

# **Integrated Research Limited**

and its controlled entities

ABN: 76 003 588 449

## *Annual Report - 30 June 2012*

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## **Review of operations and activities**

### **Principal activities**

The Company's principal activities during the year were the design, development, implementation and sale of systems and applications management computer software for business-critical computing and Unified Communication networks.

### **Group overview**

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

Since its establishment in 1988, the Company has provided its core PROGNOSIS products to a cross section of large organisations requiring high levels of computing performance and reliability.

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

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

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

The Company generates most of its revenue from licence fees, recurring maintenance and consulting services.

### **Review and results of operations**

The Company achieved a 21% increase in annual after tax profit over the prior year to \$9.0 million, which is within the guidance provided to the Australian Stock Exchange on July 6, 2012. Total revenue increased by 9% over the prior year, to \$48.6 million. The growth in revenue was brought about by strong licence sales in both Unified Communications and Payments product lines. In constant currency, revenue grew by 13% compared to the prior year.

#### *Revenue*

Revenue for the year was \$48.6 million, an increase of 9% over 2011. Licence fees increased by 15% and whilst maintenance fees decreased by 3% over the prior year it increased by 2% using a constant currency. The customer retention rate was 91% for the year ending June 2012.

In underlying natural currency revenue grew in the Americas by 25% and Europe by 6%. Asia Pacific revenue was relatively flat compared to the prior year.

Revenue derived from the Company's UC products continued its strong growth. Even with the stronger Australian dollar, new licence sales for UC were up 26% over the prior year with strong growth driven by the Americas.

Licence sales derived from HP NonStop remained stable with growth of 2% of the previous corresponding period. Revenue from consulting services increased by 26% over the prior year to \$3.3 million and made a contribution of \$0.7 million to the group results.

## Review of operations and activities (continued)

### Expenses

The Company continued to focus on expanding its capabilities and improving productivity. The number of staff at the end of the current year was 186 (2011: 162). Total expenses were \$37.4 million, up 10% against the prior year with a higher investment in sales and marketing.

Research and development expenditure of \$10.1 million was 21% of total revenue and in line with historical averages. The company is committed to maintaining and improving its core strategic strength and we expect a comparable level of investment in research and development in the future.

Net research and development expenses are represented as follows:

<b>In thousands of AUD</b>	<b>2012</b>	<b>2011</b>
Gross research and development spending	10,215	8,924
Capitalisation of development expenses	(6,730)	(5,655)
Amortisation of capitalised expenses	6,649	5,680
<b>Net research and development expenses</b>	<b>10,134</b>	<b>8,949</b>

### Shareholder returns

Returns to shareholders increased through the payment of partly franked dividends:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net profit (\$'000)	\$9,035	\$7,465	\$5,401
Basic EPS	5.41¢	4.47¢	3.24¢
Dividends per share	5.0¢	4.0¢	3.0¢
Return on equity	31%	27%	22%

### Financial position

The consolidated entity continues to hold a strong financial position being free of debt and with cash at 30 June 2012 of \$12.0 million, compared to \$11.6 million at the same time last year. Net cash flow provided by operating activities increased 6% over the equivalent prior year to \$14.6 million.

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net cash flow provided by operating activities (\$'000)	\$14,646	\$13,854	\$8,339
Current ratio (current assets to current liabilities)	1.93	1.80	1.57
Net tangible asset backing per ordinary share	9.18¢	8.12¢	6.32¢

### **Outlook and Strategy for 2013**

The Company provides performance management solutions based on its Prognosis software for mission-critical computing environments.

Prognosis derives its competitive advantage from its unique design which enables real time monitoring, is extremely scalable, highly flexible and provides very deep visibility into the systems and applications that it manages. As such, Prognosis is ideally suited to complex, high transaction and high traffic environments.

Through deep forensic analysis into the root cause of problems and extensive reporting on service levels, Prognosis enables proactive and rapid resolution of issues, and capacity and operational planning.

This provides insight into potential issues before they become business critical. Prognosis helps users improve their operational maturity by proactively minimizing expensive outages, improving user satisfaction and optimizing IT operations and resources.

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

The Company currently focuses on three core markets: Infrastructure, Communications and Payments.

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

The Communications segment includes users of IP Telephony and Unified Communications (UC) applications such as video, messaging, mobility and presence. The Company anticipates growth in this segment through the ongoing shipment of IP phones and endpoints as well as the increasing value per endpoint through the use of UC applications. UC networks are becoming more pervasive, more critical and more complex and as such they require effective performance management and Prognosis is strongly positioned to benefit from this need. The company will continue to invest in R&D to expand the suite of Prognosis for UC products to cover more platforms, vendors and applications, and by doing so increase the Company's addressable market and revenue potential.

The Company has expanded its suite of Payments products by adding new products for additional platforms, vendors and applications, including fraud management and wholesale money transfer applications. This expands the company's addressable market in the Payments segment and increases revenue potential. The Company will maintain this strategy in the Payments market. Our strategic alliance with ACI, the world's largest payments software vendor, has delivered revenue in FY2012 and continues to be an important channel to market for the Company.

Consulting Services provide Prognosis customers with implementation, customisation and training services to ensure that they get the most out of their investment in Prognosis. Consulting Services also help IR develop unique and repeatable solutions that extend the use and value of Prognosis. Consulting Services achieved profitability in FY2012 and the Company will continue to invest in people and processes to grow consulting revenue and margin.

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

## Directors and senior management

### Directors

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

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

*Non-Executive Director and Chairman*

Steve founded Integrated Research in August 1988 and held the position of Managing Director and Chief Executive Officer until retiring from his executive position in November 2004. He was appointed as a Non-Executive Director in November 2004 and elected Chairman in July 2005. Steve is also Chairman of the Institute for Peace and Economics and The Charitable Foundation and for activities involved with these he has received a number of international awards. He is also active in the financial community with investments in many high tech companies. Steve's current term will expire no later than the close of the 2012 Annual General Meeting.

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

Age 63 years.

#### **Mark Brayan, MBA**

*Managing Director and Chief Executive Officer*

Mark Brayan joined Integrated Research in September 2007 and is responsible for the overall strategy and leadership of the Company. Mark has over twenty years experience in the software industry. Prior to joining Integrated Research he was COO of outsourcer Talent2 and previously CEO of the listed software company Concept Systems before its merger with Talent2. Mark has a strong understanding of the systems management market through his time with BMC Software. As Managing Director, Mark is not required to seek re-election to the Board.

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

Age 48 years.

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

*Independent Non-Executive Director*

Alan was appointed as a Director in June 2009. Alan has over forty years experience in Information Technology covering a broad range of the industry's activities. These include many years in a variety of roles with IBM Australia, CEO of DMR Consulting in Australia and COO of Fujitsu Consulting's global operations from London. He was non-executive Chairman of Fujitsu Australia & New Zealand, a director of Mincom Ltd, non-executive Chairman of Konekt Limited and also of Innogence Limited. He is a non-executive director of CPT Global, a publicly listed technology consulting company. Alan's current term will expire no later than the close of the 2012 Annual General Meeting.

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

Age 67 years.

#### **John Brown, B Com, FCA, MAICD**

*Independent Non-Executive Director*

John was appointed a Director in July 2007. He was a partner with KPMG for over 26 years and since retiring in 2006 has been appointed to be the chair or member of the audit committee of a number of NSW and Federal public sector entities. John is also a Director and Chair of the Audit Committee of Sydney Water Corporation, a member of the National Health and Research Medical Council and a Director of The Gift Of Life Foundation. John's current term will expire no later than the close of the 2013 Annual General Meeting.

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

Age 64 years.

#### **Kate Costello, LLB, FAICD**

*Independent Non-Executive Director*

Kate was appointed as a Director in August 2005. She is a lawyer and has over twenty years experience in corporate governance and strategy development. She is also a Director of Governance Matters Pty Ltd, listed company, LBT Innovations Ltd, and a number of other private companies. Kate's current term will expire no later than the close of the 2014 Annual General Meeting.

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

Age 59 years.

## **Directors (continued)**

**Clyde McConaghy**, B.Bus., MBA, MAICD, MIOD - UK

*Non-Executive Director*

Clyde was appointed a Director in December 2007. He has two decades of international strategic market development experience in the technology, media and publishing industries. Clyde was a board director of WMRC Plc, an economic analysis publisher, on the London Stock Exchange and a director of the Economist Intelligence Unit in London. Clyde is managing director of Smarter Capital Pty Limited, another company associated with Mr Steve Killelea, Chairman of Integrated Research. Clyde's current term will expire no later than the close of the 2014 Annual General Meeting.

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

Age: 50 years.

**Peter Lloyd**

*Non-Executive Director*

Peter was appointed a Director in July 2010. He has 39 years experience in computing technology, having worked for both computer hardware and software solution providers. For the past 26 years Peter has been specifically involved in the provision of payments solutions for the financial services industry. Peter is currently the global sales and marketing Director for Distra Pty Ltd a provider of payments systems. He is also a Director of The Grayrock Group Pty Ltd and Limehouse Creative Pty Ltd. Peter's current term will expire no later than the close of the 2013 Annual General meeting.

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

Age: 58 years

## **Company Secretaries**

**David Leighton**, MBA, FCPA, ACIS

David is a member of Chartered Secretaries Australia. David has been Company Secretary from October 2000 up to his retirement in July 2012.

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

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

## Senior management

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

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

### **Alex Baburin, B.App. Sc - General Manager, Research and Development**

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

### **Brian Bigley - Vice President Europe**

Brian joined Integrated Research in September 2009 and was responsible for all business operations in Europe until recently returning to Integrated Research in the United States to take up a senior role. Brian has over 25 years of experience in the computer industry including Compaq Computer, Siemens, CA (previously known as Computer Associates) HP and start-ups as a sales and marketing executive. Brian has held CEO, President and Sr. Vice President roles during his career.

### **Andre Cuenin, BSc, MBA – President Americas**

Andre joined Integrated Research in October 2008 and is responsible for all business operations in the Americas region. Andre has over 20 years experience in IT sales, most recently as VP of Field Operations at Stratavia, where he was responsible for sales and professional services marketing worldwide. Prior to this he spent 15 years with CA (previously known as Computer Associates) in several senior management positions including VP of Worldwide Sales Operations.

### **John Dunne, B.InfTech, MBT - General Manager, Products & Alliances**

John is responsible for the company's global product strategy and alliances, ensuring the delivery of high-quality products aligned to customers' strategic directions. He is an expert in systems monitoring and management with 15 years experience in the ICT industry, including seven years with Integrated Research. His current focus includes development of enterprise-class IP telephony management and reporting solutions to deliver business insight to global organizations and service providers.

### **Andrew Levido, BEng, MBA - General Manager, Global Sales**

Andrew joined Integrated Research in May 2012 and is responsible for the global sales, pre-sales and consulting operations. He has over 25 years' experience in leadership roles in the technology sector, including senior regional and global roles with Alcatel, Alcatel-Lucent and Technicolor. Andrew has extensive international experience and has lived and worked in various Asian and European countries.

### **Melanie Newman, General Manager – Human Resources**

Melanie is responsible for the Human Resources function at Integrated Research which includes responsibility for aligning Strategic HR initiatives with the Business Strategy to support a high performance culture. Melanie has over 13 years HR Management experience mostly within global organisations in the Information Technology industry.

### **Pierre Semaan, BEng, MBA – Vice President Asia Pacific**

Pierre joined Integrated Research in May 2008 and is responsible for all business operations in the Asia Pacific region. Prior to taking over responsibilities for Asia Pacific in January 2011, Pierre was responsible for the management and strategic direction of all product lines at Integrated Research. Pierre has over 20 years international experience managing teams delivering technology innovations. He was most recently the Senior Vice President of Technology for Sage CRM solutions, which included leading the ACT!, SalesLogix and Mobility R&D organizations. Prior to Sage, Pierre worked at Citrix as the Chief of Operations & Director of the CTO Office and Advanced Products Group.

## Directors' Report

The directors present their report together with the Financial Statements of Integrated Research Limited ("the consolidated entity"), being the Company and its controlled entities, for the year ended 30 June 2012 and the Auditor's Report thereon.

### Results

The net profit of the consolidated entity for the 12 months ended 30 June 2012 after income tax expense was \$9.0 million.

### Dividends

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

		<b>Cents Per share</b>	<b>Total Amount \$'000</b>	<b>Date of Payment</b>
Final 2011 – Ordinary shares	75% franked	2.5	4,172	16 Sep 2011
Interim 2012 – Ordinary shares	40% franked	2.0	3,340	16 Mar 2012
Final 2012 – Ordinary shares	70% franked	3.0	5,033	14 Sep 2012

### Principal activities and review of operations

Detail of the principal activities and review of operations of the consolidated entity are set out on pages 1 to 2.

### Events subsequent to reporting date

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 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.

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.

### Future developments

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

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

### Directors and company secretary

Details of current directors' qualifications, experience, age and special responsibilities are set out on pages 4 to 5. Details of the company secretary and his qualifications are set out on page 5.



## Directors' Report (continued)

### Officers who were previously partners of the audit firm

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

### Directors' meetings

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2012, and the numbers of meetings attended by each director were:

	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings		Strategy Committee Meetings	
	A	B	A	B	A	B	A	B
Alan Baxter	11	12	-	-	5	5	-	-
Mark Brayan	12	12	-	-	-	-	4	4
John Brown	12	12	3	3	-	-	-	-
Kate Costello	12	12	-	-	4	5	4	4
Steve Killelea	10	12	-	-	4	5	4	4
Peter Lloyd	12	12	3	3			4	4
Clyde McConaghy	12	12	3	3	-	-	-	-

**A:** Number of meetings attended.

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

### State of affairs

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

### Environmental regulation

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

### Directors' interests

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

	Ordinary shares in Integrated Research			Options	Performance rights
	Directly held	Beneficially held	Total	Number of Options	Number of Rights
Alan Baxter	-	100,000	100,000	-	-
Mark Brayan	250,000	25,000	275,000	750,000	170,000
John Brown	101,000	-	101,000	-	-
Kate Costello	-	200,000	200,000	-	-
Steve Killelea	94,497,339	337,612	94,834,951	-	-
Clyde McConaghy	-	-	-	-	-
Peter Lloyd	-	-	-	-	-

## Directors' Report (continued)

### Share options and performance rights

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

On 21 November 2011, the consolidated entity established a new performance rights and options plan. Details of the plan are summarised in note 16 to the financial statements.

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

	Number of performance rights granted	Exercise price	Expiry date
<b>Directors</b>			
Mark Brayan	170,000	Nil	Sep 2014
<b>Executive Officers</b>			
Peter Adams	100,000	Nil	Sep 2014
Alex Baburin	75,000	Nil	Sep 2014
Brian Bigley	65,000	Nil	Sep 2014
Andre Cuenin	75,000	Nil	Sep 2014
John Dunne	75,000	Nil	Sep 2014
Pierre Semaan	65,000	Nil	Sep 2014

The performance rights were granted under the Integrated Research Performance Rights and Option Plan (established November 2011). The performance rights vest on 31 August 2014 subject to the consolidated entity achieving certain performance hurdles. The performance rights are automatically exercised upon vesting. The Company will issue shares upon vesting conditions being met for Executive Officers. The Company will make an on-market purchase for Mr Brayan upon his vesting conditions being satisfied.

#### Unissued shares under option and performance rights

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

Options			Performance Rights		
Expiry date	Exercise price	Number of shares	Expiry date	Exercise price	Number of shares
Sep 2012	\$0.42	750,000	Sept 2014	Nil	495,000
Mar 2013	\$0.38	350,000	Nov 2014	Nil	869,500
July 2013	\$0.35	200,000			
Oct 2013	\$0.31	340,000			
May 2014	\$0.28	735,000			
Total options		2,375,000	Total performance rights		1,364,500

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

## **Directors' Report (continued)**

### **Shares issued on the exercise of options**

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

<b>Number of shares</b>	<b>Amount paid on each share</b>
347,500	\$0.28
327,000	\$0.48
250,000	\$0.42

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

### **Indemnification**

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

### **Insurance**

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

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

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such on officer or auditor.

## **Remuneration report**

The Company's Remuneration Report, which forms part of this Directors' Report, is on pages 12 to 19.

## **Corporate governance**

A statement describing the Company's main corporate governance practices in place throughout the financial year is on pages 20 to 26.

## **Directors' Report (continued)**

### **Non-audit services**

During the year Deloitte Touche Tohmatsu, the Company's auditor, has performed certain other services in addition to their statutory duties.

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

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

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is on page 68 and forms part of the Directors' Report.

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class order, amounts in the Financial Statements and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



Steve Killelea  
Chairman



Mark Brayan  
Chief Executive Officer

Dated at North Sydney this 21st day of August 2012

# Remuneration report

## Remuneration policies

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

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

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

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

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

## Fixed remuneration

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

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

## Performance-linked remuneration

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

### *Short-term incentive bonus*

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

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

## Remuneration Report (continued)

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

### *Long-term incentive*

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

### Consequences of performance on shareholder wealth

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

	2012	2011	2010	2009	2008
New licences	\$28,861,000	\$25,005,000	\$18,413,000	\$21,723,000	\$19,623,000
Net profit	\$9,035,000	\$7,465,000	\$5,401,000	\$7,863,000	\$5,776,000
Dividends paid	\$7,512,000	\$4,171,000	\$7,506,000	\$5,003,000	\$5,826,000
Closing share price	\$0.665	\$0.275	\$0.40	\$0.275	\$0.335
Change in share price	\$0.39	(\$0.125)	\$0.125	(\$0.06)	(\$0.23)

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

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

### Key Management Personnel

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

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

Steve Killelea – Chairman  
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  
Brian Bigley – Vice President – Europe  
Andre Cuenin –President Americas  
John Dunne - GM Products & Alliances  
David Leighton - Company Secretary (retired July 2012)  
Pierre Semaan - Vice President – Asia Pacific

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

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

## **Remuneration Report (continued)**

### **Service agreements**

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

Mr Mark Brayan, Chief Executive Officer, has a contract of employment with Integrated Research Limited dated 29 August 2007, which provides for specific notice and severance undertakings of up to four months compensation depending on the particular circumstances. Mr Brayan can terminate his employment by giving four months prior notice in writing.

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

Brian Bigley, Vice President Europe, has a contract of employment with Integrated Research Limited dated 1 November 2010, which provides for specific notice and severance undertakings of up to one month's compensation depending on the particular circumstances. Mr Bigley can terminate his employment by giving one month's prior notice in writing.

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

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

Mr John Dunne, General Manager Products and Alliances, has a contract of employment with Integrated Research Limited dated 29 August 2008, which provides for specific notice and severance undertakings of one month's compensation depending on the particular circumstances. Mr Dunne can terminate his employment by giving one month's prior notice in writing.

Mr Andrew Levido, General Manager Global Sales, has a contract of employment with Integrated Research Limited dated 7 May 2012, which provides for specific notice and severance undertakings of three months compensation depending on the particular circumstances. Mr Levido can terminate his employment by giving three months prior notice in writing.

Mr Pierre Semaan, Vice President Asia Pacific, has a contract of employment with Integrated Research Limited dated 22 May 2008, which provides for specific notice and severance undertakings of one month's compensation depending on the particular circumstances. Mr Semaan can terminate his employment by giving one month's prior notice in writing.

## **Remuneration Report (continued)**

### **Non-executive directors**

Total remuneration for all non-executive directors last voted upon at a special meeting of shareholders in October 2000 is not to exceed \$500,000 per annum.

Director's base fees in FY2012 were \$50,000 per annum plus compulsory superannuation. The chairman receives the base fee by a multiple of two. Director's fees cover all main board activities and committee membership. Directors can elect to salary sacrifice their directors fees into superannuation.

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

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

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

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

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

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



## Remuneration Report (continued)

	Short Term			Post-employment	Share-based payments	Other compensation		Proportion of remuneration	
2012 In AUD	Salary & fees \$	Bonus \$	Non-cash benefits \$	Superannuation contribution \$	Value of options and rights \$	Termination benefit \$	Total \$	Performance related	Value of options and rights
<b>Directors</b>									
<i>Non-executive</i>									
Alan Baxter	9,500	-	-	45,000	-	-	54,500	-	-
John Brown	50,000	-	-	4,500	-	-	54,500	-	-
Kate Costello	50,000	-	-	4,500	-	-	54,500	-	-
Peter Lloyd	50,000	-	-	4,500	-	-	54,500	-	-
Steve Killelea (Chairman)	100,000	-	-	9,000	-	-	109,000	-	-
Clyde McConaghy	50,000	-	-	4,500	-	-	54,500	-	-
<i>Executive</i>									
Mark Brayan	429,693	109,450	4,532	15,775	20,642	-	580,092	19%	4%
<b>Executive officers (excluding directors)</b>									
Peter Adams	252,693	50,226	4,532	15,775	8,342	-	331,568	15%	3%
Alex Baburin	231,193	37,762	-	20,807	3,519	-	293,281	13%	1%
Brian Bigley	175,603	68,804	-	673	2,353	-	247,433	28%	1%
Geoff Bryant (resigned Nov 2011)	133,290	13,115	7,219	10,138	-	-	163,762	8%	-
Andre Cuenin	206,250	200,549	-	2,813	8,748	-	418,360	48%	2%
John Dunne	189,908	36,314	-	17,092	4,073	-	247,387	15%	2%
David Leighton	45,000	-	-	4,050	-	-	49,050	-	-
Andrew Levido (appointed May 2012)	30,838	-	378	1,992	-	-	33,208	-	-
Pierre Semaan	219,693	89,467	4,532	15,775	4,725	-	334,192	27%	1%
Total compensation: key management (consolidated, including directors)	2,223,661	605,687	21,193	176,890	52,402		3,079,833		

## Remuneration Report (continued)

	Short Term			Post-employment	Share-based payments	Other compensation		Proportion of remuneration	
2011 In AUD	Salary & fees \$	Bonus \$	Non-cash benefits \$	Superannuation contribution \$	Value of options and rights \$	Termination benefit \$	Total \$	Performance related	Value of options and rights
<b>Directors</b>									
<i>Non-executive</i>									
Alan Baxter	29,750	-	-	24,750	-	-	54,500	-	-
John Brown	50,000	-	-	4,500	-	-	54,500	-	-
Kate Costello	50,000	-	-	4,500	-	-	54,500	-	-
Peter Lloyd	50,000	-	-	4,500	-	-	54,500	-	-
Steve Killelea (Chairman)	100,000	-	-	9,000	-	-	109,000	-	-
Clyde McConaghy	50,000	-	-	4,500	-	-	54,500	-	-
<i>Executive</i>									
Mark Brayan	395,468	130,600	4,532	15,199	(12,656)	-	533,143	24%	(2%)
<b>Executive officers (excluding directors)</b>									
Peter Adams	241,007	45,874	4,532	15,199	(5,991)	-	300,621	15%	(2%)
Alex Baburin	220,183	37,374	-	19,817	(4,057)	-	273,317	14%	(1%)
Geoff Bryant	180,676	47,941	11,984	16,350	-	-	256,951	19%	-
Rick Ferguson (resigned Jan 2011)	138,322	40,019	2,644	13,886	(13,170)	-	181,701	22%	(7%)
David Leighton	45,000	-	-	4,050	-	-	49,050	-	-
Pierre Semaan	221,007	95,302	4,813	15,199	(1,579)	-	334,742	28%	-
Andre Cuenin	207,999	286,522	-	2,985	1,514	-	499,020	57%	-
John Dunne (appointed Jan 2011)	91,743	20,000	-	8,257	(140)	-	119,860	17%	-
Brian Bigley (appointed Nov 2010)	118,325	166,807	-	-	-	-	285,132	59%	-
Total compensation: key management (consolidated, including directors)	2,189,480	870,439	28,505	162,692	(36,079)	-	3,215,037		

## Remuneration Report (continued)

### Analysis of bonuses included in remuneration

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

	Short term incentive bonuses		
	Included in remuneration \$ (A)	% vested in year	% forfeited in year (B)
<b>Directors</b>			
Mark Brayan	109,450	50%	50%
<b>Executives</b>			
Peter Adams	50,226	91%	9%
Alex Baburin	37,762	83%	17%
Brian Bigley	68,804	50%	50%
Geoff Bryant	13,115	52%	48%
Andre Cuenin	200,549	100%	-
John Dunne	36,314	86%	14%
Pierre Semaan	89,467	63%	37%

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the short-term incentive bonus scheme for the 2012 financial year.

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

### Equity instruments

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

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

No options have been granted to named executives either during or since the end of the financial year.

All options expire on the earlier of their expiry date or termination of the individual's employment, except for termination due to retirement. The options are exercisable on an annual basis on the first to fourth anniversaries of the grant date. In addition to a continuing employment service condition, the ability of executives to exercise options is conditional on the consolidated entity achieving certain performance hurdles.

Further details, including grant dates and exercise dates regarding options granted to executives under the ESOP are in note 16 to the financial statements.

#### *Exercise of options granted as compensation*

During the reporting year no shares were issued to executives on the exercise of options previously granted as compensation.

## Remuneration Report (continued)

### *Analysis of options and rights over equity instruments granted as compensation*

Details of vesting profile of the options granted to each director of the Company and each of the named executives are detailed below:

	Options granted		Percent vested in year	Percent Forfeited in year (A)	Financial year in which grant expires	Value yet to vest (\$)	
	Number	Date				Min (B)	Max (C)
<b>Directors</b>							
Mark Brayan	1,000,000	Sep 2007	25%	-	2013	nil	nil
<b>Executives</b>							
Peter Adams	350,000	Mar 2008	25%	-	2013	nil	nil
Alex Baburin	40,000	Oct 2008	25%	-	2013	nil	\$1,254
Andre Cuenin	300,000	Oct 2008	25%	-	2013	nil	\$9,405
Pierre Semaan	200,000	Jul 2008	25%	-	2013	nil	nil
John Dunne	30,000	May 2009	25%	-	2014	nil	\$887

	Performance rights granted		Percent vested in year	Percent Forfeited in year (A)	Financial year in which grant expires	Value yet to vest (\$)	
	Number	Date				Min (B)	Max (C)
<b>Directors</b>							
Mark Brayan	170,000	Dec 2011	-	-	2015	nil	65,212
<b>Executives</b>							
Peter Adams	100,000	Dec 2011	-	-	2015	nil	38,360
Alex Baburin	75,000	Dec 2011	-	-	2015	nil	28,770
Brian Bigley	65,000	Dec 2011	-	-	2015	nil	24,934
Andre Cuenin	75,000	Dec 2011	-	-	2015	nil	28,770
Pierre Semaan	65,000	Dec 2011	-	-	2015	nil	24,934
John Dunne	75,000	Dec 2011	-	-	2015	nil	28,770

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

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

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

# Corporate Governance Statement

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

## Board of directors and its committees

### *Role of the board*

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

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

### *Board process*

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

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

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

### *Director education*

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

## Corporate Governance Statement (continued)

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

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

### *Composition of the board*

The names of the directors of the company in office at the date of this report are set out on pages 4 to 5 of this report.

The company's constitution provides for the board to consist of between three and twelve members. At 30 June 2012 the board members were comprised as follows:

- Mr Steve Killelea –non executive director (Chairman).
- Mr Alan Baxter – independent non executive director.
- Mr John Brown - independent non executive director.
- Ms Kate Costello - independent non executive director.
- Mr Peter Lloyd – independent non executive director.
- Mr Clyde McConaghy - non executive director.
- Mr Mark Brayan - executive director (Chief Executive Officer).

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

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

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

## **Corporate Governance Statement (continued)**

### ***Nomination and Remuneration Committee***

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

### ***Responsibilities Regarding Remuneration***

The Committee reviews and makes recommendations to the board on:

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

### ***Responsibilities Regarding Nomination***

The Committee develops and makes recommendations to the board on:

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

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

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

- Ms Kate Costello (Chairperson) – Independent Non-Executive
- Mr Alan Baxter – Independent Non-Executive
- Mr Steve Killelea – Non-Executive

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

### ***Audit and Risk Committee***

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

## Corporate Governance Statement (continued)

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

- Mr John Brown (Chairman) – Independent Non-Executive
- Mr Peter Lloyd – Independent Non-Executive
- Mr Clyde McConaghy - Non-Executive

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

The external auditor, Chief Executive Officer and Chief Financial Officer are invited to Audit and Risk Committee meetings at the discretion of the committee. The committee met three times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 8.

The external auditor met with the audit committee/board three times during the year, two of which included time without the presence of executive management. The Chief Executive Officer and the Chief Financial Officer declared in writing to the board that the company's financial reports for the year ended 30 June 2012 comply with accounting standards and present a true and fair view, in all material respects, of the company's financial condition and operational results. This statement is required annually.

The main responsibilities of the Audit and Risk Committee include:

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



## Corporate Governance Statement (continued)

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

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

### *Strategy Committee*

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

The members of the Strategy Committee during the year were:

- Mr Steve Killelea (Chairman) – Non-Executive
- Mr Mark Brayan – Executive
- Mr Peter Lloyd – Independent Non-Executive
- Ms Kate Costello – Independent Non-Executive

The Strategy Committee is responsible for:

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

The Committee met four times during the year under review.

## **Risk management**

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

Comprehensive policies and procedures are established such that:

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

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

### ***Internal control framework***

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

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

### ***Internal Audit***

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

## **Ethical standards**

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

### ***Conflict of interest***

Each Director must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board considers that a significant conflict exists the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the consolidated entity are set out in Note 25.

## **Corporate Governance Statement (continued)**

### ***Code of conduct***

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

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

### ***Equal Employment Opportunity***

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

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

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

- From 24 hours to 28 days after the release of the company's half-yearly results announcement or following the wide dissemination of information on the status of the corporation and current results.
- From 24 hours after the release of the company's annual results announcement to a maximum of 28 days after the annual general meeting.

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

## **Communication with shareholders**

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

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

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

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

# Financial Statements

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# Consolidated statement of comprehensive income

For the year ended 30 June 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 32 to 64.

# 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 32 to 64.

## Consolidated statement of changes in equity

For the year ended 30 June 2012

Consolidated In thousands of AUD	Share capital	Hedging reserve	Translation reserve	Employee benefit reserve	Retained earnings	Total
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 32 to 64.*

## 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 32 to 64.*



# 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”).

The financial report was authorised for issue by the directors on 21 August 2012.

### 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)

### Plant and Equipment

In thousands of AUD

	Consolidated	
	2012	2011
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

### Leasehold Improvements

In thousands of AUD

	Consolidated	
	2012	2011
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:

Consolidated In thousands of AUD	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
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	Consolidated			
	Balance 1 July 11	Recognised in income	Recognised in equity	Balance 30 June 12
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	Consolidated			
	Balance 1 July 10	Recognised in income	Recognised in equity	Balance 30 June 11
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

Cost	Consolidated		
	Software development	Third party software	Total
In thousands of AUD			
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

Amortisation	Consolidated		
	Software development	Third party software	Total
In thousands of AUD			
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:

In thousands of options	Weighted Average exercise price	Number of options	Weighted Average exercise price	Number 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 AS'000	2011 AS'000	2012 AS'000	2011 AS'000
<b>Consolidated</b>								
<u>Sell US Dollar</u>								
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
<u>Sell UK Sterling</u>								
Less than 3 months		-		-		-		-
<u>Sell Euros</u>								
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  
John Dunne - GM Products & Alliances  
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)

### Key management personnel compensation

The key management personnel compensation are as follows:

In AUD	Consolidated	
	2012	2011
Short-term benefits	2,850,541	3,088,424
Post-employment benefits	176,890	162,692
Equity compensation benefits	52,402	(36,079)
	3,079,833	3,215,037

### Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the remuneration report on pages 12 to 19.

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.

Information regarding individual key management personnel's service contracts is provided in the remuneration report on pages 12 to 19.

### 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).

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

### 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:

<b>Current Year</b>	<b>Held at 1 July 2011</b>	<b>Granted as compensation</b>	<b>Exercised</b>	<b>Other changes*</b>	<b>Held at 30 June 2012</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 30 June 2012</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
<b>Prior Year</b>	<b>Held at 1 July 2010</b>	<b>Granted as compensation</b>	<b>Exercised</b>	<b>Other changes*</b>	<b>Held at 30 June 2011</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 30 June 2011</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.

## Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) the financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;
- (c) in the directors' opinion, the financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to Section 295(5) of the Corporations Act 2001.

Dated at North Sydney this 21st day of August 2012.



Steve Killelea  
Chairman



Mark Brayan  
Chief Executive Officer

# **Independent Auditor's Report to the members of Integrated Research Limited**

## **Report on the Financial Report**

We have audited the accompanying financial report of Integrated Research Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 28 to 65.

### *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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated 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 company's preparation of the financial report that gives a true and fair view, 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 company'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.

## *Auditor's Independence Declaration*

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

## *Opinion*

In our opinion:

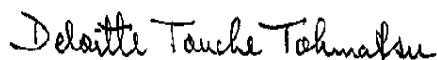
- (a) the financial report of Integrated Research Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 19 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion the Remuneration Report of Integrated Research Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Weng W Ching

Partner

Chartered Accountants

Sydney, 21 August 2012



The Board of Directors  
Integrated Research Limited  
Level 9, 100 Pacific Highway,  
NORTH SYDNEY, NSW, 2000

21 August 2012

Dear Board Members

**Auditor's Independence Declaration to Integrated Research Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Integrated Research Limited.

As lead audit partner for the audit of the financial statements of Integrated Research Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that appears to read "Weng W Ching".

Weng W Ching  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited