

# Appendix 4E

## Preliminary final report

Name of entity

INTEGRATED RESEARCH LIMITED

ABN

76 003 588 449

Reporting period  
(year ended)

30 June 2012

Previous corresponding  
period (year ended)

30 June 2011

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

A\$000

Revenue	up	9% to	\$48,608
Profit before tax attributable to members	up	19% to	\$11,568
Profit after tax attributable to members	up	21% to	\$9,035
Net profit for the period attributable to members	up	21% to	\$9,035

<b>Dividends (distributions)</b>	Amount per security	Franked amount per security
Final dividend	3.0¢	70%
Previous corresponding period	2.5¢	75%

Record date for determining entitlements to the dividend

30 August 2012

Date the dividend is payable

14 September 2012

**Net Tangible Assets per Security:**

	<b>2012</b>	<b>2011</b>
Net tangible assets per security	9.18¢	8.12¢

**Brief explanation of directional and percentage changes to profit:**

Refer accompanying Market Release.

**Audit**

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

## Financial Statements

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# Consolidated statement of comprehensive income

For the year ended 30 June 2012

In thousands of AUD	Notes	Consolidated	
		2012	2011
<b>Revenue</b>			
Revenue from licence fees		28,861	25,005
Revenue from maintenance fees		16,406	16,941
Revenue from consulting		3,341	2,646
<b>Total revenue</b>		<b>48,608</b>	<b>44,592</b>
Research and development expenses		(10,134)	(8,949)
Sales, consulting and marketing expenses		(23,004)	(21,023)
General and administration expenses		(4,278)	(4,137)
<b>Total expenses</b>	4	<b>(37,416)</b>	<b>(34,109)</b>
<b>Other gains and losses</b>			
Currency exchange losses		(133)	(1,170)
<b>Profit before finance income and tax</b>		<b>11,059</b>	<b>9,313</b>
Finance income	3	509	381
<b>Profit before tax</b>		<b>11,568</b>	<b>9,694</b>
Income tax expense	6	(2,533)	(2,229)
<b>Profit for the year</b>		<b>9,035</b>	<b>7,465</b>
<b>Other comprehensive income</b>			
(Loss)/gain on cash flow hedge taken to equity		(147)	287
Foreign exchange translation differences		125	(602)
Income tax relating to gains/(loss) on cash flow hedge	13	-	(42)
<b>Other comprehensive income (net of tax)</b>		<b>(22)</b>	<b>(357)</b>
<b>Total comprehensive income for the year</b>		<b>9,013</b>	<b>7,108</b>
Profit attributable to:			
Owners of the parent		9,035	7,465
Total comprehensive income attributable to:			
Owners of the parent		9,013	7,108
Basic earnings per share (AUD cents)	7	5.41¢	4.47¢
Diluted earnings per share (AUD cents)	7	5.38¢	4.47¢

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 6 to 37.

# Consolidated statement of financial position

As at 30 June 2012

In thousands of AUD	Notes	Consolidated	
		2012	2011
<b>Current assets</b>			
Cash and cash equivalents	8	12,038	11,635
Trade and other receivables	9	20,725	14,058
Current tax assets		163	715
Other current assets	10	953	1,129
Total current assets		33,879	27,537
<b>Non-current assets</b>			
Trade and other receivables	9	656	1,018
Other financial assets	11	1,802	1,800
Property, plant and equipment	12	1,820	1,875
Deferred tax assets	13	453	286
Intangible assets	14	13,849	13,808
Total non-current assets		18,580	18,787
<b>Total assets</b>		52,459	46,324
<b>Current liabilities</b>			
Trade and other payables	15	4,285	3,365
Provisions	17	1,779	1,528
Income tax liabilities		1,653	1,664
Other current liabilities	18	9,832	8,737
Total current liabilities		17,549	15,294
<b>Non-current liabilities</b>			
Deferred tax liabilities	13	3,003	2,605
Provisions	17	621	528
Other non-current liabilities	18	2,053	540
Total non-current liabilities		5,677	3,673
<b>Total liabilities</b>		23,226	18,967
<b>Net assets</b>		29,233	27,357
<b>Equity</b>			
Issued capital	19	1,175	845
Reserves	19	(1,507)	(1,495)
Retained earnings		29,565	28,007
<b>Total equity</b>		29,233	27,357

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 37.

# Consolidated statement of changes in equity

For the year ended 30 June 2012

<b>Consolidated</b> <b>In thousands of AUD</b>	<b>Share capital</b>	<b>Hedging reserve</b>	<b>Translation reserve</b>	<b>Employee benefit reserve</b>	<b>Retained earnings</b>	<b>Total</b>
Balance at 1 July 2011	845	147	(1,908)	266	28,007	27,357
Profit for the year	-	-	-	-	9,035	9,035
Other comprehensive income for the year (net of tax)	-	(147)	125	-	-	(22)
Total comprehensive income for the year	-	(147)	125	-	9,035	9,013
Lapsed employee options	-	-	-	(35)	35	-
Expensed employee options	-	-	-	44	-	44
Expensed employee performance rights	-	-	-	83	-	83
Shares issued	330	-	-	(82)	-	248
Dividends to shareholders	-	-	-	-	(7,512)	(7,512)
Balance at 30 June 2012	1,175	-	(1,783)	276	29,565	29,233

Balance at 1 July 2010	835	(98)	(1,306)	544	24,527	24,502
Profit for the year	-	-	-	-	7,465	7,465
Other comprehensive income for the year (net of tax)	-	245	(602)	-	-	(357)
Total comprehensive income for the year	-	245	(602)	-	7,465	7,108
Lapsed employee options	-	-	-	(186)	186	-
Expensed employee options	-	-	-	(89)	-	(89)
Shares issued	10	-	-	(3)	-	7
Dividends to shareholders	-	-	-	-	(4,171)	(4,171)
Balance at 30 June 2011	845	147	(1,908)	266	28,007	27,357

*The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 6 to 37.*

# Consolidated statement of cash flows

For the year ended 30 June 2012

In thousands of AUD	Notes	Consolidated	
		2012	2011
<b>Cash flows from operating activities</b>			
Cash receipts from customers		45,565	43,875
Cash paid to suppliers and employees		(29,409)	(28,536)
Cash generated from operations		16,156	15,339
Income taxes paid		(1,510)	(1,485)
<b>Net cash provided by operating activities</b>	23	14,646	13,854
<b>Cash flows from investing activities</b>			
Payments for capitalised development		(6,730)	(5,655)
Payments for property, plant and equipment		(518)	(397)
Payments for intangible assets		(221)	(243)
Interest received		509	381
<b>Net cash used in investing activities</b>		(6,960)	(5,914)
<b>Cash flows from financing activities</b>			
Proceeds from issuing of shares		248	7
Payment of dividend	19	(7,512)	(4,171)
<b>Net cash used in financing activities</b>		(7,264)	(4,164)
<b>Net increase in cash and cash equivalents</b>		422	3,776
Cash and cash equivalents at 1 July		11,635	8,396
Effects of exchange rate changes on cash		(19)	(537)
<b>Cash and cash equivalents at 30 June</b>	8	12,038	11,635

*The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 37.*

# Notes to the Financial Statements

For the year ended 30 June 2012

## Note 1: Significant accounting policies

Integrated Research Limited (the “Company”) is a company domiciled in Australia. The financial report of the Company for the year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”).

### a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and Interpretations and the Corporations Act 2001. Accounting Standards include Australian Equivalent to International Financial Reporting Standards (“AIFRS”). Compliance with AIFRS ensures the financial statements of the consolidated entity also comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

### b) Basis of Preparation

The financial statements are presented in Australian dollars and are prepared on the historical cost basis, with the exception of cash flow hedges, which are at fair value.

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

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

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

## Note 1: Significant accounting policies (continued)

### Standards and Interpretations issued not yet effective

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

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', AASB 2009-11 and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits'(2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014
At the date of authorisation of the financial statements, the following IASBs were also in issue but not effective, although Australian equivalent Standards have not yet been issued:		
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016
Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (amendments to IFRS 10, IFRS 11 and IFRS 12	1 January 2013	30 June 2014



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

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

### **c) Basis of consolidation**

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

Intragroup balances and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

### **d) Foreign currency**

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

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

### **e) Derivative financial instruments**

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

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

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

### **f) Hedging**

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

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

### **g) Property, plant and equipment**

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

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

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

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

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

### **h) Intangible Assets**

#### *Research and development*

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

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

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

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

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

### **h) Intangible Assets**

#### *Intellectual property*

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

#### *Computer software*

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

### **i) Trade and other receivables**

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

Allowance for returns is offset against trade receivables for estimated warranty claims based upon historical experience.

### **j) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **k) Impairment**

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

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

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

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

### **l) Employee benefits**

#### *Superannuation*

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

#### *Long-term service benefits*

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

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

### **l) Employee benefits (continued)**

#### *Share-based payment transactions*

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

#### *Wages, salaries, annual leave, and non-monetary benefits*

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

### **m) Provisions**

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

### **n) Trade and other payables**

Trade and other payables are stated at their amortised cost.

### **o) Revenue**

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

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

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

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

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

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

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

### **p) Expenses**

#### *Operating lease payments*

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

#### *Financing income*

Financing income comprises interest receivable on funds invested.

### **q) Income tax**

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

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

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

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

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

### **r) Goods and Services Tax**

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

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

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

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

### **s) Significant accounting judgements, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### *Intangible assets*

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

#### *Share based payment transactions*

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

#### *Receivables*

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

## **Note 2. Segment reporting**

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

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

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

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

## Note 2. Segment reporting (continued)

	Americas		Europe		Asia Pacific		Corporate Australia*		Eliminations		Consolidated	
In thousands of AUD	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Sales to customers outside the consolidated entity	31,890	26,706	7,183	7,099	8,668	8,858	867	1,929	-	-	48,608	44,592
Inter-segment sales	-	-	-	-	-	-	26,594	23,890	(26,594)	(23,890)	-	-
Total segment revenue	31,890	26,706	7,183	7,099	8,668	8,858	27,461	25,819	(26,594)	(23,890)	48,608	44,592
Total revenue											48,608	44,592
Segment results	784	777	175	168	244	225	9,856	8,143	-	-	11,059	9,313
Results from operating activities											11,059	9,313
Financing income											509	381
Income tax expense											(2,533)	(2,229)
Profit for the year											9,035	7,465
Capital additions**	203	61	32	37	-	-	504	542	-	-	739	640
Depreciation and amortisation expenditure	67	63	20	20	-	-	7,402	6,478	-	-	7,489	6,561
Non-current assets	1,048	822	108	93	-	-	17,478	17,926	(54)	(54)	18,580	18,787

	Americas (USD)		Europe (UK Sterling)	
In thousands of local currency***	2012	2011	2012	2011
Sales to customers outside the consolidated entity	33,137	26,489	4,687	4,416
Inter-segment sales	-	-	-	-
Total segment revenue	33,137	26,489	4,687	4,416
Segment results	825	662	114	110

\* Corporate Australia includes both the research and development and corporate head office functions of the Company.

\*\* Excludes internal development costs capitalised but includes third party assets acquired.

\*\*\* Segment results represented in local currencies as reviewed by the Chief Operating Decision Maker



### Note 3. Finance income

In thousands of AUD	Consolidated	
	2012	2011
Interest income	509	381
	509	381

### Note 4. Expenses

Total expenses include:

In thousands of AUD	Consolidated	
	2012	2011
Employee benefits expense:		
Defined contribution plans	1,382	1,150
Equity settled share-based payments	127	(89)
Other employee benefits	25,316	23,350
	26,825	24,411
Depreciation and amortisation	7,489	6,561
Bad and doubtful debt expense	572	227
Operating lease rental expenses	1,207	1,258

### Note 5. Auditors' remuneration

2012 and 2011 – Deloitte Touche Tohmatsu

In AUD	Consolidated	
	2012	2011
Remuneration for audit and review of the financial reports of the Company or any entity in the consolidated entity:		
Audit and review of financial reports:		
Auditors of the company	168,000	163,760
Other auditors	15,530	15,308
Remuneration for other services by the auditors of the Company or any entity in the consolidated entity:		
Taxation services:		
Auditors of the company	16,800	15,750
Other auditors	1,932	1,531
Other services:		
Other auditors	3,523	-

## Note 6. Income tax expense

### Recognised in profit for the year

In thousands of AUD	Note	Consolidated	
		2012	2011
Current tax expense:			
Current year		2,326	2,752
Prior year adjustments		(24)	(69)
		2,302	2,683
Deferred tax expense:			
Origination and reversal of temporary differences	13	231	(454)
Total income tax expense in profit and loss		2,533	2,229

### Numerical reconciliation between income tax expense and profit before tax

In thousands of AUD	Consolidated	
	2012	2011
Profit before tax	11,568	9,694
Income tax using the domestic corporate tax rate of 30%	3,470	2,908
Increase in income tax expense due to:		
Non-deductible expenses	79	11
Effect of tax rates in foreign jurisdictions	105	69
Decrease in income tax expense due to:		
R&D tax incentive	(1,097)	(751)
Other	-	61
Prior year adjustments	(24)	(69)
Income tax expense	2,533	2,229

## Note 7. Earnings per share

The calculation of basic and diluted earnings per share at 30 June 2012 was based on the profit attributable to ordinary shareholders of \$9,035,000 (2011: \$7,465,000); a weighted number of ordinary shares outstanding during the year ended 30 June 2012 of 166,977,446 (2011: 166,837,850); and a weighted number of ordinary shares (diluted) outstanding during the year ended 30 June 2012 of 168,086,211 (2011: 167,055,263), calculated as follows:

In thousands of AUD	Consolidated	
	2012	2011
Profit for the year	9,035	7,465

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

(Number)	Consolidated	
	2012	2011
Number for basic earnings per share:		
Ordinary shares	166,977,446	166,837,850
Effect of employee share plans on issue	1,108,765	217,413
Number for diluted earnings per share	168,086,211	167,055,263
Basic earnings per share (AUD cents)	5.41¢	4.47¢
Diluted earnings per share (AUD cents)	5.38¢	4.47¢

## Note 8. Cash and cash equivalents

In thousands of AUD	Consolidated	
	2012	2011
Cash at bank and on hand	12,038	11,635

## Note 9. Trade and other receivables

### Current

In thousands of AUD	Consolidated	
	2012	2011
Trade debtors	21,878	14,620
Less: Allowance for doubtful debts	(516)	(244)
Less: Allowance for returns	(721)	(418)
	20,641	13,958
GST receivable	84	100
	20,725	14,058

### Non-current

In thousands of AUD	Consolidated	
	2012	2011
Trade debtors	656	1,018

The credit period on sales ranges from 30 to 90 days although in limited circumstances extended payment terms have been offered. No interest is charged on trade debtors.

Ageing of past due but not impaired:

In thousands of AUD	Consolidated	
	2012	2011
Past due 90 days	3,772	2,637

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

In thousands of AUD	Consolidated	
	2012	2011
Balance at beginning of year	244	470
Amounts written off during the year	(300)	(453)
Increase in provision	572	227
Balance end of year	516	244

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

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

Included in the consolidated entity's trade receivable balance are debtors with a carrying amount of \$2,535,000 (2011: \$1,975,000) which are 90 days past due at the reporting date which the consolidated entity has not provided for as there has been no significant change in credit quality and the consolidated entity believes that the amounts are still considered recoverable. The consolidated entity does not hold any collateral over these balances.

## Note 10. Other current assets

In thousands of AUD	Consolidated	
	2012	2011
Other prepayments	676	463
Fair value of hedge asset – forward foreign exchange contracts	277	666
	953	1,129

## Note 11. Other financial assets

In thousands of AUD	Consolidated	
	2012	2011
Deposits	1,802	1,800

Deposits are term deposits which are held to secure a bank guarantee on leased premises and a foreign exchange facility.

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

## Note 12. Property, plant and equipment

Plant and Equipment In thousands of AUD	Consolidated	
	2012	2011
At cost	4,321	3,844
Accumulated depreciation	(3,458)	(3,052)
	863	792

Leasehold Improvements In thousands of AUD	Consolidated	
	2012	2011
At cost	2,068	1,993
Accumulated depreciation	(1,111)	(910)
	957	1,083

Total property, plant and equipment In thousands of AUD	Consolidated	
	2012	2011
At cost	6,389	5,837
Accumulated depreciation	(4,569)	(3,962)
Total written down amount	1,820	1,875

## Note 12. Property, plant and equipment (continued)

<b>Plant and Equipment</b> <b>In thousands of AUD</b>	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
Carrying amount at start of year	792	788
Additions	445	397
Effects of foreign currency exchange	6	(36)
Depreciation expense	(380)	(357)
Carrying amount at end of year	863	792

<b>Leasehold Improvements</b> <b>In thousands of AUD</b>	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
Carrying amount at start of year	1,083	1,276
Additions	73	-
Effects of foreign currency exchange	(1)	6
Depreciation expense	(198)	(199)
Carrying amount at end of year	957	1,083

## Note 13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<b>Consolidated</b> <b>In thousands of AUD</b>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Property, plant and equipment	-	-	50	-	(50)	-
Intangible assets	-	-	4,063	4,021	(4,063)	(4,021)
Trade and other payables	468	567	-	-	468	567
Employee benefits	772	596	-	-	772	596
Provisions	364	243	-	-	364	243
Other current liabilities	-	-	-	-	-	-
Unrealised foreign exchange gain	-	-	41	-	(41)	-
Unrealised foreign exchange loss	-	296	-	-	-	296
Deferred tax assets/liabilities	1,604	1,702	4,154	4,021	(2,550)	(2,319)
Set off of deferred tax asset	(1,151)	(1,416)	(1,151)	(1,416)	-	-
Net deferred tax assets/liabilities	453	286	3,003	2,605	(2,550)	(2,319)

## Note 13. Deferred tax assets and liabilities (continued)

### Movement in temporary differences during the year:

**For year ended 30 June 2012**

**In thousands of AUD**

	<b>Consolidated</b>			
	<b>Balance 1 July 11</b>	<b>Recognised in income</b>	<b>Recognised in equity</b>	<b>Balance 30 June 12</b>
Property, plant and equipment	-	(50)	-	(50)
Intangible assets	(4,021)	(42)	-	(4,063)
Trade and other payables	567	(99)	-	468
Employee benefits	596	176	-	772
Provisions	243	121	-	364
Unrealised foreign exchange gain	-	(41)	-	(41)
Unrealised foreign exchange loss	296	(296)	-	-
	(2,319)	(231)	-	(2,550)

**For year ended 30 June 2011**

**In thousands of AUD**

	<b>Consolidated</b>			
	<b>Balance 1 July 10</b>	<b>Recognised in income</b>	<b>Recognised in equity</b>	<b>Balance 30 June 11</b>
Property, plant and equipment	28	(28)	-	-
Intangible assets	(4,185)	164	-	(4,021)
Trade and other payables	339	228	-	567
Employee benefits	510	86	-	596
Provisions	670	(427)	-	243
Unrealised foreign exchange gain	(162)	162	-	-
Unrealised foreign exchange loss	69	269	(42)	296
	(2,731)	454	(42)	(2,319)

## Note 14. Intangible assets

The amortisation is recognised in the following line item in the statement of comprehensive income :

In thousands of AUD	Consolidated	
	2012	2011
Research and development expenses	6,911	6,005
	6,911	6,005

In thousands of AUD	Consolidated		
	Software development	Third party software	Total
Balance at 1 July 2010	28,193	1,551	29,744
Fully amortised & offset	(12,490)	(205)	(12,695)
Effects of foreign currency exchange	-	(44)	(44)
Internally developed	5,655	-	5,655
Acquired	61	181	242
Balance at 30 June 2011	21,419	1,483	22,902
Balance at 1 July 2011	21,419	1,483	22,902
Fully amortised & offset	(7,242)	-	(7,242)
Effects of foreign currency exchange	-	3	3
Internally developed	6,730	-	6,730
Acquired	57	164	221
Balance at 30 June 2012	20,964	1,650	22,614

In thousands of AUD	Consolidated		
	Software development	Third party software	Total
Balance at 1 July 2010	14,684	1,103	15,787
Fully amortised & offset	(12,490)	(205)	(12,695)
Effects of foreign currency exchange	-	(3)	(3)
Amortisation for year	5,821	184	6,005
Balance at 30 June 2011	8,015	1,079	9,094
Balance at 1 July 2011	8,015	1,079	9,094
Fully amortised & offset	(7,242)	-	(7,242)
Effects of foreign currency exchange	-	2	2
Amortisation for year	6,649	262	6,911
Balance at 30 June 2012	7,422	1,343	8,765

Carrying amounts	Consolidated			
	Software development	Patents & trademarks	Third party software	Total
In thousands of AUD				
Balance at 30 June 2011	13,404	-	404	13,808
Balance at 30 June 2012	13,542	-	307	13,849



## Note 15. Trade and other payables

In thousands of AUD	Consolidated	
	2012	2011
Trade and other creditors	4,285	3,365
	4,285	3,365

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

## Note 16. Employee benefits

### Current

In thousands of AUD	Consolidated	
	2012	2011
Liability for annual leave	1,314	1,084
Liability for long service leave	465	444
	1,779	1,528

### Non-current

In thousands of AUD	Consolidated	
	2012	2011
Liability for long service leave	242	149

### Pension plans

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

### Share based payments

#### Performance Rights

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

Grant Date	Type	Number of Rights	Vesting Date	Expiry date
December 2011	Non Executive	887,500	15 Oct 2014	15 Nov 2014
December 2011	Executive	665,000	31 Aug 2014	30 Sep 2014

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

	Executive	Non-Executive
Grant date	30 Dec 11	30 Dec 11
Fair value at measurement date	\$0.38	\$0.38
Share price	\$0.47	\$0.47
Exercise price	nil	nil
Expected volatility	51%	51%
Contractual life (expressed in days)	1,005	1,051
Expected dividends	7.5%	7.5%
Risk-free interest rate (based on 3 year treasury bonds)	3.1%	3.1%

## Note 16. Employee benefits (continued)

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

During the year ended 30 June 2012, the consolidated entity recognised an expense through profit of \$83,000 related to the fair value of performance rights granted (2011: \$nil).

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

In thousands of performance rights	Executive 2012	Non-Executive 2012	Executive 2011	Non Executive 2011
Outstanding at the beginning of the year	-	-	-	-
Forfeited during the year	-	(18)	-	-
Exercised during the year	-	-	-	-
Granted during the year	665	888	-	-
Outstanding at the end of the year	665	870	-	-
Exercisable at the end of the year (vested)	-	-	-	-

### Share Options

On 4 October 2000, the consolidated entity established a share option programme that entitles employees to purchase shares in the entity. In accordance with this programme, options are exercisable at the market price of the shares at the date of grant.

The terms and conditions of the grants made and number outstanding at 30 June 2012 are as follows:

- All options vest at the rate of 25% per annum, starting on the first anniversary of the grant date
- The contractual life of each option is five years from the grant date
- Exercises are settled by physical delivery of shares
- Grants marked (\*) include performance hurdles as conditions for vesting

Grant date	Exercise Price	Number of Instruments Outstanding	Grant date	Exercise Price	Number of Instruments Outstanding
Sep 2007 (*)	\$0.42	1,000,000	Oct 2008 (*)	\$0.31	340,000
Apr 2008 (*)	\$0.38	350,000	May 2009	\$0.28	755,000
Jul 2008 (*)	\$0.35	200,000			

## Note 16. Employee benefits (continued)

The number and weighted average exercise prices of share options is as follows:

	Weighted Average exercise price	Number of options	Weighted Average exercise price	Number of options
In thousands of options	2012	2012	2011	2011
Outstanding at the beginning of the year	\$0.37	3,872	\$0.38	5,420
Forfeited during the year	\$0.42	(572)	\$0.42	(1,523)
Exercised during the year	\$0.38	(655)	\$0.28	(25)
Granted during the year	\$-	-	\$-	-
Outstanding at the end of the year	\$0.36	2,645	\$0.37	3,872
Exercisable at the end of the year (vested)	\$0.35	1,289	\$0.38	1,429

The options outstanding at 30 June 2012 have a weighted average exercise price of \$0.36 and a weighted average of contractual life of five years from inception.

During the year ended 30 June 2012, 654,500 options were exercised (2011: 25,000).

The fair values of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Binomial option-pricing model. The contractual life of the option (five years) is used as an input into this formula. Expectations of early exercise are incorporated into the Binomial formula.

There were no options granted during the 2012 financial year (2011:nil).

During the year ended 30 June 2012, the consolidated entity recognised an expense through profit of \$44,000 related to the fair value of options granted (2011: credit of \$89,000).

## Note 17. Provisions

### Current

In thousands of AUD	Note	Consolidated	
		2012	2011
Employee benefits	16	1,779	1,528
		1,779	1,528

### Non-current

In thousands of AUD	Note	Consolidated	
		2012	2011
Employee benefits	16	242	149
Lease make good		379	379
		621	528

## Note 18. Other liabilities

### Current

In thousands of AUD	Consolidated	
	2012	2011
Fair value of hedge liabilities - forward foreign exchange contracts	102	18
Deferred revenue	9,730	8,719
	9,832	8,737

### Non-Current

In thousands of AUD	Consolidated	
	2012	2011
Deferred revenue	2,053	540

## Note 19. Capital and reserves

### Share capital

In thousands of shares	Ordinary shares	
	2012	2011
On issue 1 July	166,852	166,827
Issued against employee options exercised	655	25
On issue 30 June	167,507	166,852

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

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

### Hedging reserve

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

### Translation reserve

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

### Employee benefit reserve

The employee benefit reserve arises on the grant of either share options or performance rights to employees under the Integrated Research Performance Rights and Option Plan (established November 2011) or the Employee Share Option Plan (established October 2000). Amounts are transferred out of the reserve and into share capital when the options or performance rights are exercised. Refer to note 16 for further details.

## Note 19. Capital and reserves (continued)

### Dividends

Dividends recognised in the current year by the company are:

In thousands of AUD	Cents per share	Total amount	Franked/unfranked	Date of payment
<b>2012</b>				
Final 2011	2.5	4,172	75% franked	16 Sep 2011
Interim 2012	2.0	3,340	40% franked	16 Mar 2012
Total amount		7,512		
<b>2011</b>				
Final 2010	1.0	1,668	45% franked	17 Sep 10
Interim 2011	1.5	2,503	50% franked	11 Mar 11
Total amount	2.5	4,171		

After the end of the financial year, the following dividend was proposed by the directors. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial statements:

In thousands of AUD	Cents per share	Total amount	Franked/unfranked	Date of payment
Final 2012	3.0	5,033	70% franked	14 Sep 12

The final dividend declared of 3.0 cents together with the interim dividend paid in March 2012 of 2.0 cents takes total dividends for the 2012 financial year to 5.0 cents.

### Franking account disclosure:

In thousands of AUD	Company	
	2012	2011
Adjusted franking account balance	1,669	1,446
Impact on franking account balance of dividends not recognised	(1,510)	(1,340)

## **Note 20. Financial instruments**

### **Capital risk management**

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

The capital structure of the consolidated entity consists of cash and cash equivalents and equity attributable to equity holders of the company, comprising issued capital, reserves, and retained earnings as disclosed in Notes 8 and 19 respectively.

### **Significant accounting policies**

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

### **Financial risk management objectives**

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

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

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

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

### **Market risk**

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

## Note 20. Financial instruments (continued)

### Foreign currency risk management

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

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

In thousands of AUD	Consolidated			
	Liabilities		Assets	
	2012	2011	2012	2011
US Dollar	-	-	3,400	1,700
Euro	-	-	2,507	1,611
UK Sterling	-	-	9	9

### Foreign currency sensitivity

At 30 June 2012, if the US Dollar, Euro and UK sterling weakened against the Australian dollar by the percentage shown, with all other variables held constant, net profit for the year would increase (decrease) by:

In thousands of AUD	Consolidated					
	US Impact		Euro Impact		Sterling Impact	
	2012	2011	2012	2011	2012	2011
Net profit	378	189	279	179	1	1
Retained earnings	378	189	279	179	1	1
Change in currency (i) – 10% decrease						

(i) This has been based on the change in the exchange rate against the Australian dollar in the financial years ended 30 June 2012 and 30 June 2011.

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

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

## Note 20. Financial instruments (continued)

### Forward foreign exchange contracts

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

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

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

Outstanding contracts	Average Exchange Rate		Foreign Currency		Contract Value		Fair Value	
	2012	2011	2012 FC'000	2011 FC'000	2012 A\$'000	2011 A\$'000	2012 A\$'000	2011 A\$'000
<b>Consolidated</b>								
Sell US Dollar								
Less than 3 months	1.01	0.89	3,500	2,650	3,468	2,981	8	487
3 to 6 months	1.01	0.99	2,250	1,600	2,228	1,619	(11)	98
6 to 9 months	1.01	1.02	3,250	1,100	3,205	1,082	(51)	26
9 to 12 months	-	1.01	-	1,500	-	1,481	-	25
 Sell UK Sterling								
Less than 3 months		-		-		-		-
 Sell Euros								
Less than 3 months	0.71	0.71	1,100	300	1,540	420	168	12
3 to 6 months	0.71	0.73	300	300	424	409	47	(3)
6 to 9 months	0.76	0.72	300	400	395	559	14	5
9 to 12 months	-	0.72	-	200	-	277	-	(2)
							175	648

These hedge assets are classified as a level 2 fair value measurement, being derived from inputs rather than quoted prices that are observable for the asset either directly (ie as prices) or indirectly (ie derived from prices).

### Interest rate risk management

The consolidated entity is exposed to interest rate risk on the cash held in bank deposits. Cash in bank and term deposits of \$13,840,000 were held by the consolidated entity at the reporting date, attracting an average interest rate of 4.2% (2011: 4.6%) If interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's net profit would increase/(decrease) by \$69,000 (2011: \$67,000).

### Credit risk management

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

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any consolidated entity of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.



## Note 20. Financial instruments (continued)

### Liquidity risk management

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

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

All creditor and other payables shown in Note 15 for both 2012 and 2011 carry no interest obligation and have a maturity of less than three months.

### Fair value of financial instruments

The carrying value of financial assets and financial liabilities of the consolidated entity is a reasonable approximation of their fair value.

## Note 21. Operating leases

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

In thousands of AUD	Consolidated	
	2012	2011
Less than one year	1,140	1,004
Between one and five years	3,303	3,648
Greater than five years	-	542
	4,443	5,194

## Note 22. Consolidated entities

	Country of incorporation	Ownership interest	
		2012	2011
<i>Parent entity:</i>			
Integrated Research Limited	Australia		
<i>Subsidiaries:</i>			
Integrated Research, Inc	USA	100%	100%
Integrated Research UK Limited	UK	100%	100%

## Note 23. Reconciliation of cash flows from operating activities

In thousands of AUD	Consolidated	
	2012	2011
Profit for the year	9,035	7,465
Depreciation and amortisation	7,489	6,561
Provision for doubtful debts	272	(226)
Allowance for returns	303	(655)
Interest received	(509)	(381)
Share-based payments expense	127	(89)
Net exchange differences	117	181
<i>Change in operating assets and liabilities:</i>		
(Increase)/decrease in trade debtors	(6,880)	1,867
(Increase)/decrease in future income tax benefit	(167)	456
(Increase)/decrease in other operating assets	580	(538)
Increase/(decrease) in trade and other payables	920	275
Increase/(decrease) in other operating liabilities	2,628	(1,703)
Increase/(decrease) in provision for income taxes payable	(11)	1,453
Increase/(decrease) in provision for deferred income taxes	398	(868)
Increase/(decrease) in other provisions	344	56
Net cash from operating activities	14,646	13,854

## Note 24. Key management personnel disclosures

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

### **Directors (full year)**

Steve Killelea – Chairman  
Mark Brayan – Chief Executive Officer  
Alan Baxter  
John Brown  
Kate Costello  
Peter Lloyd  
Clyde McConaghy

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

Peter Adams - Chief Financial Officer  
Alex Baburin - GM – Research & Development  
Andre Cuenin – President Americas  
David Leighton - Company Secretary (retired July 2012)  
Pierre Semaan - Vice President – Asia Pacific  
Brian Bigley – Vice President – Europe

### **Other key management personnel (part year)**

Geoff Bryant – Vice President Consulting (resigned Nov 2011)  
Andrew Levido- GM - Global Sales (Appointed May 2012)

## Note 24. Key management personnel disclosures (continued)

### Individual directors and executives compensation disclosures

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

### Key management personnel transactions with the consolidated entity

It is the consolidated entity's policy that service contracts for executive directors and senior executives be unlimited in term but capable of termination by either party on one months notice and that the consolidated entity retains the right to terminate the contract immediately by payment in lieu of notice or a severance payment or an amount for redundancy equal to the scale of payments prescribed in the NSW Employment Protection Act.

### Equity instruments

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

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

### Options over equity instruments granted as compensation

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

	Held at 1 July 2011	Granted as compensation	Exercised	Other changes*	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
<b>Current Year</b>							
<b>Directors</b>							
Mark Brayan	1,000,000	-	-	-	1,000,000	250,000	500,000
<b>Executives</b>							
Peter Adams	350,000	-	-	-	350,000	87,500	87,500
Alex Baburin	200,000	-	-	(160,000)	40,000	10,000	10,000
Andre Cuenin	300,000	-	-	-	300,000	75,000	75,000
Pierre Semaan	200,000	-	-	-	200,000	50,000	50,000
John Dunne	50,000	-	(35,000)	-	15,000	7,500	7,500
	Held at 1 July 2010	Granted as compensation	Exercised	Other changes*	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
<b>Prior Year</b>							
<b>Directors</b>							
Mark Brayan	1,000,000	-	-	-	1,000,000	-	250,000
<b>Executives</b>							
Peter Adams	350,000	-	-	-	350,000	-	-
Alex Baburin	200,000	-	-	-	200,000	-	-
Andre Cuenin	300,000	-	-	-	300,000	-	-
Rick Ferguson	300,000	-	-	(300,000)	-	-	-
Pierre Semaan	200,000	-	-	-	200,000	-	-
John Dunne	50,000	-	-	-	50,000	-	35,000

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

There were no options granted as compensation during the current year.

25% of options granted vest annually on the anniversary of the grant date, and may also be subject to the consolidated entity achieving certain performance hurdles. Options expire on the earlier of their expiry date or termination of the individual's employment. No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

## Note 24. Key management personnel disclosures (continued)

### Performance rights over equity instruments granted as compensation

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

Current Year	Held at 1 July 2011	Granted as compensation	Exercised	Other changes*	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
<b>Directors</b>							
Mark Brayan	-	170,000	-	-	170,000	-	-
<b>Executives</b>							
Peter Adams	-	100,000	-	-	100,000	-	-
Alex Baburin	-	75,000	-	-	75,000	-	-
Brian Bigley	-	65,000	-	-	65,000	-	-
Andre Cuenin	-	75,000	-	-	75,000	-	-
Pierre Semaan	-	65,000	-	-	65,000	-	-
John Dunne	-	75,000	-	-	75,000	-	-

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

The performance rights offered to executives are subject to the consolidated entity achieving profit after tax performance hurdles. The next available testing date is August 2014. Performance rights expire on the earlier of their expiry date or termination of the individual's employment. No performance rights have been granted since the end of the financial year. The performance rights were provided at no cost to the recipients.

There were no performance rights granted in the 2011 financial year.

## Note 24. Key management personnel disclosures (continued)

### Movements in shares

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

<b>Current Year</b>	<b>Held at 1 July 2011</b>	<b>Purchases</b>	<b>Received on exercise of options</b>	<b>Received as compensa- tion</b>	<b>Sales</b>	<b>Held at 30 June 2012</b>
<b>Directors</b>						
<i>Non-executive</i>						
Alan Baxter	100,000	-	-	-	-	100,000
John Brown	101,000	-	-	-	-	101,000
Kate Costello	200,000	-	-	-	-	200,000
Steve Killelea	94,834,951	-	-	-	-	94,834,951
<i>Executive</i>						
Mark Brayan	25,000	-	-	-	-	25,000

<b>Prior Year</b>	<b>Held at 1 July 2010</b>	<b>Purchases</b>	<b>Received on exercise of options</b>	<b>Received as compensa- tion</b>	<b>Sales</b>	<b>Held at 30 June 2011</b>
<b>Directors</b>						
<i>Non-executive</i>						
Alan Baxter	-	100,000	-	-	-	100,000
John Brown	101,000	-	-	-	-	101,000
Kate Costello	200,000	-	-	-	-	200,000
Steve Killelea	94,834,951	-	-	-	-	94,834,951
<i>Executive</i>						
Mark Brayan	25,000	-	-	-	-	25,000

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

### Other transactions with the consolidated entity

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

## Note 25. Related parties

The consolidated entity has a related party relationship with its key management personnel (see note 24).

At 30 June 2012 Mr Steve Killelea, the Chairman of the Company, owned either directly or indirectly 56.41% of the Company (2011: 56.84%).

## Note 26. Parent entity disclosures

### Financial Position

In thousands of AUD	Parent Entity	
	2012	2011
Assets		
Current assets	19,055	20,810
Non-current assets	17,479	17,926
Total Assets	36,534	38,736
Liabilities		
Current Liabilities	6,672	10,488
Non-current liabilities	3,861	3,434
Total Liabilities	10,533	13,922
Net Assets	26,001	24,814
Equity		
Issued Capital	1,175	845
Employee benefits Reserve	276	266
Hedging reserve	-	147
Retained Earnings	24,550	23,556
Total Equity	26,001	24,814

### Financial Performance

In thousands of AUD	Parent Entity	
	2012	2011
Profit for the year	8,470	6,864
Other comprehensive income	(147)	245
Total comprehensive income	8,323	7,109

## Note 27. Subsequent events

For dividends declared after 30 June 2012 see Note 19 in the financial statements. The financial effect of dividends declared and paid after 30 June 2012 have not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial reports.

No other transaction or event of a material or unusual nature has arisen in the interval between the end of the financial year and the date of this report, which is likely, in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.