (100 ordinary shares).

Accounting policy for joint ventures

A joint venture is a form of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 30 June 2016 $'000	Consolidated 30 June 2015 $'000
Profit after income tax expense for the year	11,388	4,805
Adjustments for:		
Depreciation and amortisation	8,720	8,606
Loan establishment costs amortisation	180	–
Net loss on disposal of property, plant and equipment	176	277
Share of profit – associates	(2)	(12)
Share-based payments	113	128
Tax included in equity	440	–
Financial liability fair value movement through profit and loss	(86)	451
Interest income	(263)	(189)
IPO transaction costs included in financing activities	6,272	–
Change in operating assets and liabilities:		
Increase in trade and other receivables	(754)	(1,307)
Increase in deferred tax assets	(1,545)	(828)
Increase in other operating assets and inventory	(718)	(663)
Increase in trade and other payables	1,575	3,090
Increase/(decrease) in provision for income tax	(1,619)	808
Increase in other provisions	178	1,946
Net cash from operating activities	24,055	17,112

Note 37. Earnings per share

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Profit after income tax	11,388	4,805
Non-controlling interest	–	(305)
Profit after income tax attributable to the owners of Integral Diagnostics Limited	11,388	4,500

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	138,726,283	118,349,462
Adjustments for calculation of diluted earnings per share:		
Weighted average number of options over ordinary shares	–	4,731
Weighted average number of ordinary shares used in calculating diluted earnings per share	138,726,283	118,354,193

	Cents	Cents
Basic earnings per share	8.2	3.8
Diluted earnings per share	8.2	3.8

The weighted average number of ordinary shares for the comparative period has been adjusted for the 29 for one share split that occurred on 30 September 2015.

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Note 38. Events after the reporting period

On 1 July 2016, the Group acquired the assets and liabilities of the Western District Radiology business and the remaining 50% interest in South West MRI Pty Ltd (collectively known as the WDR/SWMRI acquisition) for the total consideration transferred of $5,000,000, being $3,725,000 in cash payment and $1,275,000 worth of issued shares (908,056 shares issued at $1.4041 per share). This acquisition complements the Group's strengths and further strengthens the Group's position in south west region of Victoria, and will be integrated into the Lake Imaging CGU so as the maximum synergies can be obtained.

The business of SWMRI Pty Ltd was valued at $2.4 million immediately prior to acquisition. The value of the 50% interest held immediately prior to acquisition was $0.002 million resulting in the recognition of a $1.2 million gain as a result of remeasuring to fair value the equity interest held in SWMRI Pty Ltd. This amount will be recognised in other income in the income statement as at 1 July 2016 and in goodwill. The share of plant and equipment $0.453 million and debt assumed $0.389 million will result in net assets of $0.065 million being booked which will reduce goodwill by $0.064 million.

Note 38. Events after the reporting period continued

The purchase price accounting has not yet been finalised as at the date of this Report, the initial values identified in relation to the acquisition of WDR and SWMRI are as follows.

Details of the acquisition are as follows:

	Recognised on acquisition fair value $'000
Plant and equipment	1,639
Brand name	155
Employee benefits	(142)
Lease make good provision	(100)
Debt assumed	(389)
Net assets acquired	1,163
Goodwill	3,306
Acquisition date fair value of the total consideration transferred	4,469
Representing:	
Cash paid or payable to vendor	3,044
Contingent consideration	150
Integral Diagnostics Limited shares issued to vendor	1,275
	4,469
Cash used to acquire business, net of cash acquired:	
Acquisition date fair value of the total consideration transferred	4,469
Less: 908,056 shares issued by the Company (at fair value of $1.4041 per shares) as part of consideration	(1,275)
Less: Contingent consideration	(150)
Net cash used	3,044

The acquisition price announced to the market was calculated at $5 million being the $4,469 million plus the liabilities assumed for employee benefits $0.142 million and debt assumed $0.389 million as part of the acquisition, these amounts were deducted as part of settlement.

Total goodwill to be booked on the transaction is acquisition $3.306 million, fair value uplift on existing interest $1.2 million less $0.065 on recognition of 50% of net assets in SWMRI, totalling goodwill of $4.441 million.

Contingent consideration payable is a maximum amount of $0.150 million and is dependent on a range of performance hurdles over a two-year period, with payments required six monthly. On acquisition it is considered that all performance hurdles will be met and the contingent consideration will be payable.

It is estimated that had WDR/SWMRI been held for the full year revenues would have increased by approximately $4.3 million and earnings by approximately $1 million.

Subsequent to year end a dividend of 4 cents per share was declared and will be paid on 4 October 2016.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the accounting standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group will be able to meet any obligations or liabilities to which they are, or may become, subject to virtue of the deed of cross guarantee described in Note 34 to the financial statements.

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

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

On behalf of the Directors

Helen Kurincic
Chairman

John Livingston
Managing Director and
Chief Executive Officer

25th August 2016
Melbourne

Independent auditor's report to the members of Integral Diagnostics Limited

Report on the financial report

We have audited the accompanying financial report of Integral Diagnostics Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Integral Diagnostics Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2 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 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 judgement, 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 control relevant to the consolidated 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 control. 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*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Integral Diagnostics 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*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 18 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.

Auditor's opinion

In our opinion, the remuneration report of Integral Diagnostics Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
23 September 2016

Shareholder Information

Integral Diagnostics Limited

Ordinary fully paid shares (total) as of 8 September 2016.

Top 20 shareholders

Rank	Name	Units	% of units
1	HSBC Custody Nominees (Australia) Limited	17,309,419	11.93
2	J P Morgan Nominees Australia Limited	13,586,250	9.37
3	RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	9,513,608	6.56
4	UBS Nominees Pty Ltd	6,062,644	4.18
5	National Nominees Limited	5,439,219	3.75
6	Australian Foundation Investment Company Limited	5,071,094	3.50
7	BNP Paribas Noms Pty Ltd <DRP>	3,689,082	2.54
8	Citicorp Nominees Pty Limited	3,531,162	2.43
9	Visionary Imaging Pty Ltd <Lu Family Prosperity A/C>	2,889,180	1.99
10	Mittal Holdings Pty Ltd <Howitt No 12 A/C>	2,878,410	1.98
11	New Imaging Pty Ltd <New Imaging A/C>	2,604,280	1.80
12	Clight Pty Ltd <The Lightfoot Family No2 A/C>	2,467,230	1.70
13	Firmyall Pty Ltd <Howitt No 4 A/C>	2,467,230	1.70
14	G J Hughes Pty Ltd <G J Hughes Family A/C>	2,467,230	1.70
15	Lethean Holdings Pty Ltd <Howitt No 8 A/C>	2,467,230	1.70
16	Lockwood Ridge Pty Ltd <AJ French Family A/C>	2,467,230	1.70
17	Meakin Professional Investments Pty Ltd <Howitt No 6 A/C>	2,467,230	1.70
18	Muzray Pty Ltd <Murray Family A/C>	2,467,230	1.70
19	NW3 Pty Ltd <Howitt No 7 A/C>	2,467,230	1.70
20	Willowbay Rise Pty Ltd <Howitt No 5 A/C>	2,467,230	1.70
Totals: Top 20 holders of ordinary fully paid shares (total)		**94,779,418**	**65.35**
Total remaining holders balance		**50,264,739**	**34.65**

Register of substantial shareholdings

	Shares	%
Investors Mutual	11,780,573	8.12
SG Hiscock	8,999,909	6.20
Adam Smith Asset Management	8,460,682	5.83
Regal Funds Management	8,020,747	5.53

Range of units snapshot

Range	Total holders	Units	% issued capital
1 – 1,000	133	69,375	0.05
1,001 – 5,000	364	995,152	0.69
5,001 – 10,000	212	1,621,523	1.12
10,001 – 50,000	270	5,363,330	3.70
50,001 – 100,000	27	1,809,036	1.25
100,001 – 500,000	29	7,054,237	4.86
500,001 – 1,000,000	15	11,749,066	8.10
1,000,001 – 9,999,999,999	32	116,382,438	80.24
Rounding			-0.01
Total	1,082	145,044,157	100.00

Corporate Directory

Directors

Helen Kurincic – Independent Non-Executive Chairman

John Livingston – Managing Director and Chief Executive Officer

Dr Chien Ping Ho – Executive Director

Dr Sally Sojan – Executive Director

Garry Hounsell – Independent Non-Executive Director

John Atkin – Independent Non-Executive Director

Rupert Harrington – Non-Executive Director

Company secretary

Sonia Joksimovic

Notice of annual general meeting

The details of the annual general meeting of Integral Diagnostics Limited:

Level 42, 101 Collins Street
Melbourne Victoria 3000
Time 10.00am
Date 18 November 2016

Registered office

1111 Howitt Street
Wendouree Victoria 3355
T + 61 3 5339 0704

Share register

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
T 1300 787 272

Auditor

PricewaterhouseCoopers
Freshwater Place
2 Southbank Boulevard
Melbourne Victoria 3001

Solicitors

Herbert Smith Freehills
Level 42, 101 Collins Street
Melbourne Victoria 3000

Bankers

Australia and New Zealand Banking Group Limited
927 Sturt Street
Ballarat Victoria 3350

Stock exchange listing

Integral Diagnostics Limited shares are listed on the Australian Securities Exchange (ASX code: IDX)

Website

integraldiagnostics.com.au

Corporate governance statement

The Corporate Governance Statement was approved by the Board of Directors on 23 September 2016 and can be found at:

http://www.integraldiagnostics.com.au/page/for-investors/corporate-governance

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DIAGNOSTICS