Integrated Research

Integrated Research

# Annual Report

2014

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Selected employee photos: Colin Tan, Integrated Research Senior Software Engineer, R&D and Michael Halbwirth, Head of Marketing Europe.



# Contents

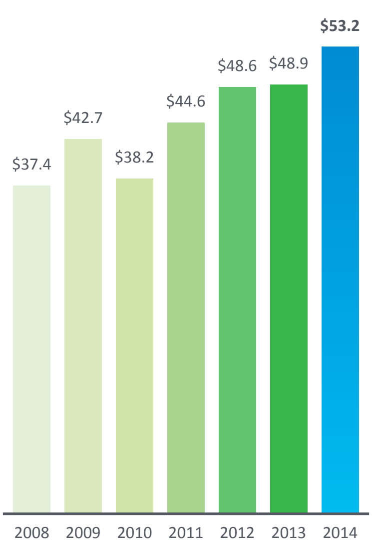
# 2014 Highlights

## Financial Summary

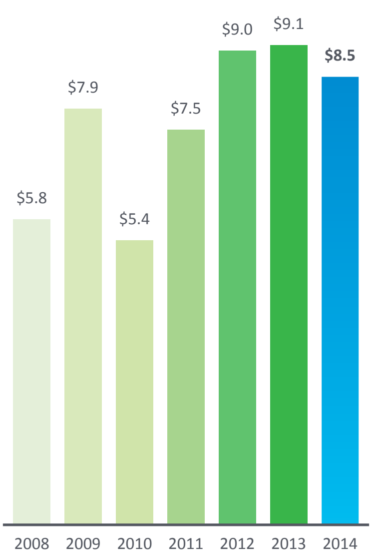
| In millions of AUD (except earnings per share) | | | |
|---|---|---|---|
| **Year ended 30 June** | **2014** | **2013** | **% Change** |
| Revenue from licence fees | 28.0 | 26.6 | ↑ 5% |
| Total revenue | 53.2 | 48.9 | ↑ 9% |
| Net profit after tax | 8.5 | 9.1 | ↓ (6%) |
| Net assets | 30.7 | 30.0 | ↑ 2% |
| Cash at balance date | 13.3 | 14.8 | ↓ (10%) |
| Americas revenue | 38.1 | 34.4 | ↑ 11% |
| Europe revenue | 7.9 | 6.9 | ↑ 14% |
| Asia Pacific revenue | 8.1 | 7.5 | ↑ 8% |
| Earnings per share (cents per share) | 5.0 | 5.4 | ↓ (7%) |

| In millions | | | |
|---|---|---|---|
| **Year ended 30 June** | **2014** | **2013** | **% Change** |
| Americas revenue (USD) | 34.8 | 35.2 | ↓ (1%) |
| Europe revenue (UK Sterling) | 4.4 | 4.5 | ↓ (2%) |
| Asia Pacific revenue (AUD) | 8.1 | 7.5 | ↑ 8% |

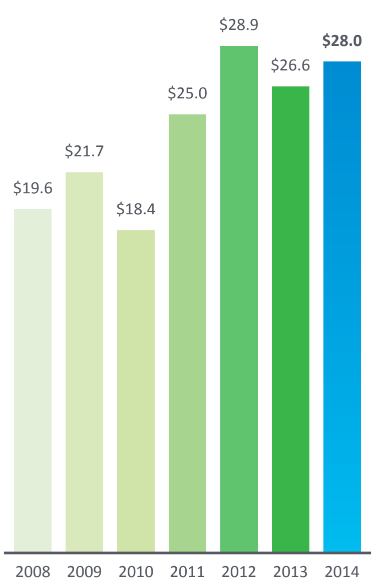
### Total revenue
(AUD millions)




### Net profit after tax
(AUD millions)




### Revenue from licence sales
(AUD millions)



# Letter from the Chairman

Dear fellow shareholders,

The Company's performance in 2014 was steady and for the first time in Integrated Research's history, Company-reported revenue exceeded $50 million. As a result of growth in Unified Communications and Payments products together with the benefits of a lower Australian dollar, the Company generated after-tax profit of $8.5 million on revenue of $53.2 million.

After reporting a strong first half performance, the momentum did not continue through the second half primarily due to the absence of large licence sale contracts, highlighting the lumpiness of the business. However a strong customer retention rate of 95% ensured that recurring maintenance revenue was up 16% to $20.6 million.

The Company's net profit after tax result was down 6% to $8.5 million when compared to the prior year. Underlying operating costs were up 5% due to strategic investments to build capacity in Europe and Asia Pacific, along with one-off recruiting and management change costs. After taking into account the translation effects of a lower Australian dollar, revenue was up 9% and operating costs were up 11%. The Company's effective tax rate was 20% due to the benefits of the Company's research and development (R&D) program.

The overall market for Unified Communications continues to evolve with Microsoft Lync significantly growing its market share. The Company is well placed to take advantage of this market dynamic and is seeking to advance its lead through continuing dedicated innovation for Microsoft Lync. Prognosis already manages the largest Microsoft Lync customer in the world, which has deployed over 400,000 endpoints.

The high margin Infrastructure product line, including HP NonStop, remained steady during the year. The Company continues to deepen its relationship with ACI Worldwide, leading provider of Payments applications, through the development of leading edge performance management products for the Payments markets in which both ACI and IR operate. The Company successfully delivered a new Prognosis module for


the ACI Money Transfer System that is anticipated to be shipped with every sale of that ACI solution, extending the collaboration between the companies.

The Company's consulting services business grew for a fifth consecutive year and it is noted that the consulting backlog is 30% higher at the end of the financial year when compared to the end of the prior reporting period. Although operating revenue for the Company's American and European regions was down 1% and 2% respectively, Asia Pacific achieved revenue growth of 8% compared to the prior year driven by licence sales growth in Payments products.

We continue to build on our solid foundation of world-class R&D with the release of Prognosis 10 during the year. Its new design enables the business to rapidly deploy products to market, evidenced by the quick release of Prognosis for Contact Centre toward the end of the financial year. This adds to the portfolio of products including Unified Communications, Payments, and IT infrastructure in which the Company participates. The Company will continue to invest in its core R&D capability as it seeks to create innovative solutions to meet the challenges of its customers.

During the year we appointed our new Chief Executive Officer - Mr. Darc Rasmussen to the Board. Darc brings new vigour to the role and has been placing an emphasis on strategy, including building up our European and Asia-Pacific operations, together with focus on strategic marketing and partnering capabilities.

The fundamentals of the Company's key markets remain strong as we continue to expand the scope of our markets by creating quality products that embrace changes in market direction. Strong partnerships with industry leaders like Avaya and ACI can deliver profitable growth from existing markets, and embed Prognosis deeper into our customers' business. The strong customer retention rate underscores the strength of the underlying business.

The Board is pleased to announce a final dividend of 2.5 cents per share, franked to 35 per cent, bringing the total dividend for the year to 5.0 cents per share franked at 33 per cent. This compares with total dividends of 5.0 cents per share, of which 36 per cent was franked, for the prior financial year.

I would especially like to thank you, our valued shareholders, for your continued support.

**Steve Killelea**
Chairman

# Chief Executive Officer's Report

Dear fellow shareholders,

I would like to take this opportunity to comment on the Company's performance and financial results for the 2014 financial year and to set out the key activities that will deliver success for the future. In the past year we have embarked on a well-structured agenda to take Integrated Research to the next level of growth. The plan builds on the traditional strengths of the Company while adding new capabilities to support expansion.

Integrated Research achieved annual revenue growth of 9% to $53.2 million over the prior year. Maintenance revenues grew 16% to $20.6 million and this recurring revenue base now represents 39% of total revenues.

The Company is investing for mid and long-term growth with a view to protecting short-term profitability and growing shareholder returns. As such the Company continues to focus on the creation, sale and support of Prognosis-based products into the Unified Communications (UC), Payments and Infrastructure markets, as well as entering new high-growth markets like Contact Centres.

To position itself firmly in these markets Integrated Research recently launched the largest release in its 25-year history, Prognosis 10, with $10 million invested into its research and development. The Prognosis architecture has been re-engineered to support the web, mobile access and cloud-based delivery as well as rapid extensibility, meaning the Company is able to develop new solutions faster and significantly reduce time to market.

During 2014 the Company completed the rapid development of a new solution for the Contact Centre market. Delivered in May 2014, early customers are already adopting and benefiting from its capabilities. Contact Centres have evolved into high-value, highly complex, mission-critical technology-driven environments and increasingly require the proactive management that Prognosis delivers. With over 15 million Contact Centre agents worldwide[1] this represents a significant market opportunity for Integrated Research. There is also synergy with the UC offering as Contact Centre solutions become the entry point to the rest of the business.

The Company's UC revenues grew by 15% in 2014 outperforming the global UC market growth of 7%[2]. Microsoft increased its UC market share by over 100%[3], albeit off a low base. With the release of two new versions of Prognosis for Microsoft Lync planned for this financial year, the Company is positioning itself to take advantage of this growth opportunity.

The Company's Payments revenues grew 31% supported by the strategic partnership with the leading provider for global payments software, ACI Worldwide.
The Payments industry is evolving with high growth in payments transactions driven by new channels such as the Internet and mobile phones, and the growth of electronic payments in developing economies.

Revenue from Infrastructure solutions, including HP NonStop again delivered a solid result of $19.5 million. The Company has been invited by HP to conduct early development of Prognosis on its new HP NonStop x86 platform due for release in 2H FY15. Management expects this new release will continue to underpin the Infrastructure solution revenue base.

Integrated Research has now delivered value to over 1,000 organisations in over 50 countries. These include many of the world's largest stock exchanges, banks, financial services institutions, airlines, technology and telecommunications companies. The Company is in the process of re-inventing its marketing capability to fully leverage its leadership position. A new marketing team at Integrated Research is implementing smart cost-effective customer-centric marketing to fully exploit the leadership of the Company and the global growth opportunities.

Over 70% of the Company's revenues come from the Americas driven by a professional, locally-based sales, consulting and support organisation. In contrast only 35% of the market opportunity for the Company is in the Americas, with 37% in Europe and 28% in Asia Pacific. This provides opportunities for growth, and management has implemented a well-structured plan to build operations in Europe and Asia Pacific to take full advantage of the potential in those markets.

"Integrated Research achieved annual revenue **growth of 9%** to $53.2 million over the prior year. Maintenance revenues grew 16% to $20.6 million and this recurring revenue base now represents 39% of total revenues."

Management would like to recognise and thank the highly talented and professional team of employees across the globe at Integrated Research for their dedication and hard work during the course of the year, and their passion and commitment to the future of your Company.

We hope you share our excitement about your Company's path and the opportunities we have together.

Thank you for your support.

**Darc Rasmussen**
CEO & Managing Director

1. Gartner Worldwide Contact Centre Forecast: Total Market, 2011-2018

2, 3 Gartner Market Statistics: Enterprise Telephony Equipment, Worldwide, 2013 Update
By Megan Fernandez, 25 March 2014

# Building a Foundation for Growth through Products, Partnerships and People

## About Integrated Research

Integrated Research (IR) designs, develops and distributes Prognosis performance management solutions for Unified Communications, Contact Centres, payments and IT Infrastructure.

Prognosis is aligned to help today's businesses succeed and compete in a landscape where system performance and customer engagement is everything. The deep insight it provides into technology performance minimises outages, reduces costs, delivers business critical insight and ensures user satisfaction.

With over 1,000 enterprise customers in more than 50 countries and a world-class R&D capability we remain profitable and debt free. Our customers include:

- 9 of the top 10 US banks,
- 5 of the world's 10 largest companies,
- 4 of the 8 biggest stock exchanges,
- 8 of the 10 biggest telcos and
- 4 out of 5 of the biggest oil and gas companies.

We service our customers through direct sales offices in the USA, UK, Germany, Singapore and Australia together with a channel-driven global distribution network. Everything we do is about understanding customers' challenges and helping them solve them.

"At Presidio we enable thousands of customer interactions through our Contact Centre services daily.

With Prognosis for Contact Centre we get full real-time visibility into the diversity of applications and infrastructure that support those interactions. Prognosis allows us to proactively identify and address issues before they impact the customer experience."

**Ricky Santos, Senior Vice President, Presidio Managed Services**

## Customer First

Using Prognosis to bring insight to client interactions and resolve issues with the user experience not only solves problems, it creates new opportunities to market. The latest release Prognosis 10, includes Contact Centre and service provider specific solutions that reflect the deep domain expertise we've gained from working closely with our customers.

One of our largest customers - service provider Presidio, is a leading provider of professional, cloud and managed services for advanced IT solutions where every customer interaction is critical. Prognosis 10 allows its staff to proactively resolve problems such as dropped calls, slow voice recognition response times and poor voice quality before they affect Contact Centre services and availability.

Our Customer Care programme and Voice of the Customer strategy demonstrate how our customer-first philosophy results in customer satisfaction and retention rates that remain high and among the best in the industry.

Customer Care ensures that customers gain the most benefit from their investment in Prognosis by helping them implement it quicker and more effectively to meet their needs. Our Voice of the Customer strategy enables customers to identify and prioritise their needs and wishes so that we can evaluate new concepts and ideas and develop solutions for them.

To expand our regional footprint and customer focus in every region, we've increased our presence in continental Europe and opened a new office in Singapore. In the coming year you will see us taking a bolder position in our marketing and celebrating the successes we have achieved with leading global companies.

# Our products

The systems Prognosis manages are complex and their availability and performance require management in real time. Our development teams understand their design, implementation and use in the real world to ensure that Prognosis provides the insights customers' support teams need to resolve issues effectively.

Prognosis 10, released in December 2013 is the foundation for rapid innovation, new solutions, high-speed release delivery and entry into new markets. It includes a mobile-friendly interface that lets busy professionals stay in touch with system performance on the go, and share information easily with their colleagues so that issues can be managed around the clock and around the globe.

## Prognosis for Unified Communications (UC)

Prognosis for UC enables our customers to achieve real-time performance management of communications across multiple technologies, vendors and applications. This gives them rapid insight to imminent problems and enables them to prevent outages before customers or the business is affected.

This deep insight across the complete UC ecosystem resulted in Prognosis being chosen to manage the largest Microsoft Lync customer in the world, which has implemented over 400,000 endpoints.

## Prognosis for Contact Centre

In 2014 we released software designed to target major contact centre system flaws capable of costing businesses considerable revenue and driving their customers to their competitors. Ground-breaking call recording assurance software ensures customer calls within contact centres are recorded and playable so they comply with government regulations.

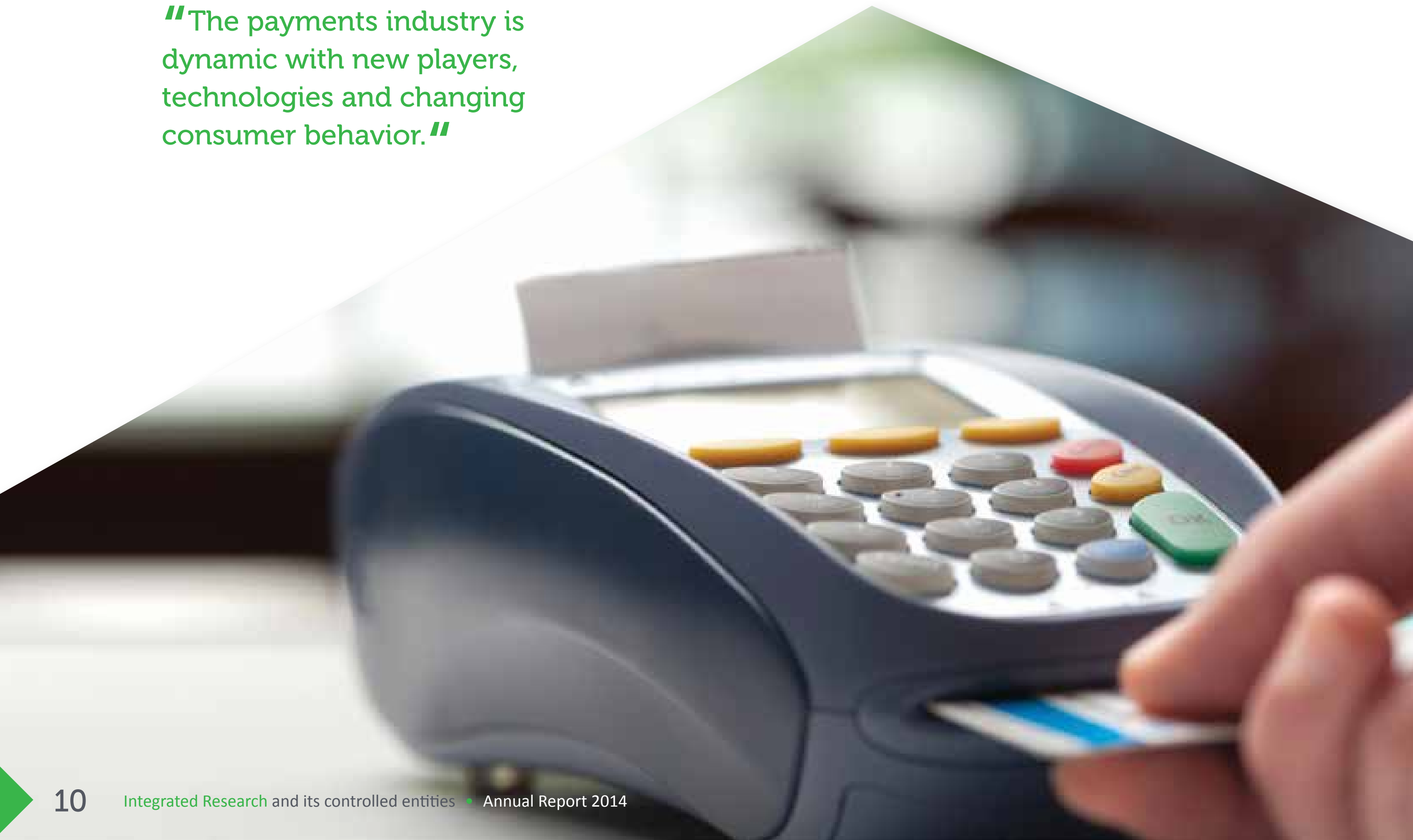
## Prognosis for IT Infrastructure

Hewlett Packard continues to innovate in HP NonStop with the release of a new product range supporting the x86 chip set. As a long-term performance management solution for HP systems and an AllianceONE partner, HP has invited us to participate in pre-release development that ensures it will be supported by Prognosis when launched to the market in FY15.

## Prognosis for Payments

The payments industry is dynamic with new players, technologies and changing consumer behavior. We work closely with ACI Worldwide to develop and deliver new solutions including fraud management and money transfer systems for ACI's customers across the globe.

"The payments industry is dynamic with new players, technologies and changing consumer behavior."



# Our partners

We continue to expand and scale our strategic partner relationships and special priority will be placed on transforming our engagements with them to grow our business more effectively across the globe.

### Avaya

Integrated Research has been chosen as the only Avaya DevConnect Select Product Partner for real-time voice quality performance management and monitoring of Avaya environments and Prognosis now ships with every Avaya order. As Avaya's clients have direct access to Prognosis through their Avaya representatives we have appointed a Global UC Alliance Director to drive joint go-to-market initiatives.

### ACI Worldwide

ACI Alliance revenue has also increased considerably and a Prognosis module is now embedded into ACI's solution. This has seen Prognosis make the transition from IT departments into the business, becoming an integral part of the business's success.

A Global ACI Alliance Director was appointed in January 2014 to grow the global strategic alliance and further expand the mutually successful program.

"Extended solutions are developed as a result of finding answers to real world customer problems. All customers can benefit from our deep domain expertise."

**Trish Taylor, Program Office Manager.**

# Consulting

For the fifth consecutive year IR's Consulting Services continue to grow ensuring that customers get the most from their investment in Prognosis. IR's consultants share their knowledge with customers tailored to the size and complexity of their environments.

The extended solutions developed as a result of finding answers to real world customer problems may be incorporated into future releases of Prognosis. This means all customers can benefit from the deep domain expertise gained from customer intimacy.

# Our employees

IR has 200 employees globally, many of whom have been with us for five years or more. Some employees reach a decade and more of employment with IR, having started their careers as graduates and advanced through the ranks of research and development to team leads, product managers and solutions consultants.

This progression means that IR employees are in touch with customers needs and can consistently show how they've solved real problems for real customers and made a real impact on their lives.

Recently Travis Polland, Principal Solutions Strategist, with a wealth of experience at the digital coalface was asked to join the 'war room' of a Prognosis customer.

After a system upgrade a global Contact Centre had been down for 12 hours and there was no return. They had to find the way forward.

## This was a pivotal point for the customer.

Travis joined a global virtual team from his Denver base using Prognosis remotely to validate the subjective measurements taken on the other side of the world. Over the course of the next 3 hours the virtual team of customer, vendor and consultant, isolated the problem and the Contact Centre was able to resume its high-quality customer service.

"Everybody received good value out of it. By making changes 'in-flight' we could see how those changes impacted the agents. This was a pivotal point for the customer; it was also a pivotal point for IR because it was the first time we were in a 'war room' with a customer."

**Travis Polland, Principal Solutions Strategist**
**Integrated Research employee, five years**

Training is another key service delivered by IR consultants to ensure customers get the most out of Prognosis. Denver-based Solutions Consultant Jitesh Harani, an Integrated Research employee for six years explains:

"We provided some training recently for one of our customers, a leading distributor of broad-based maintenance, repair and operations products.

Before deploying Prognosis they often didn't know about a problem until someone told them about it. Now using Prognosis they can be proactive, wherever they are. In the office, on the road, or in an airport transit lounge with a tablet or mobile phone they can manage and even prevent these things from happening.

Our customer is very enthusiastic about how robust Prognosis is and how it gives them so much information outside the immediate Unified Communications environment."

**Jitesh Harani, Solutions Consultant**
**Integrated Research employee, six years**

## IR provides tools and expertise that optimise systems for the real world.

As partnerships are vital to IR's growth and scale, we ensure that our teams work closely with each other.

"Our team worked with ACI in America with early morning video calls to understand the different way users rely on ACI's products.

As a result of matching user personas like the wire room manager and operator to user needs we were able to show our progress at the end of every development cycle and ensure we were on the right track."

**Mina Gurgis, Advanced Software Engineer ACI Team**
**Integrated Research employee, four years**

"Putting a face to the feature."

"In the R&D department, we have always tried to deliver value to our customers and to give users clear insight into their systems. Now as part of our Customer Care initiative, we are on a new path and we are exploring it alongside the operators and administrators that we service.

Personally, I am excited by the interactions and feedback because I can see the difference we make. We have raised quality to a whole new level, we deliver more than ever before and our solutions have targeted impact because now we can 'put a face' to the feature."

**Joel Tow, R&D Team Lead, Customer Care**
**Integrated Research employee, two years**

"With a keen focus on driving channels to success through partnering and collaboration, we are building and growing a scalable Channel landscape in different countries and environments across continental Europe."

**Hans-Joerg Friedrich**
**Head of Channels Continental Europe**

# Directors' Report

## Review of operations and activities

### Principal activities

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

### Group overview

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

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

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.

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

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

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

"The Company achieved an annual Profit After Tax result of $8.5 million"

# Review and results of operations

## Overview

The Company achieved an annual Profit After Tax result of $8.5 million compared to the prior year of $9.1 million. The Company's overall financial performance was contrasted by two distinct halves. Profitability in the first half was up 64% as a result of a significant transaction with Avaya toward the end of the period. The strong first half momentum did not continue into the second half primarily due to the absence of further large licence sale contracts. Over 70% of the Company's Revenue comes from the Americas which represents approximately 30% of the global market for the Company's Unified Communications products. The Company is in the process of re-engineering its go to market with a view to growing its operations in Asia Pacific and Europe to take advantage of this opportunity. The Company is also in the process of bringing new product lines to market to service the growing Microsoft Lync market opportunity and the under-served needs of performance management in the Contact Centre market.

## Revenue

Revenue for the year was $53.2 million, an increase of 9% over 2013. Licence fees increased by 5% to $28.0 million with both Unified Communications and Payments product lines continuing to grow, and Infrastructure remaining flat compared to the prior year. Maintenance revenues grew 16% over the previous corresponding year due in part to a strong retention rate of 95% and also due to the annualisation of growth from the installed base of Unified Communications customers. Revenue from consulting services grew by 3% to $4.6 million.

Over 95% of the Company's revenues are derived outside of Australia. Using prior year exchange rates, the Company's revenue would have remained flat compared to the prior year. The Company may benefit from a lower exchange rate in 2015, although this will be partially offset by forward exchange contracts in place at 30 June 2014 as disclosed in Note 20.

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

| In thousands of AUD | 2014 | 2013 | % Change |
|---|---|---|---|
| Unified Communications | 25,118 | 21,760 | 15% |
| Infrastructure | 19,530 | 19,566 | (0%) |
| Payments | 3,962 | 3,023 | 31% |
| Consulting | 4,633 | 4,510 | 3% |
| **Total revenue** | **53,243** | **48,859** | **9%** |

Unified Communications (UC) revenue rose 15% over the previous year with a large first half transaction with Avaya coupled with an overall increase in maintenance revenue driven by strong customer retention and growth in the installed base. In the fourth quarter Avaya extended the territories in which it sells Prognosis to cover Europe and parts of Asia Pacific. The overall Unified Communications market continues to evolve with Microsoft Lync significantly growing its market share. Integrated Research is well placed to take advantage of this market dynamic.

Infrastructure revenues remained flat over the previous year as a consequence of customers continuing to move toward new and evolving technological platforms that are not as reliant on fault tolerant high end systems such as HP NonStop.

Payments revenue rose 31% over the previous year as the Company continues to progress from a direct to an indirect sales model. Both the Company and ACI[1] continue to work together to develop and deliver new solutions including new fraud management and money transfer systems delivered in the fourth quarter of FY14.

Consulting services showed growth for a fifth year in a row, with revenue increasing 3% to $4.6 million as customers increasingly look to extend their Prognosis solution to provide greater insight into their Unified Communications, Payments and Infrastructure environments.

1 ACI Worldwide is the leading international provider of electronic payment and banking systems.

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

| | 2014 | 2013 | % Change |
|---|---|---|---|
| Americas (USD'000) | 34,759 | 35,247 | (1%) |
| Europe (£'000) | 4,415 | 4,519 | (2%) |
| Asia Pacific (A$'000) | 8,100 | 7,496 | 8% |

The Americas was down by 1% over the previous year with strong first half growth driven by Unified Communications licence sales offset by the absence of large licence sales in the second half as a consequence of delays in purchasing from customers. The US FY15 pipeline remains strong and the overall customer retention rate of 94% provides the region with a platform for future growth.

Europe revenues were down 2% over the prior year as the regional operation went through a significant re-building phase with changes in management and an increased investment in sales capability.

Asia Pacific revenue grew by 8% to $8.1 million driven by licence sales growth in Payments products. The Asia Pacific region will continue to build with increasing investment in the Singapore office and the development of the sales team.

## Expenses

Total expenses were $42.6 million, up 11% against the prior year. The higher expenses have been driven in part by a lower Australian dollar giving rise to higher offshore translated costs. In constant currency, expenses were up 5%. The number of staff at the end of the current year was 198 (2013: 200). The following table presents the Company's cost base compared to the preceding year:

| In thousands of AUD | 2014 | 2013 |
|---|---|---|
| Research and development expenses | 11,067 | 10,777 |
| Sales, consulting and marketing expenses | 26,836 | 23,279 |
| General and administration expenses | 4,707 | 4,280 |
| **Total expenses** | **42,610** | **38,336** |

Research and development expenditure of $11.1 million was 21% of total revenue and slightly higher than historical averages. The major development initiative during the 2014 financial year was on Prognosis 10 which was released toward the end of the first half. The new architectural release, Prognosis 10, delivers a new powerful web-based interface, mobile user experience, a powerful business insights module as well as rapid extensibility through the proprietary Prognosis frameworks[2]. Management believes these capabilities are important differentiators to its competitors and important in supporting customers achieve their business objectives. The new architecture of Prognosis 10 also allows the Company to increase the speed with which it can develop and deliver new innovations to the market. Evidence of this has been seen through the rapid release of two additional versions of Prognosis (Version 10.1 and 10.1.5) since the release of Prognosis 10.0.

Net research and development expenses are represented as follows:

| In thousands of AUD | 2014 | 2013 |
|---|---|---|
| Gross research and development spending | 12,294 | 12,051 |
| Capitalisation of development expenses | (7,967) | (7,880) |
| Amortisation of capitalised expenses | 6,740 | 6,606 |
| **Net research and development expenses** | **11,067** | **10,777** |

2 Proprietary Prognosis frameworks includes "PACE": Prognosis Agile Component Engine and "PQL": Prognosis Query Language.

## Shareholder returns

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net profit ($'000) | $8,489 | $9,078 | $9,035 |
| Basic EPS | 5.03¢ | 5.40¢ | 5.41¢ |
| Dividends per share | 5.0¢ | 5.0¢ | 5.0¢ |
| Dividend franking percentage | 33% | 36% | 58% |
| Return on equity | 28% | 30% | 31% |

## Financial position

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

| In thousands of AUD | 2014 | 2013 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents (current) | 13,300 | 14,827 |
| Trade and other receivables (current and non-current) | 22,857 | 23,564 |
| Intangible assets (non-current) | 16,257 | 15,040 |
| | | |
| **Liabilities:** | | |
| Deferred revenue (current and non-current) | 16,369 | 14,729 |
| | | |
| **Equity** | 30,747 | 30,010 |

The Company's financial position remains strong with $13.3 million in cash and cash equivalents as a result of continuing strong cashflow from operations. Cashflow from operations was $16.1 million for the year facilitating the payment of dividends and reinvestment in research and development.

Trade and other receivables decreased by 3% over the preceding year due to an improvement in collections partially offset by an increase in deferred payment terms with key managed service providers who have a need to match payments with underlying cashflows from their customers.

The increase in intangible assets is a result of the capitalisation of development costs primarily on Prognosis 10 as referenced in preceding paragraphs.

The consolidated statement of financial position presented at page 48 together with the accompanying notes provides further details.

# Outlook and Strategy for 2015

Prognosis derives its competitive advantage from its unique design which enables real time insights, monitoring, extreme scalability, high flexible and very deep visibility into the diversity of systems and applications that it manages. As such, Prognosis is ideally suited to complex, high transaction volume and high traffic environments.

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

Through deep forensic analysis into the root cause of problems and extensive reporting on service levels, Prognosis enables proactive and rapid resolution of issues as well as capacity optimisation 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. Prognosis is progressively using its real time access to big data volumes to deliver insights into a customer's business that goes beyond improving and optimising operational efficiency. Through real time access and analysis, Prognosis Business Insights reveals business and customer trends that are leveraged for economic, fraud management and competitive advantage.

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

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

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

The Communications segment includes users of IP Telephony and Unified Communications (UC) applications such as 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 growth in FY14 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 FY14 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 Economics and Peace and The Charitable Foundation and for activities involved with these he has received a number of international awards including the Order of Australia. 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 2015 Annual General Meeting.

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

Age: 65 years.

### Darc Dencker-Rasmussen MAICD

**Managing Director and Chief Executive Officer**

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

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

Age: 54 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 2015 Annual General Meeting.

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

Age: 69 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, 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 company directorships held in the past three years other than listed above: None.

Age 61 years.

## Garry Dinnie

BCom, FCA, FAICD, FAIM, MIIA(Aust)

### Independent Non-Executive Director

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

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

Age: 62 years.

## Clyde McConaghy

B.Bus., MBA, FAICD, FIOD - UK

### Non-Executive Director

Clyde was appointed a Director in December 2007. He has three decades of international strategic market development experience in the technology, online and media industries. Clyde is a Board Director of Infomedia Ltd (an ASX-listed technology company) and Serko Ltd (a NZX-listed technology company). Clyde was a Board Director of WMRC Plc (now IHS Global Insight) on the London Stock Exchange and a Director of the Economist Intelligence Unit in London. Clyde is Managing Director of Optima Boards, a board advisory firm for companies and not-for-profit entities. Clyde's current term will expire no later than the close of the 2014 Annual General Meeting.

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

Age: 52 years.

## Peter Lloyd

### Non-Executive Director

Peter was appointed a Director in July 2010. He has 40 years' experience in computing technology, having worked for both computer hardware and software solution providers. For the past 31 years Peter has been specifically involved in the provision of payments solutions for banks and financial institutions. He is also a Director of The Grayrock Group Pty Ltd, Transacumen Pty Ltd and Limehouse Creative Pty Ltd. Peter's current term will expire no later than the close of the 2016 Annual General meeting.

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

Age: 60 years.

# Company Secretary

## David Purdue

BEc, MBA, Grad Dip CSP, FCA, FGIA, FCIS, 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 Chartered Accountant and Chartered Secretary with over 25 years experience in both professional practice and industry.

### Resigning Director during the year

**Mark Brayan** **Managing Director and Chief Executive Officer** **(Resigned September 2013)**

Mark Brayan was Managing Director and Chief Executive Officer between September 2007 and September 2013. Mark contributed substantially to the development of the Company's Unified Communications market and led the Company through significant change in the capability and structure of the business.

Listed company directorships held in the past three years: None. Age 50 years.

# Senior management

## Peter Adams B.Com, CA

### Chief Financial Officer

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

## Alex Baburin B.App. Sc

### Chief Operations Officer

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

## Andre Cuenin BSc, MBA

### President Americas & VP European Field Operations

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

## Kevin Ryder M.Mgt, MBA

### Vice President, Global Marketing

Kevin joined Integrated Research in October 2013 and is responsible for global marketing and ensuring IR's sales and marketing teams align to deliver revenue focused results. Kevin has over 25 years sales and marketing experience in the ICT industry, including leadership roles in Europe, North America, Asia and Australia. Most recently he was the Enterprise Marketing Director at Microsoft and prior to that, GM of Marketing at KAZ Group (now owned by Fujitsu). Kevin was also GM for Eicon Technology and in that role was responsible for establishing the Asia Pacific regional office in Sydney and successfully growing the business.

## Melanie Newman GDip HR

### 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 15 years HR Management experience mostly within global organisations in the Information Technology industry.

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 2014 and the Auditor's Report thereon.

## Results

The net profit of the consolidated entity for the 12 months ended 30 June 2014 after income tax expense was $8.5 million.

## Dividends

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

| | | Cents Per share | Total Amount $'000 | Date of Payment |
|---|---|---|---|---|
| Final 2013 - Ordinary shares | 40% franked | 3.0 | 5,055 | 13 Sep 2013 |
| Interim 2014 - Ordinary shares | 30% franked | 2.5 | 4,223 | 21 Mar 2014 |
| Final 2014 - Ordinary shares | 35% franked | 2.5 | 4,224 | 12 Sep 2014 |

## Events subsequent to reporting date

For dividends declared after 30 June 2014 see Note 19 in the financial statements. The financial effect of dividends declared and paid after 30 June 2014 has not been brought to account in the financial statements for the year ended 30 June 2014 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 20 to 21. Details of the company secretary and his qualifications are set out on page 21.

# Officers who were previously partners of the audit firm

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

# Directors' meetings

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2014, 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 | - | - | 2 | 3 | - | - |
| Mark Brayan | 2 | 2 | - | - | - | - | 1 | 1 |
| Darc Rasmussen | 9 | 9 | - | - | - | - | 2 | 2 |
| Kate Costello | 10 | 12 | - | - | 3 | 3 | 3 | 3 |
| Steve Killelea | 11 | 12 | - | - | 3 | 3 | 3 | 3 |
| Peter Lloyd | 11 | 12 | 3 | 3 | - | - | 3 | 3 |
| Clyde McConaghy | 12 | 12 | 3 | 3 | - | - | - | - |
| Garry Dinnie | 11 | 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 | - | 197,000 | 197,000 | - | - |
| Darc Rasmussen | - | 8,700 | 8,700 | - | 350,000 |
| Kate Costello | - | 199,622 | 199,622 | - | - |
| Garry Dinnie | - | - | - | - | - |
| Steve Killelea | 94,497,339 | 337,612 | 94,834,951 | - | - |
| Clyde McConaghy | - | - | - | - | - |
| Peter Lloyd | - | - | - | - | - |

# Share options and performance rights

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

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

| | Number of performance rights granted | Performance hurdle | Exercise price | Expiry date |
|---|---|---|---|---|
| **Directors** | | | | |
| Darc Rasmussen | 350,000 | Yes | Nil | Oct 2016 |
| **Executive Officers** | | | | |
| Andre Cuenin | 85,000 | Yes | Nil | Sep 2017 |

The performance rights were granted under the Integrated Research Performance Rights and Option Plan (established November 2011). The performance rights vest on 8 October 2016 for Mr Rasmussen and 31 August 2017 for Mr Cuenin, subject to applicable 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 either issue shares or make an on-market purchase for Mr Rasmussen upon his vesting conditions being satisfied.

# Unissued shares under performance rights

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

| Performance rights | | |
|---|---|---|
| Expiry date | Exercise price | Number of shares |
| Sept 2014 | Nil | 430,000 |
| Nov 2014 | Nil | 746,500 |
| Sept 2015 | Nil | 160,000 |
| Oct 2016 | Nil | 165,000 |
| Oct 2016 | Nil | 350,000 |
| Sep 2017 | Nil | 85,000 |
| **Total performance rights** | | **1,936,500** |

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

# 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):

| Number of shares | Amount paid on each share |
|---|---|
| 582,000 | $0.28 |
| 10,000 | $0.31 |

# 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.

# Remuneration report

The Company's Remuneration Report, which forms part of this Directors' Report, is on pages 28 to 39.

# Corporate governance

A statement describing the Company's main corporate governance practices in place throughout the financial year is on pages 40 to 44.

# Non-audit services

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

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

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

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is on page 81 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

**Darc Rasmussen**
Chief Executive Officer

Dated at North Sydney this 19th day of August 2014

# Remuneration report (audited)

## Remuneration policies

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

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

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

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

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

## Fixed remuneration

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

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

## Performance-linked remuneration

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

### Short-term incentive bonus

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

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

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

### Long-term incentive

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

## Consequences of performance on shareholder wealth

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

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| New licences ($'000) | 28,048 | 26,632 | 28,861 | 25,005 | 18,413 |
| Net profit ($'000) | 8,489 | 9,078 | 9,035 | 7,465 | 5,401 |
| Dividends paid ($'000) | 9,278 | 8,413 | 7,512 | 4,171 | 7,506 |
| Closing share price | $0.995 | $1.035 | $0.665 | $0.275 | $0.40 |
| Change in share price | ($0.04) | $0.37 | $0.39 | ($0.125) | $0.125 |

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) | Directors (part year) |
|---|---|
| **Steve Killelea** - *Chairman* | **Darc Rasmussen** - *Chief Executive Officer (appointed October 2013)* |
| **Alan Baxter** | **Mark Brayan** - *Chief Executive Officer (resigned August 2013)* |
| **Kate Costello** | |
| **Peter Lloyd** | |
| **Clyde McConaghy** | |
| **Garry Dinnie** | |

| Other key management personnel (full year) | Other key management personnel (part year) |
|---|---|
| **Peter Adams** - *Chief Financial Officer* | **Andrew Levido** - *GM - Global Sales (resigned July 2014)* |
| **Alex Baburin** - *Chief Operations Officer* | **Kevin Ryder** - *VP Global Marketing (appointed October 2013)* |
| **Andre Cuenin** - *President Americas & VP European Field Operations* | |
| **Jonathan Stern** - *Vice President - Asia Pacific* | |
| **David Purdue** - *Company Secretary & Global Commercial Manager* | |

## Service agreements

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

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

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

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

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

Mr David Purdue, Company Secretary and Global Commercial Manager, has a contract of employment with Integrated Research Limited dated 27 May 2008, which provides for specific notice and severance undertakings of one month compensation depending on the particular circumstances. Mr Purdue can terminate his employment by giving one month prior notice in writing.

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

## Non-executive Directors

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

Director's base fees in FY14 were $70,000 per annum inclusive of compulsory superannuation. The chairman receives the base fee by a multiple of two. Director's fees cover all main board activities and committee membership. Directors can elect to salary sacrifice their directors fees into superannuation.

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

## Directors' and executive officers' remuneration

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

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

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

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

| | Short term | | | Post-employment | Share-based payments | Other compensation | | Proportion of remuneration | |
|---|---|---|---|---|---|---|---|---|---|
| **2014 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** |
| **Directors** | | | | | | | | | |
| *Non-executive* | | | | | | | | | |
| Alan Baxter | 64,073 | - | - | 5,927 | - | - | 70,000 | - | - |
| Kate Costello | 64,073 | - | - | 5,927 | - | - | 70,000 | - | - |
| Garry Dinnie | 64,073 | - | - | 5,927 | - | - | 70,000 | - | - |
| Peter Lloyd *(also see page 36)* | 64,073 | - | - | 5,927 | - | - | 70,000 | - | - |
| Steve Killelea *(Chairman)* | 128,146 | - | - | 11,854 | - | - | 140,000 | - | - |
| Clyde McConaghy | 64,073 | - | - | 5,927 | - | - | 70,000 | - | - |
| *Executive* | | | | | | | | | |
| Mark Brayan *(resigned Aug 2013)* | 225,702 | - | 755 | 8,887 | (24,718) | - | 210,626 | 0% | (12%) |
| Darc Rasmussen *(appointed Oct 2013)* | 355,770 | 92,370 | 4,532 | 13,331 | 330,545 | - | 796,548 | 12% | 42% |
| **Executive officers (excluding directors)** | | | | | | | | | |
| Peter Adams | 271,510 | 36,938 | 4,532 | 17,775 | 467 | - | 331,222 | 11% | 0% |
| Alex Baburin | 266,416 | 34,683 | - | 24,644 | 3,894 | - | 329,637 | 11% | 1% |
| Andre Cuenin | 259,615 | 244,293 | 1,615 | 7,788 | 14,310 | - | 527,621 | 46% | 3% |
| Andrew Levido *(resigned July 2013)* | 106,557 | - | 378 | 5,599 | (4,257) | - | 108,277 | 0% | (4%) |
| David Purdue | 202,693 | - | 4,532 | 17,775 | 6,105 | - | 231,105 | 0% | 3% |
| Kevin Ryder *(appointed October 2013)* | 154,277 | 22,016 | - | 14,271 | - | - | 190,564 | 12% | 0% |
| Jonathan Stern *(resigned July 2014)* | 232,233 | 110,993 | 4,532 | 17,775 | - | - | 365,533 | 30% | 0% |
| Total compensation: key management *(consolidated, including directors)* | 2,523,284 | 541,293 | 20,876 | 169,334 | 326,346 | - | 3,581,133 | | |

| | Short term | | | Post-employment | Share-based payments | Other compen-sation | | Proportion of remuneration | |
|---|---|---|---|---|---|---|---|---|---|
| **2013 In AUD** | **Salary & fees $** | **Bonus $** | **Non-cash benefits $** | **Super-annuation contribution $** | **Value of options and rights $** | **Termi-nation benefit $** | **Total $** | **Perfor-mance related** | **Value of options and rights** |
| **Directors** | | | | | | | | | |
| *Non-executive* | | | | | | | | | |
| Alan Baxter | 60,665 | - | - | 5,460 | - | - | 66,125 | - | - |
| John Brown *(Resigned 17 Dec 2012)* | 26,274 | - | - | 2,365 | - | - | 28,639 | - | - |
| Kate Costello | 60,665 | - | - | 5,460 | - | - | 66,125 | - | - |
| Garry Dinnie *(Joined 17 Feb 2013)* | 26,758 | - | - | 2,408 | - | - | 29,166 | - | - |
| Peter Lloyd *(also see page 36)* | 60,665 | - | - | 5,460 | - | - | 66,125 | - | - |
| Steve Killelea *(Chairman)* | 121,330 | - | - | 10,920 | - | - | 132,250 | - | - |
| Clyde McConaghy | 60,665 | - | - | 5,460 | - | - | 66,125 | - | - |
| *Executive* | | | | | | | | | |
| Mark Brayan | 449,653 | 40,434 | 4,532 | 16,470 | 22,365 | - | 533,454 | 8% | 4% |
| **Executive officers (excluding Directors)** | | | | | | | | | |
| Peter Adams | 264,510 | 39,381 | 4,532 | 16,470 | 8,429 | - | 333,322 | 12% | 3% |
| Alex Baburin | 241,789 | 28,290 | - | 21,761 | 6,730 | - | 298,570 | 9% | 2% |
| Andre Cuenin | 222,047 | 188,803 | - | 6,661 | 3,012 | - | 420,523 | 45% | 7% |
| John Dunne | 200,018 | 23,381 | - | 16,470 | 8,078 | - | 247,947 | 9% | 3% |
| David Leighton *(retired July 2012)* | 3,750 | - | - | 338 | - | - | 4,088 | - | - |
| Andrew Levido *(resigned July 2013)* | 278,998 | 126,002 | 4,532 | 16,470 | 4,257 | - | 430,259 | 29% | 1% |
| David Purdue *(appointed Company Secretary July 2012)* | 185,886 | - | 2,644 | 16,470 | 4,433 | - | 209,433 | - | 2% |
| Pierre Semaan *(resigned Dec 2012)* | 140,364 | 46,195 | 2,266 | 8,235 | - | - | 197,060 | 23% | - |
| Jonathan Stern *(appointed April 2013)* | 45,851 | 22,927 | - | 2,475 | - | - | 71,253 | 32% | - |
| Pim Van Der Poel *(appointed Oct 2012 resigned July 2013)* | 147,930 | 79,218 | - | - | 1,419 | - | 228,567 | 35% | 1% |
| Total compensation: key management *(consolidated, including directors)* | 2,597,818 | 594,631 | 18,506 | 159,353 | 58,723 | | 3,429,031 | | |

# 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) |
| **Directors** | | | |
| Darc Rasmussen | 92,370 | 46% | 54% |
| **Executives** | | | |
| Peter Adams | 36,938 | 74% | 26% |
| Alex Baburin | 34,683 | 87% | 13% |
| Andre Cuenin | 244,293 | 72% | 28% |
| Jonathan Stern | 110,993 | 63% | 37% |
| Kevin Ryder | 22,016 | 67% | 33% |

**(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 2014 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 the following shares were issued to executives on the exercise of options previously granted as compensation.

| | Number of shares issued | Fair value of options exercised during the year ($) | Payment value of options exercised during the year ($) |
|---|---|---|---|
| **Executives** | | | |
| Alex Baburin | 10,000 | 1,254 | 3,100 |

## Analysis of rights over equity instruments granted as compensation

| | Performance rights granted | | | | | Value yet to vest ($) | |
|---|---|---|---|---|---|---|---|
| | Number | Date | Percent vested in year | Percent forfeited in year (A) | Financial year in which grant expires | Min (B) | Max (C) |
| **Directors** | | | | | | | |
| Darc Rasmussen | 350,000 | Nov-13 | - | - | 2016 | nil | 303,625 |
| Mark Brayan | 170,000 | Dec-11 | - | 100% | 2015 | nil | nil |
| | 170,000 | Oct-12 | - | 100% | 2016 | nil | nil |
| **Executives** | | | | | | | |
| Peter Adams | 100,000 | Dec-11 | - | 100% | 2015 | nil | nil |
| | 30,000 | Oct-12 | - | - | 2016 | nil | 26,520 |
| Alex Baburin | 75,000 | Dec-11 | - | 100% | 2015 | nil | nil |
| | 30,000 | Oct-12 | - | - | 2016 | nil | 26,520 |
| Andre Cuenin | 75,000 | Dec-11 | - | 100% | 2015 | nil | nil |
| | 50,000 | Oct-12 | - | - | 2016 | nil | 44,200 |
| | 85,000 | Apr-14 | - | - | 2017 | nil | 79,639 |
| Andrew Levido | 56,250 | Oct-12 | - | 100% | 2016 | nil | nil |
| David Purdue | 14,500 | Dec-11 | - | - | 2015 | nil | 5,562 |
| | 20,000 | Oct-12 | - | - | 2016 | nil | 17,680 |
| Pim Van Der Poel | 25,000 | Oct-12 | - | 100% | 2016 | nil | nil |

**(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 for performance rights for employee benefit expense purposes.

# Other Transactions with Key Management Personnel

The consolidated entity received consulting services totalling $159,480 for the year ended 30 June 2013 from The Grayrock Group Pty Limited, a company in which Peter Lloyd is a director. There were no services received for the year ended 30 June 2014.

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

# Equity instruments

All 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).

### Key management personnel compensation

The key management personnel compensation are as follows:

| | Consolidated | |
|---|---|---|
| In AUD | 2014 | 2013 |
| Short-term benefits | 3,085,453 | 3,210,955 |
| Post-employment benefits | 169,334 | 159,353 |
| Equity compensation benefits | 326,346 | 58,723 |
| | 3,581,133 | 3,429,031 |

## 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:

| Current Year | Held at 1 July 2013 | Granted as compensation | Exercised | Other changes* | Held at 30 June 2014 | Vested during the year | Vested and exercisable at 30 June 2014 |
|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | |
| Alex Baburin | 10,000 | - | (10,000) | - | - | - | - |

| Prior Year | Held at 1 July 2012 | Granted as compensation | Exercised | Other changes* | Held at 30 June 2013 | Vested during the year | Vested and exercisable at 30 June 2013 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mark Brayan | 1,000,000 | - | (500,000) | (500,000) | - | - | - |
| **Executives** | | | | | | | |
| Peter Adams | 350,000 | - | (87,500) | (262,500) | - | - | - |
| Alex Baburin | 40,000 | - | - | - | 40,000 | 10,000 | 10,000 |
| Andre Cuenin | 300,000 | - | (75,000) | - | 225,000 | - | - |
| Pierre Semaan | 200,000 | - | (50,000) | (150,000) | - | - | - |
| John Dunne | 15,000 | - | (7,500) | - | 7,500 | 7,500 | 7,500 |

* 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.

## 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 2013 | Granted as compensation | Exercised | Other changes* | Held at 30 June 2014 | Vested during the year | Vested and exercisable at 30 June 2014 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mark Brayan | 340,000 | - | - | (340,000) | - | - | - |
| Darc Rasmussen | - | 350,000 | - | - | 350,000 | - | |
| **Executives** | | | | | | | |
| Peter Adams | 130,000 | - | - | (100,000) | 30,000 | - | - |
| Alex Baburin | 105,000 | - | - | (75,000) | 30,000 | - | - |
| Andre Cuenin | 125,000 | 85,000 | - | (75,000) | 135,000 | - | - |
| Andrew Levido | 56,250 | - | - | (56,250) | - | - | - |
| David Purdue | 34,500 | - | - | - | 34,500 | - | - |
| Pim Van Der Poel | 25,000 | - | - | (25,000) | - | - | - |

| Prior Year | Held at 1 July 2012 | Granted as compensation | Exercised | Other changes* | Held at 30 June 2013 | Vested during the year | Vested and exercisable at 30 June 2013 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mark Brayan | 170,000 | 170,000 | - | - | 340,000 | - | - |
| **Executives** | | | | | | | |
| Peter Adams | 100,000 | 30,000 | - | - | 130,000 | - | - |
| Alex Baburin | 75,000 | 30,000 | - | - | 105,000 | - | - |
| Andre Cuenin | 75,000 | 50,000 | - | - | 125,000 | - | - |
| John Dunne | 75,000 | 30,000 | - | - | 105,000 | - | - |
| Andrew Levido | - | 56,250 | - | - | 56,250 | - | - |
| David Purdue | 14,500 | 20,000 | - | - | 34,500 | - | - |
| Pierre Semaan | 65,000 | - | - | (65,000) | - | - | - |
| Pim Van Poel | - | 25,000 | - | - | 25,000 | - | - |

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

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

## 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:

| Current Year | Held at 1 July 2013 | Purchases | Received on exercise of options | Other changes* | Sales | Held at 30 June 2014 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| *Non-executive* | | | | | | |
| Alan Baxter | 100,000 | 97,000 | - | - | - | 197,000 |
| Kate Costello | 200,000 | 199,622 | - | - | (200,000) | 199,622 |
| Steve Killelea | 94,834,951 | - | - | - | - | 94,834,951 |
| *Executive* | | | | | | |
| Mark Brayan | 25,000 | - | - | (25,000) | - | - |
| Darc Rasmussen | - | 8,700 | - | - | - | 8,700 |
| **Executive officers (excluding directors)** | | | | | | |
| Peter Adams | 5,000 | - | - | - | - | 5,000 |
| Alex Baburin | - | - | 10,000 | - | - | 10,000 |
| David Purdue | 18,750 | - | - | - | - | 18,750 |

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

| Prior Year | Held at 1 July 2012 | Purchases | Received on exercise of options | Other changes* | Sales | Held at 30 June 2013 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| *Non-executive* | | | | | | |
| 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 |
| *Executive* | | | | | | |
| Mark Brayan | 25,000 | - | 500,000 | - | 500,000 | 25,000 |
| **Executive officers (excluding directors)** | | | | | | |
| Peter Adams | - | - | 87,500 | | (82,500) | 5,000 |
| John Dunne | - | - | 7,500 | - | (7,500) | - |
| Pierre Semaan | - | - | 50,000 | - | (50,000) | - |
| Andre Cuenin | - | - | 75,000 | - | (75,000) | - |
| David Purdue | 18,750 | - | - | - | - | 18,750 |

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

## Other transactions with the consolidated entity

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

# Corporate Governance Statement

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

## Board of Directors and its Committees

### Role of the board

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

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

### Board process

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

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

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

### Director education

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

### 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 20 to 21 of this report.

The company's constitution provides for the board to consist of between three and twelve members. At 30 June 2014 the board members were comprised as follows:

- Mr Steve Killelea - Non Executive Director (Chairman)
- Mr Alan Baxter - Independent Non Executive Director
- Ms Kate Costello - Independent Non Executive Director
- Mr Garry Dinnie - Independent Non Executive Director
- Mr Peter Lloyd - Non Executive Director
- Mr Clyde McConaghy - Non Executive Director
- Mr Darc Rasmussen - Executive Director (Chief Executive Officer)

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

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.

## 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 three 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.

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

- Mr Garry Dinnie - Independent Non-Executive
- Mr Peter Lloyd - 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 24.

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 2014 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.

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

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

### Strategy Committee

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

The members of the Strategy Committee during the year were:

- Mr Steve Killelea (Chairman) - Non-Executive
- Mr Darc Rasmussen - Executive
- Mr Peter Lloyd - Non-Executive
- Ms Kate Costello - Independent Non-Executive
- Mr Mark Brayan - Executive (resigned August 2013)

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 three 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 Remuneration report page 28 to 39.

### 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), 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.

Integrated Research

# Financial Report 2014

Integrated Research

# Financial Statements

## Contents

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# Consolidated statement of comprehensive income

## For the year ended 30 June 2014

| In thousands of AUD | Notes | Consolidated 2014 | Consolidated 2013 |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from licence fees | | 28,048 | 26,632 |
| Revenue from maintenance fees | | 20,562 | 17,717 |
| Revenue from consulting | | 4,633 | 4,510 |
| **Total revenue** | | 53,243 | 48,859 |
| **Expenditure** | | | |
| Research and development expenses | | (11,067) | (10,777) |
| Sales, consulting and marketing expenses | | (26,836) | (23,279) |
| General and administration expenses | | (4,707) | (4,280) |
| **Total expenditure** | 4 | (42,610) | (38,336) |
| **Other gains and losses** | | | |
| Currency exchange gains/(losses) | | (364) | 591 |
| **Profit before finance income and tax** | | 10,269 | 11,114 |
| Finance income | 3 | 384 | 456 |
| **Profit before tax** | | 10,653 | 11,570 |
| Income tax expense | 6 | (2,164) | (2,492) |
| **Profit for the year** | | 8,489 | 9,078 |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit** | | | |
| Gain/(loss) on cash flow hedge taken to equity | | 897 | (777) |
| Foreign exchange translation differences | | 14 | 415 |
| **Other comprehensive income** | | 911 | (362) |
| **Total comprehensive income for the year** | | 9,400 | 8,716 |
| *Profit attributable to:* | | | |
| Members of Integrated Research | | 8,489 | 9,078 |
| *Total comprehensive income attributable to:* | | | |
| Members of Integrated Research | | 9,400 | 8,716 |
| *Earnings per share attributable to members of Integrated Research:* | | | |
| Basic earnings per share (AUD cents) | 7 | 5.03 | 5.40 |
| Diluted earnings per share (AUD cents) | 7 | 5.00 | 5.35 |

*The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 51 to 77.*

# Consolidated statement of financial position

## As at 30 June 2014

| | | Consolidated | |
|---|---|---|---|
| In thousands of AUD | Notes | 2014 | 2013 |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 13,300 | 14,827 |
| Trade and other receivables | 9 | 20,225 | 21,407 |
| Current tax assets | | 616 | 29 |
| Other current assets | 10 | 1,024 | 781 |
| Total current assets | | 35,165 | 37,044 |
| **Non-current assets** | | | |
| Trade and other receivables | 9 | 2,632 | 2,157 |
| Other financial assets | 11 | 786 | 724 |
| Property, plant and equipment | 12 | 1,680 | 1,706 |
| Deferred tax assets | 13 | 1,463 | 1,187 |
| Intangible assets | 14 | 16,257 | 15,040 |
| Total non-current assets | | 22,818 | 20,814 |
| **Total assets** | | 57,983 | 57,858 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 4,074 | 4,190 |
| Provisions | 17 | 2,105 | 2,004 |
| Income tax liabilities | | 237 | 1,349 |
| Other current liabilities | 18 | 13,580 | 13,086 |
| Total current liabilities | | 19,996 | 20,629 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 13 | 3,664 | 3,582 |
| Provisions | 17 | 778 | 756 |
| Other non-current liabilities | 18 | 2,798 | 2,881 |
| Total non-current liabilities | | 7,240 | 7,219 |
| **Total liabilities** | | 27,236 | 27,848 |
| **Net assets** | | 30,747 | 30,010 |
| **Equity** | | | |
| Issued capital | 19 | 1,667 | 1,501 |
| Reserves | 19 | (361) | (1,721) |
| Retained earnings | | 29,441 | 30,230 |
| **Total equity** | | 30,747 | 30,010 |

*The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 51 to 77.*

# Consolidated statement of changes in equity

## For the year ended 30 June 2014

| Consolidated<br>In thousands of AUD | Share capital | Hedging reserve | Translation reserve | Employee benefit reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Balance at 1 July 2013 | 1,501 | (777) | (1,368) | 424 | 30,230 | 30,010 |
| Profit for the year | - | - | - | - | 8,489 | 8,489 |
| Other comprehensive income for the year (net of tax) | - | 897 | 14 | - | - | 911 |
| Total comprehensive income for the year | - | 897 | 14 | - | 8,489 | 9,400 |
| Share based payments expense | - | - | - | 449 | - | 449 |
| Shares issued | 166 | - | - | - | - | 166 |
| Dividends to shareholders | - | - | - | - | (9,278) | (9,278) |
| Balance at 30 June 2014 | 1,667 | 120 | (1,354) | 873 | 29,441 | 30,747 |
| | | | | | | |
| Balance at 1 July 2012 | 1,175 | - | (1,783) | 276 | 29,565 | 29,233 |
| Profit for the year | - | - | - | - | 9,078 | 9,078 |
| Other comprehensive income for the year (net of tax) | - | (777) | 415 | - | - | (362) |
| Total comprehensive income for the year | - | (777) | 415 | - | 9,078 | 8,716 |
| Share based payments expense | - | - | - | 148 | - | 148 |
| Shares issued | 326 | - | - | - | - | 326 |
| Dividends to shareholders | - | - | - | - | (8,413) | (8,413) |
| Balance at 30 June 2013 | 1,501 | (777) | (1,368) | 424 | 30,230 | 30,010 |

*The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 51 to 77.*

# Consolidated statement of cash flows

## For the year ended 30 June 2014

| | | Consolidated | |
|---|---|---|---|
| In thousands of AUD | Notes | 2014 | 2013 |
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 54,080 | 50,658 |
| Cash paid to suppliers and employees | | (35,627) | (30,683) |
| Cash generated from operations | | 18,453 | 19,975 |
| Income taxes paid | | (2,434) | (2,519) |
| **Net cash provided by operating activities** | 23 | 16,019 | 17,456 |
| **Cash flows from investing activities** | | | |
| Payments for capitalised development | | (7,967) | (7,882) |
| Payments for property, plant and equipment | | (609) | (495) |
| Payments for intangible asset | | (173) | (121) |
| Divestment of other non-current financial assets | | - | 1,093 |
| Interest received | | 384 | 456 |
| **Net cash used in investing activities** | | (8,365) | (6,949) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuing of shares | | 166 | 326 |
| Payment of dividend | 19 | (9,278) | (8,413) |
| **Net cash used in financing activities** | | (9,112) | (8,087) |
| **Net (decrease)/ increase in cash and cash equivalents** | | (1,458) | 2,420 |
| Cash and cash equivalents at 1 July | | 14,827 | 12,038 |
| Effects of exchange rate changes on cash | | (69) | 369 |
| **Cash and cash equivalents at 30 June** | 8 | 13,300 | 14,827 |

*The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 51 to 77.*

# Notes to the Financial Statements

For the year ended 30 June 2014

## 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 2014 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The financial report was authorised for issue by the directors on 19 August 2014.

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

### a) Statement of Compliance

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

### b) Basis of Preparation

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

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

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

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

### New accounting standards and Interpretations

The Company has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2013 and have not had any material effect on its financial position or performance:

AASB 10 'Consolidated Financial Statement'

AASB 12 'Disclosure of Interests in Other Entities'

AASB 13 'Fair Value Measurement'

AASB 119 'Employee Benefits'

AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities'

AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'

AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'

# Note 1: Significant accounting policies (cont.)

## 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 |
|---|---|---|
| AASB2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities' | 1 Jan 2014 | 30 June 2015 |
| AASB 9 'Financial Instruments' | 1 January 2018 | 30 June 2019 |
| AASB 2013-3 'Amendments to Australian Accounting Standards - Recoverable Amount Disclosures for Non-Financial Assets' | 1 Jan 2014 | 30 June 2015 |
| AASB 1031 'Materiality' | 1 Jan 2014 | 30 June 2015 |
| AASB2013-9 'Amendments to Australian Accounting Standards - 'Conceptual Framework, Materiality and Financial Instruments' | 1 Jan 2014 | 30 June 2015 |
| Annual Improvements 2010-2012 Cycle 'Annual Improvements to IFRSs 2010-2012 cycle' | 1 July 2014 | 30 June 2015 |
| Annual Improvements 2011-2013 Cycle 'Annual Improvements to IFRSs 2011-2013 cycle' | 1 July 2014 | 30 June 2015 |
| IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)' | 1 Jan 2016 | 30 June 2017 |
| IFRS 15 'Revenue from Contracts with Customers' | 1 Jan 2017 | 30 June 2018 |

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

## c) Basis of consolidation

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

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

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

# Note 1: Significant accounting policies (cont.)

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

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

## d) Foreign currency

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

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

## e) Derivative financial instruments

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

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

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

## 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.

# Note 1: Significant accounting policies (cont.)

## g) Property, plant and equipment

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

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

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

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

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

## h) Intangible Assets

### *Research and development*

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

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

The useful lives of the capitalised are assessed as finite.

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

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

### *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.

## 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.

# Note 1: Significant accounting policies (cont.)

## 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.

### *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.

### *Employee benefits*

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

### *Make good*

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

## n) Trade and other payables

Trade and other payables are stated at their amortised cost.

## 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 (cont.)

## 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.

## 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.

| | Americas | | Europe | | Asia Pacific | | Corporate Australia[1] | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **In thousands of AUD** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Sales to customers outside the consolidated entity | 38,133 | 34,432 | 7,896 | 6,939 | 8,100 | 7,496 | (886) | (8) | - | - | 53,243 | 48,859 |
| Inter-segment sales | - | - | - | - | - | - | 28,714 | 27,675 | (28,714) | (27,675) | - | - |
| Total segment revenue | 38,133 | 34,432 | 7,896 | 6,939 | 8,100 | 7,496 | 27,828 | 27,667 | (28,714) | (27,675) | 53,243 | 48,859 |
| **Total revenue** | | | | | | | | | | | **53,243** | **48,859** |
| Segment results | 1,147 | 861 | 197 | 174 | 202 | 187 | 8,723 | 9,892 | - | - | 10,269 | 11,114 |
| Results from operating activities | | | | | | | | | | | 10,269 | 11,114 |
| Financing income (interest received) | | | | | | | | | | | 384 | 456 |
| Dividend received from subsidiary | | | | | | | 1,045 | | (1,045) | | - | - |
| Income tax expense | | | | | | | | | | | (2,164) | (2,492) |
| **Profit for the year** | | | | | | | | | | | **8,489** | **9,078** |
| Capital additions[3] | 91 | 76 | 215 | 25 | 2 | - | 474 | 515 | - | - | 782 | 616 |
| Depreciation and amortisation expenditure | 106 | 97 | 32 | 27 | 2 | - | 7,415 | 7,320 | - | - | 7,555 | 7,445 |

| **In thousands of local currency[2]** | Americas (USD) | | Europe (GBP) | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Sales to customers outside the consolidated entity | 34,759 | 35,247 | 4,415 | 4,519 |
| Inter-segment sales | - | - | - | - |
| Total segment revenue | 34,759 | 35,247 | 4,415 | 4,519 |
| Segment results | 1,044 | 881 | 111 | 113 |

[1] *Corporate Australia includes both the research and development and corporate head office functions of the Integrated Research Limited.*

[2] *Segment results represented in local currencies as reviewed by the Chief Operating Decision Maker.*

[3] *Excludes internal development costs capitalised but includes third party assets acquired.*

# Note 3. Finance income

| In thousands of AUD | Consolidated 2014 | Consolidated 2013 |
|---|---|---|
| Interest income | 384 | 456 |
| | 384 | 456 |

# Note 4. Expenditure

Total expenditure includes:

| In thousands of AUD | Consolidated 2014 | Consolidated 2013 |
|---|---|---|
| Employee benefits expense: | | |
| Defined contribution plans | 1,617 | 1,513 |
| Equity settled share-based payments | 453 | 148 |
| Other employee benefits | 29,798 | 27,507 |
| | 31,868 | 29,168 |
| Depreciation and amortisation | 7,555 | 7,445 |
| Bad and doubtful debt expense | 288 | 182 |
| Operating lease rental expenses | 1,514 | 1,221 |

# Note 5. Auditors' remuneration

2014 and 2013 Ernst and Young.

| In AUD | Consolidated 2014 | Consolidated 2013 |
|---|---|---|
| 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 | 135,000 | 162,740 |
| Remuneration for other services by the auditors of the Company or any entity in the consolidated entity: | | |
| Taxation services: | | |
| Auditors of the Company | 121,361 | 75,389 |

# Note 6. Income tax expense

## Recognised in profit for the year

| | | Consolidated | |
|---|---|---|---|
| In thousands of AUD | Note | 2014 | 2013 |
| Current tax expense: | | | |
| Current year | | 2,203 | 2,430 |
| Prior year adjustments | | (233) | (93) |
| | | 1,970 | 2,337 |
| Deferred tax expense: | | | |
| Origination and reversal of temporary differences | 13 | 194 | 155 |
| Total income tax expense in profit and loss | | 2,164 | 2,492 |

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

| | Consolidated | |
|---|---|---|
| In thousands of AUD | 2014 | 2013 |
| Profit before tax | 10,653 | 11,570 |
| Income tax using the domestic corporate tax rate of 30% | 3,196 | 3,471 |
| Increase in income tax expense due to: | | |
| Non-deductible expenses | 203 | 105 |
| Effect of tax rates in foreign jurisdictions | 202 | 76 |
| Decrease in income tax expense due to: | | |
| R&D tax incentive | (1,199) | (1,144) |
| Other | (5) | 77 |
| Prior year adjustments | (233) | (93) |
| Income tax expense | 2,164 | 2,492 |

# Note 7. Earnings per share

The calculation of basic and diluted earnings per share at 30 June 2014 was based on the profit attributable to ordinary shareholders of $8,489,000 (2013: $9,078,000); a weighted number of ordinary shares outstanding during the year ended 30 June 2014 of 168,719,799 (2013: 168,226,574); and a weighted number of ordinary shares (diluted) outstanding during the year ended 30 June 2014 of 169,895,017 (2013: 169,659,715), calculated as follows:

| | Consolidated | |
|---|---|---|
| **In thousands of AUD** | **2014** | **2013** |
| Profit for the year | 8,489 | 9,078 |

## Weighted average number of shares used as the denominator

| | Consolidated | |
|---|---|---|
| **(Number)** | **2014** | **2013** |
| Number for basic earnings per share: | | |
| Ordinary shares | 168,719,799 | 168,226,574 |
| Effect of employee share plans on issue | 1,175,218 | 1,433,141 |
| Number for diluted earnings per share | 169,895,017 | 169,659,715 |
| | | |
| Basic earnings per share (AUD cents) | 5.03 | 5.40 |
| Diluted earnings per share (AUD cents) | 5.00 | 5.35 |

# Note 8. Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| **In thousands of AUD** | **2014** | **2013** |
| Cash at bank and on hand | 13,300 | 14,827 |

# Note 9. Trade and other receivables

| In thousands of AUD | Consolidated 2014 | Consolidated 2013 |
|---|---|---|
| **Current** | | |
| Trade debtors | 20,934 | 22,451 |
| Less: Allowance for doubtful debts | (858) | (1,139) |
| | 20,076 | 21,312 |
| GST receivable | 149 | 95 |
| | 20,225 | 21,407 |
| **Non-current** | | |
| Trade debtors | 2,632 | 2,157 |

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 2014 | Consolidated 2013 |
|---|---|---|
| Past due 90 days | 1,868 | 3,770 |

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

| In thousands of AUD | Consolidated 2014 | Consolidated 2013 |
|---|---|---|
| Balance at beginning of year | 1,139 | 1,237 |
| Amounts written off during the year | (569) | (280) |
| Increase in provision | 288 | 182 |
| Balance end of year | 858 | 1,139 |

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 $1,010,000 (2013: $2,631,000) 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

| | Consolidated | |
|---|---|---|
| In thousands of AUD | 2014 | 2013 |
| Other prepayments | 847 | 781 |
| Fair value of hedge asset - forward foreign exchange contracts | 177 | - |
| | 1,024 | 781 |

# Note 11. Other financial assets

| | Consolidated | |
|---|---|---|
| In thousands of AUD | 2014 | 2013 |
| Deposits | 786 | 724 |

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

## Note 12. Property, plant and equipment

| In thousands of AUD | Consolidated 2014 | 2013 |
|---|---|---|
| **Plant and Equipment** | | |
| At cost | 3,148 | 4,899 |
| Accumulated depreciation | (2,215) | (3,972) |
| | 933 | 927 |
| **Leasehold Improvements** | | |
| At cost | 2,174 | 2,021 |
| Accumulated depreciation | (1,427) | (1,242) |
| | 747 | 779 |
| **Total property, plant and equipment** | | |
| At cost | 5,322 | 6,920 |
| Accumulated depreciation | (3,642) | (5,214) |
| Total written down amount | 1,680 | 1,706 |
| **Plant and Equipment** | | |
| Carrying amount at start of year | 927 | 863 |
| Additions | 427 | 482 |
| Effects of foreign currency exchange | - | 11 |
| Depreciation expense | (421) | (429) |
| Carrying amount at end of year | 933 | 927 |
| **Leasehold Improvements** | | |
| Carrying amount at start of year | 779 | 957 |
| Additions | 182 | 13 |
| Effects of foreign currency exchange | (2) | 9 |
| Depreciation expense | (212) | (200) |
| Carrying amount at end of year | 747 | 779 |

# Note 13. Deferred tax assets and liabilities

## Deferred tax assets and liabilities are attributable to the following:

| Consolidated | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| In thousands of AUD | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Intangible assets | - | - | 4,842 | 4,485 | (4,842) | (4,485) |
| Trade and other payables | 252 | 416 | - | - | 252 | 416 |
| Employee benefits | 965 | 745 | - | - | 965 | 745 |
| Provisions | 416 | 533 | - | - | 416 | 533 |
| Other current liabilities | 893 | 587 | - | - | 893 | 587 |
| Unrealised foreign exchange gain | - | - | - | 191 | - | (191) |
| Unrealised foreign exchange loss | 115 | - | - | - | 115 | - |
| Deferred tax assets/(liabilities) | 2,641 | 2,281 | 4,842 | 4,676 | (2,201) | (2,395) |
| Set off of deferred tax asset | (1,178) | (1,094) | (1,178) | (1,094) | - | - |
| Net deferred tax assets/(liabilities) | 1,463 | 1,187 | 3,664 | 3,582 | (2,201) | (2,395) |

## Movement in temporary differences during the year:

| | Consolidated | | | |
|---|---|---|---|---|
| In thousands of AUD | Balance 1 July 13 | Recognised in income | Recognised in equity | Balance 30 June 14 |
| **For year ended 30 June 2014** | | | | |
| Property, plant and equipment | - | - | - | - |
| Intangible assets | (4,485) | (357) | - | (4,842) |
| Trade and other payables | 416 | (164) | - | 252 |
| Employee benefits | 745 | 220 | - | 965 |
| Provisions | 533 | (117) | - | 416 |
| Other current liabilities | 587 | 306 | - | 893 |
| Unrealised foreign exchange gain | (191) | 191 | - | - |
| Unrealised foreign exchange loss | - | 115 | - | 115 |
| | (2,395) | 194 | - | (2,201) |

| | Consolidated | | | |
|---|---|---|---|---|
| In thousands of AUD | Balance 1 July 12 | Recognised in income | Recognised in equity | Balance 30 June 13 |
| **For year ended 30 June 2013** | | | | |
| Property, plant and equipment | (50) | 50 | - | - |
| Intangible assets | (4,063) | (422) | - | (4,485) |
| Trade and other payables | 468 | (52) | - | 416 |
| Employee benefits | 772 | (27) | - | 745 |
| Provisions | 364 | 169 | - | 533 |
| Other current liabilities | - | 587 | - | 587 |
| Unrealised foreign exchange gain | (41) | (150) | - | (191) |
| | (2,550) | 155 | - | (2,395) |

# Note 14. Intangible assets

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

| | Consolidated | |
|---|---|---|
| **In thousands of AUD** | **2014** | **2013** |
| Research and development expenses | 6,922 | 6,816 |
| | 6,922 | 6,816 |

The balance of capitalised intangible assets comprises:

| | Consolidated | | |
|---|---|---|---|
| **In thousands of AUD** | **Software development** | **Third party software** | **Total** |
| **Cost** | | | |
| Balance at 1 July 2012 | 20,964 | 1,650 | 22,614 |
| Fully amortised & offset | (4,295) | - | (4,295) |
| Effects of foreign currency exchange | - | 14 | 14 |
| Internally developed | 7,882 | - | 7,882 |
| Acquired | - | 121 | 121 |
| Balance at 30 June 2013 | 24,551 | 1,785 | 26,336 |
| Balance at 1 July 2013 | 24,551 | 1,785 | 26,336 |
| Fully amortised & offset | (5,619) | (789) | (6,408) |
| Effects of foreign currency exchange | - | (2) | (2) |
| Internally developed | 7,967 | - | 7,967 |
| Acquired | - | 173 | 173 |
| Balance at 30 June 2014 | 26,899 | 1,167 | 28,066 |
| **Amortisation** | | | |
| Balance at 1 July 2012 | 7,422 | 1,343 | 8,765 |
| Fully amortised & offset | (4,295) | - | (4,295) |
| Effects of foreign currency exchange | - | 10 | 10 |
| Amortisation for year | 6,607 | 209 | 6,816 |
| Balance at 30 June 2013 | 9,734 | 1,562 | 11,296 |
| Balance at 1 July 2013 | 9,734 | 1,562 | 11,296 |
| Fully amortised & offset | (5,619) | (789) | (6,408) |
| Effects of foreign currency exchange | - | (1) | (1) |
| Amortisation for year | 6,740 | 182 | 6,922 |
| Balance at 30 June 2014 | 10,855 | 954 | 11,809 |
| **Carrying amounts** | | | |
| Balance at 30 June 2013 | 14,817 | 223 | 15,040 |
| Balance at 30 June 2014 | 16,044 | 213 | 16,257 |

# Note 15. Trade and other payables

| | Consolidated | |
|---|---|---|
| In thousands of AUD | 2014 | 2013 |
| Trade and other creditors | 4,074 | 4,190 |
| | 4,074 | 4,190 |

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

# Note 16. Employee benefits

| | Consolidated | |
|---|---|---|
| In thousands of AUD | 2014 | 2013 |
| **Current** | | |
| Liability for annual leave | 1,498 | 1,549 |
| Liability for long service leave | 607 | 455 |
| | 2,105 | 2,004 |
| **Non-current** | | |
| Liability for long service leave | 361 | 374 |

## 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.

# Note 16. Employee benefits (cont.)

## Share based payments

### *Performance Rights*

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

| Grant Date | Number of Rights | Earliest Vesting Date | Expiry date |
|---|---|---|---|
| 10 September 2013 | 165,000 | Sep 2016 | Oct 2016 |
| 14 November 2013 | 350,000 | Oct 2014 | Oct 2016 |
| 04 April 2014 | 85,000 | Aug 2017 | Sep 2017 |

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

| Grant date | 10 Sep 2013 | 14 Nov 2013 | 04 Apr 2014 |
|---|---|---|---|
| Fair value at measurement date | $0.7815 | $0.8675 | $0.9369 |
| Share price | $0.93 | $0.98 | $1.115 |
| Exercise price | nil | nil | nil |
| Expected volatility | 50% | 50% | 50% |
| Contractual life (expressed in days) | 1,096 | 2,080 | 1,245 |
| Expected dividends | 5.80% | 4.19% | 5.80% |
| Risk-free interest rate (based on 3 year treasury bonds) | 2.68% | 3.04% | 3.00% |

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 2014, the consolidated entity recognised an expense through profit of $452,000 related to the fair value of performance rights (2013: $156,000).

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

| In thousands of performance rights | 2014 | 2013 |
|---|---|---|
| Outstanding at the beginning of the year | 1,853 | 1,535 |
| Forfeited during the year | (516) | (93) |
| Exercised during the year | - | - |
| Granted during the year | 600 | 411 |
| Outstanding at the end of the year | 1,937 | 1,853 |
| Exercisable at the end of the year (vested) | - | - |

# Note 16. Employee benefits (cont.)

***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 2014 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

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

| In thousands of options | Weighted Average exercise price 2014 | Number of options 2014 | Weighted Average exercise price 2013 | Number of options 2013 |
|---|---|---|---|---|
| Outstanding at the beginning of the year | $0.29 | 872 | $0.36 | 2,645 |
| Forfeited during the year | $0.28 | (479) | $0.40 | (912) |
| Exercised during the year | $0.30 | (393) | $0.38 | (861) |
| Granted during the year | $- | - | $- | - |
| Outstanding at the end of the year | $- | - | $0.29 | 872 |
| Exercisable at the end of the year (vested) | $- | - | $0.28 | 467 |

There are no options outstanding at 30 June 2014.

During the year ended 30 June 2014, 392,500 options were exercised (2013: 860,500).

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 2014 financial year (2013:nil).

# Note 17. Provisions

| In thousands of AUD | Note | Consolidated 2014 | Consolidated 2013 |
|---|---|---|---|
| **Current** | | | |
| Employee benefits | 16 | 2,105 | 2,004 |
| | | 2,105 | 2,004 |
| **Non-current** | | | |
| Employee benefits | 16 | 361 | 374 |
| Lease make good | | 417 | 382 |
| | | 778 | 756 |

# Note 18. Other liabilities

| In thousands of AUD | Consolidated 2014 | Consolidated 2013 |
|---|---|---|
| **Current** | | |
| Fair value of hedge liabilities - forward foreign exchange contracts | 9 | 1,238 |
| Deferred revenue | 13,571 | 11,848 |
| | 13,580 | 13,086 |
| **Non-Current** | | |
| Deferred revenue | 2,798 | 2,881 |

# Note 19. Capital and reserves

## Share capital

| In thousands of shares | Ordinary shares 2014 | Ordinary shares 2013 |
|---|---|---|
| On issue 1 July | 168,367 | 167,507 |
| Issued against employee options exercised | 393 | 860 |
| On issue 30 June | 168,760 | 168,367 |

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.

# Note 19. Capital and reserves (cont.)

## Translation reserve

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

## Employee benefit reserve

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

## 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 |
|---|---|---|---|---|
| **2014** | | | | |
| Final 2013 | 3.0 | 5,055 | 40% franked | 13 Sep 2013 |
| Interim 2014 | 2.5 | 4,223 | 30% franked | 21 Mar 2014 |
| Total amount | | 9,278 | | |
| | | | | |
| **2013** | | | | |
| Final 2012 | 3.0 | 5,045 | 70% franked | 14 Sep 2012 |
| Interim 2013 | 2.0 | 3,368 | 30% franked | 15 Mar 2013 |
| Total amount | | 8,413 | | |

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 2014 and will be recognised in subsequent financial statements:

| In thousands of AUD | Cents per share | Total amount | Franked/ unfranked | Date of payment |
|---|---|---|---|---|
| Final 2014 | 2.5 | 4,224 | 35% franked | 12 Sep 14 |

The final dividend declared of 2.5 cents together with the interim dividend paid in March 2014 of 2.5 cents takes total dividends for the 2014 financial year to 5.0 cents.

## Franking account disclosure:

| | Company | |
|---|---|---|
| In thousands of AUD | 2014 | 2013 |
| Adjusted franking account balance | 737 | 944 |
| Impact on franking account balance of dividends not recognised | (634) | (866) |

# 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 (cont.)

## Foreign currency risk management

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

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

| | Consolidated | | | |
|---|---|---|---|---|
| | Liabilities | | Assets | |
| In thousands of AUD | 2014 | 2013 | 2014 | 2013 |
| US Dollar | 188 | 325 | 2,153 | 3,989 |
| Euro | - | - | 1,889 | 2,669 |
| UK Sterling | - | - | 1 | 10 |

## Foreign currency sensitivity

At 30 June 2014, if the US Dollar, Euro and UK Sterling weakened and strengthened against the Australian Dollar by the percentage shown, with all other variables held constant, net profit for the year would increase (decrease) by:

| | Consolidated | | | |
|---|---|---|---|---|
| | Net profit | | Retained earnings | |
| In thousands of AUD | 2014 | 2013 | 2014 | 2013 |
| US Dollar Impact | 218 | 407 | 218 | 407 |
| Euro Impact | 210 | 297 | 210 | 297 |
| UK Sterling Impact | - | 1 | - | 1 |
| Change in currency (i) - 10% decrease | | | | |
| US Dollar Impact | (179) | (347) | (179) | (347) |
| Euro Impact | (172) | (243) | (172) | (243) |
| UK Sterling Impact | - | (1) | - | (1) |
| Change in currency (i) - 10% increase | | | | |

*(i) This has been based on the change in the exchange rate against the Australian Dollar in the financial years ended 30 June 2014 and 30 June 2013.*

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

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

# Note 20. Financial instruments (cont.)

## Forward foreign exchange contracts

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

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

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

| | Average Exchange Rate | | Foreign Currency | | Contract Value | | Fair Value | |
|---|---|---|---|---|---|---|---|---|
| Outstanding contracts | 2014 | 2013 | 2014 FC'000 | 2013 FC'000 | 2014 A$'000 | 2013 A$'000 | 2014 A$'000 | 2013 A$'000 |
| **Consolidated** | | | | | | | | |
| **Sell US Dollar** | | | | | | | | |
| Less than 3 months | 0.92 | 1.01 | 2,900 | 3,600 | 3,136 | 3,564 | 45 | (357) |
| 3 to 6 months | 0.91 | 1.01 | 1,650 | 2,400 | 1,808 | 2,376 | 38 | (257) |
| 6 to 9 months | 0.89 | 1.00 | 1,750 | 2,550 | 1,967 | 2,561 | 79 | (255) |
| 9 to 12 months | 0.92 | 1.00 | 1,300 | 2,000 | 1,408 | 2,013 | (1) | (209) |
| **Sell Euros** | | | | | | | | |
| Less than 3 months | 0.68 | 0.78 | 310 | 750 | 454 | 966 | 3 | (104) |
| 3 to 6 months | 0.68 | 0.76 | 210 | 200 | 309 | 262 | 1 | (26) |
| 6 to 9 months | 0.67 | 0.75 | 215 | 200 | 321 | 266 | 3 | (20) |
| 9 to 12 months | 0.67 | 0.75 | 295 | 100 | 443 | 134 | 5 | (10) |
| **Sell Sterling** | | | | | | | | |
| Less than 3 months | 0.55 | - | 270 | - | 490 | - | (2) | - |
| 3 to 6 months | 0.55 | - | 70 | - | 128 | - | (1) | - |
| 6 to 9 months | 0.55 | - | 160 | - | 293 | - | (2) | - |
| 9 to 12 months | 0.54 | - | 150 | - | 275 | - | (2) | - |
| | | | | | | | 166 | (1,238) |

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

## Interest rate risk management

The consolidated entity is exposed to interest rate risk on the cash held in bank deposits. Cash in bank and term deposits of $13,949,000 were held by the consolidated entity at the reporting date, attracting an average interest rate of 3.01% (2013: 3.26%). 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 $69,745 (2013: $78,000).

# Note 20. Financial instruments (cont.)

## 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.

## 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 2014 and 2013 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:

| | Consolidated | |
|---|---|---|
| **In thousands of AUD** | **2014** | **2013** |
| Less than one year | 1,078 | 1,197 |
| Between one and five years | 1,768 | 2,250 |
| Greater than five years | - | - |
| | 2,846 | 3,447 |

# Note 22. Consolidated entities

| | Country of incorporation | Ownership interest 2014 | 2013 |
|---|---|---|---|
| *Parent entity:* | | | |
| Integrated Research Limited | Australia | | |
| *Subsidiaries:* | | | |
| Integrated Research, Inc | USA | 100% | 100% |
| Integrated Research UK Limited | UK | 100% | 100% |
| Integrated Research Singapore Pty Limited | Singapore | 100% | 100% |

# Note 23. Reconciliation of cash flows from operating activities

| In thousands of AUD | Consolidated 2014 | 2013 |
|---|---|---|
| Profit for the year | 8,489 | 9,078 |
| Depreciation and amortisation | 7,555 | 7,445 |
| Provision for doubtful debts | (281) | (98) |
| Interest received | (384) | (456) |
| Share-based payments expense | 453 | 148 |
| Net exchange differences | (805) | (725) |
| *Change in operating assets and liabilities:* | | |
| (Increase)/decrease in trade debtors | 988 | (2,085) |
| (Increase)/decrease in future income tax benefit | (276) | (734) |
| (Increase)/decrease in other operating assets | 892 | 261 |
| Increase/(decrease) in trade and other payables | (116) | (95) |
| Increase/(decrease) in other operating liabilities | 411 | 4,082 |
| Increase/(decrease) in provision for income taxes payable | (1,112) | (304) |
| Increase/(decrease) in provision for deferred income taxes | 82 | 579 |
| Increase/(decrease) in other provisions | 123 | 360 |
| Net cash from operating activities | 16,019 | 17,456 |

# Note 24. Key management personnel disclosures

## Key management personnel compensation

The key management personnel compensation are as follows:

| | Consolidated | |
|---|---|---|
| **In AUD** | **2014** | **2013** |
| Short-term benefits | 3,085,453 | 3,210,955 |
| Post-employment benefits | 169,334 | 159,353 |
| Equity compensation benefits | 326,346 | 58,723 |
| | 3,581,133 | 3,429,031 |

## Other Transactions with Key Management Personnel

The consolidated entity received consulting services totalling $159,480 for the year ended 30 June 2013 from The Grayrock Group Pty Limited, a company in which Peter Lloyd is a director. There were no services received for the year ended 30 June 2014.

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

# Note 25. Related parties

The consolidated entity has a related party relationship with its key management personnel (see remuneration report pages 28-39).

At 30 June 2014 Mr Steve Killelea, the Chairman of the Company, owned either directly or indirectly 56.13% of the Company (2013: 56.33%).

# Note 26. Parent entity disclosures

| In thousands of AUD | Parent Entity 2014 | Parent Entity 2013 |
|---|---|---|
| **Financial Position** | | |
| Assets | | |
| Current assets | 18,044 | 20,085 |
| Non-current assets | 18,244 | 17,211 |
| Total Assets | 36,288 | 37,296 |
| | | |
| Liabilities | | |
| Current Liabilities | 4,814 | 6,828 |
| Non-current liabilities | 4,603 | 4,563 |
| Total Liabilities | 9,417 | 11,391 |
| Net Assets | 26,871 | 25,905 |
| | | |
| Equity | | |
| Issued Capital | 1,667 | 1,501 |
| Employee benefits Reserve | 873 | 424 |
| Hedging reserve | 120 | (777) |
| Retained Earnings | 24,211 | 24,757 |
| Total Equity | 26,871 | 25,905 |
| | | |
| **Financial Performance** | | |
| Profit for the year | 8,732 | 8,621 |
| Other comprehensive income | 897 | (777) |
| Total comprehensive income | 9,629 | 7,844 |

Investments in subsidiaries are included at cost.

# Note 27. Subsequent events

For dividends declared after 30 June 2014 see Note 19 in the financial statements. The financial effect of dividends declared and paid after 30 June 2014 have not been brought to account in the financial statements for the year ended 30 June 2014 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

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

1. In the opinion of the directors:

   (a) the financial statements and notes of Integrated Research Limited for the financial year ended 30 June 2014 are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

      (ii) complying with Accounting Standards and the Corporations Regulations 2001;

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

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

2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the board

Dated at North Sydney this 19th day of August 2014.

**Steve Killelea**
Chairman

**Darc Rasmussen**
Chief Executive Officer

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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

## *Report on the financial report*

We have audited the accompanying financial report of Integrated Research Limited, which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

## *Directors' responsibility for the financial report*

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

## *Auditor's responsibility*

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

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

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

## *Independence*

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

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## 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 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## *Report on the remuneration report*

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

John Robinson
Partner
Sydney
19 August 2014

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

In relation to our audit of the financial report of Integrated Research Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

John Robinson
Partner
19 August 2014

# ASX Additional Information

## Shareholder information

Analysis of numbers of equity security holders by size of holding as at 1 September 2014.

| | Class of equity security | | |
|---|---|---|---|
| | Ordinary shares | | |
| | Shares | Options | Performance rights |
| 1 -1,000 | 555 | - | - |
| 1,001 - 5,000 | 1,826 | - | 29 |
| 5,001 - 10,000 | 996 | - | 43 |
| 10,001 - 100,000 | 1,246 | - | 29 |
| 100,001 and over | 79 | - | 5 |
| | 4,702 | - | 106 |

# Equity security holders

## Twenty largest quoted equity security holders

The names of twenty largest holders of quoted equity securities as at 1 September 2014 are listed below:

| | | Ordinary shares | |
|---|---|---|---|
| | | Number held | Percentage of issued shares |
| 1 | MR STEPHEN JOHN KILLELEA | 94,497,339 | 55.93 |
| 2 | MR ANDREW RHYS RUTHERFORD | 3,505,869 | 2.07 |
| 3 | CITICORP NOMINEES PTY LIMITED | 1,670,985 | 0.99 |
| 4 | EQUITAS NOMINEES PTY LTD | 1,513,207 | 0.90 |
| 5 | KEY GLORY INVESTMENTS PTY LTD | 1,000,000 | 0.59 |
| 6 | JP MORGAN NOMINEES AUSTRALIA LIMITED | 986,347 | 0.58 |
| 7 | CUSTODIAL SERVICES LTD | 945,484 | 0.56 |
| 8 | FORSYTH BARR CUSTODIANS LTD | 754,870 | 0.45 |
| 9 | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD | 664,545 | 0.39 |
| 10 | SPECTROK PTY LTD <THE HEDLEY SUPER FUND A/C> | 641,359 | 0.38 |
| 11 | BELL POTTER NOMINEES LTD | 532,000 | 0.31 |
| 12 | MR KEVIN JOHN CAIRNS + MRS CATHERINE VALERIE CAIRNS <CAIRNS FAMILY SUPER A/C> | 500,000 | 0.30 |
| 13 | MR RODNEY WALTER ROSS | 405,000 | 0.24 |
| 14 | FERGFAM NOMINEES PTY LTD | 375,263 | 0.22 |
| 15 | MR GARY RONALD POOLE + MRS LEIGH MARGARET POOLE <POOLE SUPER FUND A/C> | 365,000 | 0.22 |
| 16 | MS FIONA CATHERINE MURPHY | 342,775 | 0.20 |
| 17 | BIPETA PTY LTD | 337,612 | 0.20 |
| 18 | MR COLIN GREGORY ORGAN | 330,000 | 0.20 |
| 19 | FARVEX CORPORATION PTY LIMITED | 325,000 | 0.19 |
| 20 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 307,172 | 0.18 |

## Unquoted equity securities

| | Number on issue | Number of holders |
|---|---|---|
| Option issued under the Integrated Research Limited Employee Option Plan to take up ordinary shares | - | - |
| Performance Rights issued under the Integrated Research Limited Performance Rights and Option Plan to take up ordinary shares | 1,936,500* | 108 |

** Number of unissued ordinary shares under the Performance Rights.*

## On-market buy-back

There is no current on-market buy-back.

## Substantial holders

Substantial holders in the Company are set below:

| | Number held | Percentage |
|---|---|---|
| Stephen John Killelea* | 94,834,951 | 56.13 |

** Include direct and indirect holdings.*

# Voting rights

The voting rights attaching to each class of equity securities are set out below:

### 1. Ordinary shares.

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

### 2. Options.

No voting rights.

### 3. Performance rights.

No voting rights.

# Other information

Integrated Research Limited, incorporated and domiciled in Australia, is a publicly listed Company limited by shares.

# Corporate Directory

## Directors

**Steve Killelea**
Chairman and Non-Executive Director

**Darc Rasmussen**
Managing Director and CEO

**Alan Baxter**
Independent Non-Executive Director

**Garry Dinnie**
Independent Non-Executive Director

**Kate Costello**
Independent Non-Executive Director

**Peter Lloyd**
Non-Executive Director

**Clyde McConaghy**
Non-Executive Director

## Secretary

**David Purdue**

## Registered Office

Level 9, 100 Pacific Highway
North Sydney, NSW, 2060
Phone: (+61 2) 9966 1066

## Share Registry

**Computershare**

## Auditors

**Ernst & Young**
Ernst & Young Centre
680 George Street
Sydney, NSW, 2000

## Solicitors

**Ashurst**
Level 36, Grosvenor Place
225 George Street
Sydney, NSW, 2000

## Bankers

**Westpac Banking Corporation**

## Securities Exchange Listing

**Australian Securities Exchange**
Code IRI

## Country of Incorporation

Integrated Research Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

## Notice of Annual General Meeting

The Annual General Meeting of Integrated Research Limited will be held at 3:00pm on Thursday, 13 November 2014, at the Museum of Sydney, Corner of Phillip and Bridge Streets, Sydney.

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