Integrated Research Limited

ABN: 76 003 588 449

Annual Financial Report - 30 June 2003

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Corporate Directory

Directors	Brian Gatfield *Chairman and Independent Non-Executive Director* Alex Kennedy *Independent Non-Executive Director* Steve Killelea *Managing Director and Chief Executive Officer* David Leighton *Finance Director and Chief Financial Officer* Ian Winlaw *Independent Non-Executive Director* David Boyles (appointed 17 July 2003) *Independent Non-Executive Director*
Secretary	David Leighton
Registered Office	Level 10, 168 Walker Street North Sydney, NSW, 2060 Australia Phone: (+61 2) 9966 1066
Share Registry	Computershare Investor Services Pty Limited
Auditors	KPMG The KPMG Centre 45 Clarence Street Sydney, NSW, 1213
Solicitors	Dibbs Barker Gosling Level 8, Angel Place 123 Pitt Street Sydney, NSW, 2000
Bankers	Westpac Banking Corporation
Stock Exchange Listing	Australian Stock 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 2:00pm on Tuesday, 18th November 2003, at the Museum of Sydney, Corner of Phillip and Bridge Streets, Sydney.

Letter from the Chairman

Integrated Research Limited had a disappointing year in 2002/3 with its previously unblemished record of increasing revenues broken by adverse events and conditions that we were unable to overcome. Chief amongst these was the slump in IT spending in the US, coupled with uncertainty surrounding the Iraq conflict and failure of the major economies to return to growth. Full year after tax earnings of $1,072,000 have been affected by an operating loss in the second half of $692,000.

A detailed analysis of the result is provided in the following pages, however I think it is important to retain a perspective on the results, given the very difficult environment for companies in the IT segment. Integrated Research's PROGNOSIS range of high-availability systems management software products continues to receive high praise from within the IT industry and customers alike, and the Company remains committed to retaining its position as a technically innovative provider of systems management software to companies operating in the critical high-availability computing environment. It remains debt free and has a strong recurring revenue base, which provides sufficient cash resources to maintain its strategy of product development.

After careful review, your Directors concluded it was not appropriate to pay a further dividend for the 2003 financial year beyond the interim, unfranked dividend of 0.75 cps paid in March 2003. This accords with the Company's stated policy for annual dividends to absorb between 40% and 60% of after tax profits.

In the second half of the year we undertook a major review of governance, guided by those Principles and Best Practice Recommendations set out by the ASX Corporate Governance Council. Where necessary, changes have been made and your Board believes the Company has in place policies and frameworks to ensure that a high standard of corporate governance is maintained. Corporate governance information is included on pages 13 to 17 of this report and significant accounting policies are summarised in note 1 of the financial report on pages 21 to 24. Further information may also be found in the corporate governance section of the Company's web site (www.ir.com).

Two notable appointments to the Board of Integrated Research have been made since the last report: Alex Kennedy in May and David Boyles in July 2003. Both bring relevant experience and fresh expertise and on your behalf, I welcome their contribution as independent, non-executive Directors.

During the year we were obliged to revise earlier profit guidance on two occasions, putting the Company in disfavour with the investment community. Given our business is so highly leveraged to US IT spending, recovery of which Directors cannot reliably forecast, it was decided not to provide further earnings guidance at least until our November AGM in 2003. I limit my remarks until then to say I expect 2003/4 will prove a better year.

My fellow Directors and I thank you for your continued support of Integrated Research through a most difficult year and look forward to the prospect of a more rewarding 2003/4.

Brian Gatfield
Chairman

Chief Executive Officer's Report

The past year, and particularly the last six months, has been the most difficult business environment for IT companies in the history of the industry. This was no exception for Integrated Research and our performance during this period was poorer than in past years.

The Company has put cost saving measures in place that should enable us to remain profitable through the coming year even if the level of revenue continues at the level of the second half of the 2002/03 financial year. As a company, we must work harder and smarter, and I have every confidence in the future of Integrated Research, our products and our people to overcome the shift that has occurred in IT and to maintain our position as a leading provider of real-time systems management software in the critical high-reliability computer environment.

A few months ago I was delighted to accept on behalf of Integrated Research, The Minister's Award for Excellence, Australia's top honour for an Australian IT company. The Award was presented in May at the Australian Information Industry Association's iAwards evening. The Company also received the award in the International category as Australia's best IT exporter. These awards are indicative of the choices we have made as a company, and the ground-breaking solutions that our customers continue to rely on.

During the year we also held our annual Customer Advisory Board meeting in Phoenix, Arizona, where our key customers joined us to review the Company's products and help set future strategy. I really appreciated the enthusiasm shown toward our cross-platform offering and the increasing take-up of cross-platform solutions by our existing customers.

The company is clear on its strategy of providing systems management software for high-availability environments with particular emphasis on niches such as e-business, IP Telephony management and HP NonStop Server environments.

During 2002/03 we have strengthened our executive team with key appointments across the company bringing into the organization a number of successful, experienced managers whose backgrounds include management in global software development, sales and distribution companies.

We are continuing in our development of the PROGNOSIS suite of products for HP NonStop, Windows, UNIX and Linux environments, and have strengthened our sales, marketing and distribution organizations. As we begin a new financial year we are hopeful of a recovery in the IT business environment, but conscious of the need to closely manage our cost structure so that we are in a strong position to take advantage of any recovery as soon as it occurs.

Steve Killelea
Chief Executive Officer

Review of Operations and Activities

Principal activities

The Company's principal activities during the period were the design, development and sale of systems and applications management computer software for high-reliability computer systems. There were no significant changes in the nature of these activities during the year.

Group overview

Integrated Research specialises in the development, marketing, sales and support of sophisticated systems management software. Since its establishment in 1988, the company has provided its core PROGNOSIS product suite to a range of organisations requiring high levels of performance, availability and reliability from their systems. Integrated Research now has over 450 customers in more than 40 countries worldwide, having sold over 10,000 licences of its PROGNOSIS software.

The PROGNOSIS product range provides real-time integrated systems and application management across the HP NonStop, Windows, UNIX and Linux platforms, and a sophisticated set of solutions for third-party application providers. The company has developed its PROGNOSIS products around a unique core, common architecture, designed to achieve high levels of functionality, scalability, reliability and cross-platform capability, with a low total cost of ownership.

Integrated Research's customer base consists of many of the world's largest organisations and includes major stock exchanges, banks, credit card companies, computer companies and hospitals.

The company generates most of its revenue from upfront licence fees, recurring maintenance and recurring licence fees.

Integrated Research Limited listed on the Australian Stock Exchange in December, 2000. The company expanded its product line and introduced its PROGNOSIS for Windows and UNIX products, creating an integrated cross-platform systems management suite based on its core architecture. These products have been well accepted in the marketplace with more than 3,000 licences of PROGNOSIS for Windows and UNIX having been sold to over 200 customers in the Americas, Europe and Asia Pacific regions.

At 30 June 2003, Integrated Research employed 115 people, of whom 43 were involved in product development, 49 in sales and marketing and 23 in administration.

Review and results of operations

$'000	2003	2002	% Change
Revenue from license fees	12,396	18,776	-34%
Revenue from maintenance fees	14,456	12,689	14%
Revenue from other operating activities	658	772	-15%
Total revenue from ordinary activities	28,149	32,564	-14%
EBITDA	4,705	10,750	-56%
Net profit of the consolidated entity after income tax	1,072	6,523	-84%

This year's results are disappointing. Revenue from licence fees fell 34% below the record level achieved in the year ended 30 June 2002, and this resulted in an 84% lower profit after tax.

In an environment of global uncertainty, both politically and economically, and in a subdued IT market, sales have been lower in Europe and the Americas, however we achieved an improvement in the Asia Pacific region with key sales in Japan, Indonesia and China. Many sales have either been deferred due to corporate capital spending constraints, or delayed by elongated decision-making processes that have extended our sales cycle.

In addition, Integrated Research has replaced its senior sales management team and although this was disruptive in the short term, it has enabled the company to significantly upgrade its skill levels.

Revenue from maintenance fees is up on the previous year by 14%. Retention of the installed base for renewal of recurring maintenance and recurring licence fees was 96% in 2003. Although this is lower than our historic retention of between 97% and 98%, such a high level of renewal in difficult times is testimony to the ongoing strength of the customer base, which was further enhanced this year with the addition of 63 new customers. Recurring revenue accounted for 58% of the group's revenue in 2003.

Although the headcount has remained flat year-on-year at 115, Integrated Research has improved its skill base in many areas within the company with particular emphasis placed on senior management, sales, product management and training. Software development spending increased over the prior year by 1.6%. The company capitalises software development projects that involve innovation and high technical risk to the extent that they are expected beyond any reasonable doubt to be recoverable, and capitalised only 54% ($3.5 million) of total software development spending in 2003. Capitalised software development expenses are amortised over the period of the expected benefit, but no more than three years, and $3.3 million was amortised in 2003. Spending on sales, marketing and administration expenses increased by 3.6%.

Financial position

The consolidated entity held cash of $6.9 million at 30 June 2003, an increase from $6.1 million last year. However, as a result of $2.3 million refunds received during the year from the Australian Tax Office for prior year foreign tax credits (refer note 23 on page 32 of this report) and the low tax expense for the year, the company has a large franking deficit, resulting in the requirement to make a prepayment of $2.7 million to the ATO in July 2003.

The company has sufficient cash for its working capital requirements, and remains debt-free. Directors intend to maintain the Company's dividend policy, whereby between 40% and 60% of net profit after tax is distributed as dividends to shareholders, and do not intend paying a further dividend for the 2003 financial year beyond the interim unfranked dividend of 0.75 cents per share paid in March 2003.

Likely developments

The Company will continue its growth strategies in the highly competitive systems management market with its core PROGNOSIS systems and application management products providing solutions to the high-availability environments on HP NonStop, Windows and UNIX platforms.

We will maintain the level of investment in research and development to enhance existing products and develop new intellectual property creating new products and industry-leading solutions for the systems and applications management markets, with emphasis on enhancing the management of e-business environments.

In addition, the Company will pursue new sales and marketing initiatives using its global resources to create higher brand awareness and broad coverage of the potential market.

2004 Outlook

Directors do not anticipate an early return to the robust IT markets of the past, but there are signs that the environment may be improving. The company will continue the level of its investment in product development and to set challenging revenue and profit goals, but will maintain a constrained spending regime until the volume of prospects and sales leads improves.

Directors' Report

The directors present their report together with the financial report of Integrated Research Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 and the auditor's report thereon.

Directors

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

Name and qualifications	Age	Experience and special responsibilities
Mr Brian PR Gatfield, *FCPA, FAICD* Chairman Independent Non-Executive Director	58	Director and Chairman since October 2000. Chairman of the Remuneration and Nomination Committees, and member of the Audit Committee. Mr Gatfield is also Director of a number of private companies.
Mr Alexander S Kennedy, *M.Mgt, Dip CM, FAICD, ACIS* Independent Non-Executive Director	55	Appointed 15 May 2003. Mr Kennedy is a member of the Audit Committee. He has nearly 35 years of specialist and executive management experience across a broad range of industries.
Mr Stephen J Killelea Managing Director	53	Director since August 1988. Mr Killelea is the Chief Executive Officer of the Company and a member of the Remuneration and Nomination Committees. He founded the Company in 1988 and has guided the development of the product architecture and evolution of the Company. He is also a member of the Board of the Australian Information Industry Association.
Mr David C Leighton, *MBA, FCPA, MAICD* Finance Director	60	Director since September 1997. Mr Leighton is the Chief Financial Officer and Secretary of the Company. He has over twenty years of senior financial management experience with international companies.
Mr Ian Winlaw, *M.Com, FCA, FAICD* Independent Non-Executive Director	64	Director since August 2000. Chairman of the Audit Committee and member of the Remuneration and Nomination Committees. Mr Winlaw is also a partner in Ian Winlaw & Co.; and Secretary of Colloidal Dynamics Pty Ltd.
Mr David L Boyles, *BA, MA, MBA* Independent Non-Executive Director	54	Appointed a Director 17 July 2003. Mr Boyles has over twenty years senior management experience in the US multinational financial services industry and joined Integrated Research's Board after the end of the financial year.
Mr Russell B Hawkins, *B.Sc* Executive Director	55	Director from September 2000 to September 2002. Mr Hawkins resigned from the Board and from his position as Chief Operating Officer of the Company with effect from 12 September 2002.

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 2003, and the numbers of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B
Brian Gatfield	12	12	3	3	2	2	3	3
Alex Kennedy	2	2	-	-	-	-	-	-
Steve Killelea	12	12	-	-	2	2	3	3
David Leighton	12	12	-	-	-	-	-	-
Ian Winlaw	12	12	3	3	2	2	3	3
Russell Hawkins	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 committee during the year.

Dividends

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

	Percent franked	Cents Per share	Total Amount $'000	Date of Payment	Tax rate for franking credits
As proposed and provided for in last year's report:					
Final – Ordinary shares	100%	1.00	1,652	26 Sep 2002	30%
In respect of the current financial year:					
Interim – Ordinary shares	-	0.75	1,240	27 Mar 2003	-
Final – Ordinary shares					

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.

Events subsequent to reporting date

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

Directors' and senior executives' emoluments

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow). Options are also issued under the Employee Share Option Plan. Non-executive directors do not receive any performance related remuneration.

Details of the nature and amount of each major element of the emoluments of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest emoluments are:

	Base emoluments $	Bonuses $	Non-cash benefits $	Super contributions $	Options Issued $ (A)	Total $
Director						
Non-executive						
Brian Gatfield	85,000	-	-	13,100	-	98,100
Alex Kennedy (B)	5,119	-	-	506	-	5,625
Ian Winlaw	45,000	-	-	4,050	-	49,050
Executive						
Steve Killelea	367,945	-	5,610	87,141	-	460,696
David Leighton	194,635	-	-	25,365	1,666	221,666
Russell Hawkins (C)	50,137	22,000	1,137	87,141	-	160,415
Executive officers (excluding directors)						
The Company						
Ross Ballard	95,565	8,158	-	6,880	206	110,809
Eddie Basile	213,457	-	-	11,543	1,314	226,314
Graham Jones	153,318	-	-	11,032	5,132	169,482
David Priestley	153,101	57,096	-	6,390	-	216,587
Andy Rutherford	184,196	-	-	9,468	-	193,664
Consolidated						
Eddie Basile	213,457	-	-	11,543	1,314	226,314
Casey Ives	184,460	77,572	-	-	2,041	264,073
Steve Kramer	234,373	170,861	-	-	-	405,234
Carey McMahon	107,464	89,894	-	-	-	197,358
David Miller	256,435	19,435	-	-	-	275,870

(A) The estimated value disclosed above is calculated at the date of grant using a Black-Scholes model applying a 90% volatility factor. Further details of options granted during the year are set out under "Options", below.
(B) Mr Kennedy was appointed as a Director on 15 May 2003.
(C) Includes fee for post-employment consulting services of $22,000. Mr Hawkins ceased employment on 12 September 2002.

"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.

Options

During or since the end of the financial year, the Company granted options over unissued ordinary shares to the following director and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

Name	Options granted	Average Exercise Price	Expiry date
Executive Director			
David Leighton	33,000	$0.30	2007/08
Officers			
Ross Ballard	10,000	$0.24	2007/08
Eddie Basile	38,000	$0.34	2007/08
Graham Jones	32,000	$0.26	2007/08

The options were granted under the Integrated Research Limited Employee Share Option Plan. The exercise price was the market price at the date of issue, and 25% of options vest and may be exercised from each of the first to fourth anniversaries of the issue date. Unexercised options expire five years after the issue date.

Directors' interests

At the date of this report, the interests of the directors in the shares of the Company were:

	Ordinary shares			Options
	Directly held	Beneficially held	Total	Number of Options
Brian Gatfield	500,000	-	500,000	-
David Boyles	1,000,000	-	1,000,000	-
Alex Kennedy	-	150,000	150,000	-
Steve Killelea	94,647,339	337,612	94,984,951	-
David Leighton	307,172	-	307,172	106,500
Ian Winlaw	100,000	50,000	150,000	-

Unissued shares under option

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

Expiry date	Exercise price	Number of shares
Mar 05	$0.08	86,393
Sep 05	$0.10	145,907
May 06	$1.20	217,500
Aug 06	$0.54	500,500
Dec 06	$0.51	212,820
Feb 07	$0.62	514,000
May 07	$0.63	333,500
July 07	$0.57	514,000
Nov 07	$0.25	100,000
Feb 08	$0.24	593,500
Jun 08	$0.12	464,500

All options expire on the earlier of their expiry date or termination of the employee's employment. These options 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

No options granted under the Integrated Research Employee Share Option Plan were exercised and no ordinary shares were issued during the year ended 30 June 2003. No shares have been issued since that date, up to the date of this report.

Indemnification and insurance of directors and officers

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 of $31,000 to insure the directors and certain senior 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.

Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars or in certain cases to the nearest dollar, in accordance with that Class Order.

Dated at North Sydney this 12th day of September 2003.

Signed in accordance with a resolution of the directors.

Brian Gatfield Chairman	Stephen Killelea Director

Corporate Governance Statement

Integrated Research Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. An extensive review of the Company's corporate governance framework was completed in July 2003 in light of the best practice recommendations released by the Australian Stock Exchange (ASX) Corporate Governance Council in March 2003. The Company's framework was largely consistent with the recommendations but needed documenting and upgrading in some areas. 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 its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Board process

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including a Nomination Committee, a Remuneration Committee and an Audit Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored. The Board has also established a framework for the management of the consolidated entity including 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, plus strategy and budget meetings 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, Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

Composition of the Board

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' Report on page 8 of this report.

The Company's Constitution provides for the Board to consist of between three and twelve members. At present there are four independent non-executive directors, one of whom is Chairman, and two executive directors. For the period to September 2002, the Board consisted of five members, two of whom were independent non-executive directors, including the Chairman, and three were executive directors. For the period from September 2002 to May 2003, it consisted of four members following the resignation of an executive director. The third independent non-executive director was appointed in May 2003 and a fourth in July 2003.

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 Chief Executive Officer 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 Committee will, in conjunction with the Board, determine the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities. The committee would then select a panel of candidates and the Board would then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

Conflict of interest

Directors 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 Company and consolidated entity are set out in Note 31.

Director dealings in Company shares

Directors and employees may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options 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.

Independent professional 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 at the consolidated entity's expense. A copy of advice received by the director is to be made available to all other members of the Board.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Chief Executive Officer, senior executives and the directors themselves. It evaluates performance of the Managing Director and monitors management succession planning. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. 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.

The members of the Remuneration Committee during the year were:

Brian Gatfield (Chairman) – Independent Non-Executive
Ian Winlaw – Independent Non-Executive
Steve Killelea – Chief Executive Officer and Managing Director

The Remuneration Committee meets twice a year and as required. The Committee met twice during the year under review.

Total remuneration for all non-executive directors last voted upon at a special meeting of shareholders in October 2000 is not to exceed $500,000 per annum. Director's base fees are presently $45,000 per annum plus compulsory superannuation. The Chairman receives the base fee by a multiple of two. Director's fees cover all main Board activities and committee memberships.

Nomination Committee

The Nomination Committee was first convened in 2003 and oversees the appointment and induction process for directors. It reviews the composition of the Board and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates with advice from an external consultant. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. The Nomination Committee is also responsible for the selection, appointment and succession planning process of the Company's Chief Executive Officer.

The Nomination Committee comprised the following members during the year:

Brian Gatfield (Chairman) – Independent Non-Executive
Ian Winlaw – Independent Non-Executive
Steve Killelea – Chief Executive Officer and Managing Director

The Nomination Committee meets as required and met three times during the year. 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 with dealing with conflicts of interest, and the availability of independent professional advice.

The consolidated entity provides an induction process for new directors to educate them about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations.

The Chairman reviews the performance of all directors each year.

Audit Committee

The Audit Committee has a documented Charter, approved by the Board and in operation throughout the financial year. The Charter has been updated in minor detail in order to fully comply with the ASX governance recommendations. 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 internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:

Ian Winlaw (Chairman) – Independent Non-Executive
Brian Gatfield – Independent Non-Executive
Alex Kennedy (appointed 15 May 2003) – Independent Non-Executive

The external auditor, the Managing Director and Finance Director are invited to Audit Committee meetings at the discretion of the Committee. The Committee met three times during the year.

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 Audit Committee also conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its function in an effective manner. The Charter is available to members on request.

The main responsibilities of the Audit Committee include:

- Reviewing the annual and half-year financial reports and other financial information distributed externally, including new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles.
- Assisting the Board in monitoring corporate risk assessment processes. The Board has not delegated risk management to the Audit Committee, which is retained as part of the full Board Charter.
- Reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for the reporting period beginning on 1 July 2005.

- Monitoring internal audit activities. The company is not of a size to justify a separate internal audit function.
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence.
- Reviewing the nomination and performance of the external auditor. The external auditors were appointed at the annual general meeting held on 8 November 2001.
- Monitoring the establishment of an appropriate internal control framework, and appropriate ethical standards.
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and ASX Listing Rules and all other regulatory requirements.
- Addressing any matters outstanding with auditors, Australian Tax Office, overseas tax authorities, Australian Securities and Investments Commission and financial institutions.

The full Board has retained responsibility for monitoring the corporate risk assessment processes and fraud control.

The Audit 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 and internal 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 requires as a result of the auditor's findings.
    - To recommend the Board approval of these documents.
- To finalise half-year and annual reporting:
    - Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
    - Review the draft financial report and recommend Board approval of the financial report.
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

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 – A comprehensive policy and process was put in place in June 2003 to formalise existing practices which 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 web site. The CEO and CFO 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.
- Quality and integrity of personnel – Formal appraisals are conducted at least annually for all employees.
- Operating unit controls – Operating units will be required to confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals, with effect for the 2003/04 financial year.
- 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.

Business risk management

The Board reviews the status of business risks to the consolidated entity through integrated risk management programs ensuring risks are identified, assessed and appropriately managed. 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.

Code of Conduct

The Company has developed a Code of Conduct, which has been fully endorsed by the Board and applies to all directors and employees. The Code has been upgraded to comply with the ASX corporate governance recommendations.

All directors, managers and employees are required to act with the utmost integrity and objectivity, and in compliance with the letter and the spirit of the law and company policies, striving at all times to enhance the reputation and performance of the Company. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Code is regularly reviewed by the Board, and processes are in place to promote and communicate these policies.

The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entity's state of affairs. Information is communicated to shareholders as follows:

- The full annual financial report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document).
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited financial report is lodged with the Australian Stock Exchange and a summary is sent to all shareholders.
- Proposed major changes in the consolidated entity, which may impact on share ownership are submitted to a vote of shareholders.
- Notices of all meetings of shareholders.

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.

Copies of the Constitution are available to any shareholder who requests it.

Financial Report

Statements of financial performance

For the year ended 30 June 2003

		Consolidated		The Company	
$'000	**Notes**	**2003**	2002	**2003**	2002
Revenue from operating activities:					
Revenue from license fees		**12,396**	18,776	**8,143**	10,025
Revenue from maintenance fees		**14,456**	12,689	**8,333**	6,661
Revenue from consulting and other services		**658**	772	**314**	459
Interest received		**561**	257	**523**	207
Dividends received		**-**	-	**-**	755
Government grants		**78**	70	**78**	70
Total revenue from ordinary activities	3	**28,149**	32,564	**17,391**	18,177
Expenses from ordinary activities:					
Research and development		**6,211**	4,448	**6,211**	4,448
Sales and marketing		**16,106**	15,248	**5,804**	4,285
General and administration		**4,567**	4,553	**2,641**	3,311
Written-down value of non-current assets disposed of		**-**	23	**-**	23
Total expenses from ordinary activities		**26,884**	24,272	**14,656**	12,067
Profit from ordinary activities before related income tax expense	4	**1,265**	8,292	**2,735**	6,110
Income tax expense	5	**-193**	-1,769	**-566**	-766
Net Profit	21	**1,072**	6,523	**2,169**	5,344
Non-owner transaction changes in equity:					
Net decrease in retained profits on the initial adoption of AASB 1028 "Employee Benefits"		**-22**	-	**-22**	-
Net movement in foreign currency translation reserve		**-**	-472	**-**	-
Total changes in equity other than those resulting from transactions with owners as owners	22	**1,050**	6,051	**2,147**	5,344
Basic earnings per share (cents)	35	**0.65¢**	3.95¢		
Diluted earnings per share (cents)	35	**0.65¢**	3.94¢		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 21 to 42.

Statements of financial position
As at 30 June 2003

		Consolidated		The Company	
$'000	**Notes**	**2003**	2002	**2003**	2002
Current assets					
Cash assets	6	**6,909**	6,111	**5,533**	4,320
Receivables	7	**7,632**	12,152	**5,887**	8,054
Other	8	**4,462**	3,450	**3,019**	3,372
Total current assets		**19,003**	21,713	**14,439**	15,746
Non-current assets					
Receivables	9	**413**	696	**-**	-
Investments	10	**-**	-	**54**	54
Property, plant and equipment	11	**992**	810	**553**	461
Deferred tax assets	12	**1,910**	604	**1,754**	378
Intangible assets	13	**7,696**	7,480	**7,684**	7,467
Total non-current assets		**11,011**	9,590	**10,045**	8,360
Total assets		**30,014**	31,303	**24,484**	24,106
Current liabilities					
Payables	14	**3,473**	1,164	**3,072**	2,702
Current tax liabilities	15	**-**	1,783	**-**	-623
Provisions	16	**996**	2,636	**702**	2,294
Other	17	**7,627**	7,653	**4,268**	4,239
Total current liabilities		**12,096**	13,236	**8,042**	8,612
Non-current liabilities					
Deferred tax liabilities	18	**2,227**	2,230	**2,220**	2,223
Provisions	19	**267**	223	**267**	223
Total non-current liabilities		**2,494**	2,453	**2,487**	2,446
Total liabilities		**14,590**	15,689	**10,529**	11,058
Net assets		**15,424**	15,614	**13,955**	13,048
Equity					
Contributed equity	20	**423**	423	**423**	423
Retained profits	21	**15,001**	15,191	**13,532**	12,625
Total equity	22	**15,424**	15,614	**13,955**	13,048

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 21 to 42.

Statements of cash flows

For the year ended 30 June 2003

$'000	Notes	Consolidated 2003	Consolidated 2002	The Company 2003	The Company 2002
Cash flows from operating activities					
Receipts from customers		**30,358**	27,692	**15,300**	14,360
Payments to suppliers and employees		**-24,682**	-25,702	**-13,333**	-13,810
Dividends received		**-**	-	**-**	755
Interest received		**561**	257	**523**	207
Interest paid		**-331**	-219	**-**	-
Income taxes paid		**-1,643**	-355	**-347**	-161
Withholding tax payment		**-2,093**	-542	**-**	-
Foreign tax credit refund for WHT		**2,326**	-	**2,326**	-
Net cash provided by operating activities	34	**4,496**	1,131	**4,469**	1,351
Cash flows from investing activities					
Payments for property, plant and equipment		**-591**	-314	**-364**	-162
Net cash used in investing activities		**-591**	-314	**-364**	-162
Cash flows from financing activities					
Proceeds from issuing of shares		**-**	25	**-**	25
Payment of dividend	23	**-2,892**	-2,477	**-2,892**	-2,477
Net cash used in financing activities		**-2,892**	-2,452	**-2,892**	-2,452
Net increase (decrease) in cash held		**1,013**	-1,635	**1,213**	-1,263
Cash at the beginning of the reporting period		**6,111**	8,027	**4,320**	5,583
Effects of exchange rate changes on cash		**-215**	-281	**-**	-
Cash at the end of the reporting period	6	**6,909**	6,111	**5,533**	4,320

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 21 to 42.

Notes to the Financial Statements

For the year ended 30 June 2003

Note 1. Statement of significant accounting policies

The significant policies, which have been adopted in the preparation of this financial report are:

a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

The accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy set out in Note 2, are consistent with those of the previous year.

b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

c) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought into account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) (or similar taxes in controlled entities), except where the amount of GST 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 part of the expense.

Receivables and payables are stated with the amounts of GST included.

The amount of GST recoverable from, or payable to, the taxation authorities is included as a current asset or current 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 from, or payable to, the taxation authorities are classified as operating cash flows.

e) Foreign currency

Transactions
Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transaction. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Hedges.
Transactions are designated as a hedge of the anticipated specific sale only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency at the reporting date. Refer to note 24.

If the hedge transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previous deferred gains or losses are recognised as revenue or expense accordingly.

Foreign operations
The assets and liabilities of foreign operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian dollars at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transaction occurred. Exchange differences arising on translation are brought into account in the statement of financial performance.

f) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

g) Receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful debts. Standard trade terms are 30 days, but may be extended up to 90 days in response to competitive situations. Trade debtors are carried at amounts due. Terms granted for greater than one year are carried at the amount due and reported as non-current.

h) Revenue recognition

Revenue is recognised net of returns or discounts, for the major business activities as follows:

Product Licence Fees
A sale is recorded and revenue is recognised when control of the product passes to the customer, being the time of shipment of the licence key to the customer following receipt of a valid purchase order or contract.

Product Maintenance Fees
Invoices are raised in the month prior to the renewal date, and revenue recognition is deferred and taken to the statement of financial performance over the period the service is provided.

Training and consulting
A sale is recorded and revenue is recognised at the time the service is provided.

Interest revenue
Interest revenue is recognised as it accrues, taking into account the effective yield of the financial asset.

i) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values.

j) Depreciation of property, plant and equipment

Depreciation is calculated on a reducing balance method to write off the cost of each item of property, plant and equipment over its expected useful life. Estimates of remaining useful lives are made on a regular basis, with annual reassessment for major items. The expected useful lives are as follows:

Computer equipment	4 years
Furniture and fittings	8 years
Computer software	2.5 years

k) Capitalised computer software development costs

Software development projects are defined as being systemic and experimental activities that involve innovation and high levels of technical risk. The basic purpose of the activity must be to acquire new knowledge or create new or improved materials, products, devices, processes or services. Individual timesheets are maintained by development personnel, and hours assigned to development projects are costed using each employee's hourly rate, uplifted for normal salary on-costs and department overheads, and are capitalised only to the extent that they are expected beyond any reasonable doubt to be recoverable.

Capitalised costs, net of any R&D grant received, are amortised from the commencement of commercial production of the product to which they relate on a straight-line basis over the period of the expected benefit, but no more than three years.

Research costs are expensed as incurred.

Third party software intellectual property rights and patents and trademarks are amortised on a straight line basis over the period of expected benefit, but no more than 10 years and 16 years respectively.

l) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated economic entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

m) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefit will be required to settle the obligation, the timing or amount of which is uncertain.

Dividends
A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

Warranties
The standard warranty period on new licences sold extends for three months. Rectification claims are settled by corrective action, at the discretion of the Company. Provision for warranty expense is made for claims expected to be received in relation to sales made prior to the reporting date, based on historic claim rates.

n) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

o) Employee entitlements

Wages and Salaries, and Annual Leave
Liabilities for employee benefits for wages, salaries and annual leave expected to be settled in the next twelve months of the year-end represent obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay after the reporting date including related on-costs.

Long Service Leave
The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history.

Superannuation
The company contributes to a defined contribution superannuation plan. There are no defined benefit plans in operation.

Employee Share Option Plan
The Company has granted options to certain employees under an Employee Share Option Plan. Further information is set out in the Directors' Report to the financial report and note 30. No accounting entries are made in relation to the Integrated Research Limited Employee Share Option Plan until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital.

p) Cash

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand, as well as the amounts held on fixed deposit as security on foreign currency hedging contracts, and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Deposits at call have terms of no more than twelve months.

q) Leases

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

r) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the Company for the reporting period, excluding any cost of servicing equity by the weighted average number of ordinary shares of the Company.

Diluted EPS is calculated by dividing the basic EPS earnings by the weighted average number of ordinary shares and dilutive potential ordinary shares.

s) Segment reporting

The primary reporting segment has been identified on the basis of geographic groups subject to similar risks and returns. The geographic segments reported are: Americas, Europe and Asia Pacific.

Note 2. Changes in accounting policies

a) Foreign currency translation

The consolidated entity has applied the revised AASB 1012 "Foreign Currency Translation" (issued in November 2000) for the first time from 1 July 2002.

For hedges of specific purchases or sales, the gains or costs on entering the hedge and the exchange differences up to the date of the purchase or sale are now deferred and recognised as assets or liabilities on the statement of financial position from the inception of the hedge contract, not when the specific purchase or sale occurs.

At 1 July 2002, the consolidated entity recognised for foreign currency hedge contracts a deferred exchange gain and a foreign currency receivable of $695,000. There was no impact on opening retained profits at 1 July 2002 or on the profit for the reporting period to 30 June 2003.

b) Employee benefits

The consolidated entity has applied the revised AASB 1028 "Employee Benefits" (issued in June 2002) for the first time from 1 July 2002.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates the Company expects to pay at each reporting date, not wage and salary rates current at reporting date.

The initial adjustments to the consolidated financial report as at 1 July 2002 as a result of this change are:

- $32,000 increase in provision for employee benefits
- $22,000 decrease in opening retained profits
- $10,000 increase in future income tax benefit

The impact of this change in accounting policy on employee benefits expense and income tax expense for the reporting periods to 30 June 2002 and 30 June 2003 was not a material amount.

c) Provisions, contingent liabilities and contingent assets

The consolidated entity has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" (issued in October 2001) for the first time from 1 July 2002.

Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the reporting period to which they were related, even though the dividends were announced after the end of that reporting period.

The adjustments to the consolidated financial report as at 1 July 2002 as a result of this change are:

- $1,652,000 increase in opening retained profits
- $1,652,000 decrease in provision for dividends

Had the new accounting policies always been applied, consolidated retained profits as at the beginning of the comparative year would have been decreased by $15,000 for changes in total expenses from ordinary activities due to the restatement of employee entitlement provisions of $22,000 less tax expense of $7,000, relating to periods prior to the 30 June 2002 reporting period. Consolidated total expenses from ordinary activities for the corresponding year would have been increased and tax expense decreased by $10,000 and $3,000 respectively due to the restatement of employee entitlement provisions. Consolidated net profit would have been decreased by $7,000 in the corresponding comparative year.

Note 3. Revenue from ordinary activities

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Revenue from operating activities:				
Sales Revenue	**27,510**	32,237	**16,790**	17,145
Dividends received	**-**	-	**-**	755
Interest received	**561**	257	**523**	207
Government grants	**78**	70	**78**	70
	28,149	32,564	**17,391**	18,177

Note 4. Profit from ordinary activities before income tax expense

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Profit from ordinary activities before income tax includes the following specific net gains and expenses:				
Net gains				
Dividend revenue	**-**	-	**-**	755
Interest revenue	**561**	257	**523**	207
Expenses				
Software development expenses	**6,429**	6,327	**6,429**	6,327
Less amount capitalised	**-3,479**	-3,901	**-3,479**	-3,901
	2,950	2,426	**2,950**	2,426
Amortisation of software development	**3,261**	2,022	**3,261**	2,022
Depreciation of plant and equipment	**409**	474	**272**	337
Interest expense related to payment of amended withholding tax	**331**	219	**-**	-
Net exchange difference on translation of foreign operations	**-318**	30	**-99**	-365
Rental expense relating to operating leases	**1,098**	1,202	**845**	792
(Gain)/Loss on disposal of non-current assets	**-**	23	**-**	23
Provision for bad and doubtful debts	**540**	161	**165**	161
Provision for employee entitlements	**5**	274	**48**	237

Note 5. Taxation

$'000	Consolidated 2003	Consolidated 2002	The Company 2003	The Company 2002
The income tax expense for the financial year differs from the amount calculated on the profit from ordinary activities before tax expense. The difference is reconciled as follows:				
Profit from ordinary activities	**1,265**	8,292	**2,735**	6,110
Income tax calculated at 30%	**380**	2,488	**820**	1,833
Tax-effect of permanent differences:				
Non-deductible expenses	**60**	63	**15**	47
Research and development concessions	**-408**	-628	**-408**	-628
Foreign-sourced income in accounts (net of expenses)	**68**	-128	**-**	-320
Income tax adjusted for permanent differences	**100**	1,795	**427**	932
Effect of higher/(lower) tax rates on overseas income	**-69**	93	**-**	-
Under (over) provision in prior year	**162**	-119	**139**	-166
Income tax expense attributable to profit from ordinary activities	**193**	1,769	**566**	766

Note 6. Cash assets

$'000	Consolidated 2003	Consolidated 2002	The Company 2003	The Company 2002
Cash at bank and on hand	**5,909**	4,161	**4,533**	2,370
Fixed deposit held as security on FX contract (Note 24(a))	**1,000**	1,950	**1,000**	1,950
	6,909	6,111	**5,533**	4,320

Note 7. Current receivables

$'000	Consolidated 2003	Consolidated 2002	The Company 2003	The Company 2002
Trade debtors	**8,207**	12,407	**1,883**	2,043
Less: Provision for doubtful debts	**-584**	-255	**-209**	-255
	7,623	12,152	**1,674**	1,788
Receivable from controlled entities	**-**	-	**4,204**	6,266
Other debtors	**9**	-	**9**	-
	7,632	12,152	**5,887**	8,054

Other debtors

These amounts generally arise outside of the usual operating activities of the consolidated entity, and are interest free. Collateral is not normally obtained.

Note 8. Other current assets

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Dividend franking tax benefit	**1,335**	-	**1,335**	
Income taxes receivable	**2,235**	2,472	**866**	2,472
Other prepayments	**405**	338	**349**	275
Unrealised FX gain	**152**	329	**152**	329
Deposits	**335**	311	**317**	296
	4,462	3,450	**3,019**	3,372

Note 9. Non-current receivables

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Trade debtors	**413**	696	**-**	-

Note 10. Investments

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Shares in controlled entities at cost (refer Note 32)	**-**	-	**54**	54

Note 11. Property, plant and equipment

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Plant and equipment at cost	**3,485**	2,894	**2,304**	1,940
Less: Accumulated depreciation	**-2,493**	-2,084	**-1,751**	-1,479
	992	810	**553**	461

Reconciliation
Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below:

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Carrying amount at start of year	**810**	987	**461**	636
Additions	**591**	314	**364**	162
Disposals	**-**	-	**-**	-
Depreciation expense (Note 4)	**-409**	-474	**-272**	-337
Foreign currency exchange differences	**-**	-17	**-**	-
Carrying amount at end of year	**992**	810	**553**	461

Note 12. Deferred tax assets

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Future income tax benefit	**558**	604	**402**	378
Dividend franking tax benefit	**1,352**	-	**1,352**	-
	1,910	604	**1,754**	378

Note 13. Intangible assets

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Software development costs	**10,912**	9,578	**10,912**	9,578
Less: Accumulated amortisation	**-3,461**	-2,401	**-3,461**	-2,401
	7,451	7,177	**7,451**	7,177
Third party software intellectual property rights at cost	**556**	556	**556**	556
Less: Accumulated amortisation	**-323**	-266	**-323**	-266
	233	290	**233**	290
Patents and trademarks at cost	**33**	33	-	-
Less: Accumulated amortisation	**-21**	-20	-	-
	12	13	-	-
	7,696	7,480	**7,684**	7,467

Note 14. Payables

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Payable to controlled entities	-	-	**3**	2,062
Franking deficit tax payable	**2,687**	-	**2,687**	-
Trade and other creditors	**786**	1,164	**382**	640
	3,473	1,164	**3,072**	2,702

Note 15. Current tax liabilities

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Income tax provision	-	1,783	-	-623

Note 16. Current provisions

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Dividends	**-**	1,652	**-**	1,652
Employee entitlements	**919**	959	**647**	642
Warranty	**55**	-	**55**	-
Other	**22**	25	**-**	-
	996	2,636	**702**	2,294

Reconciliation
Reconciliation of the carrying amount of warranty provision at the beginning and end of the current and previous financial year is set out below:

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Carrying amount at beginning of year	**-**	-	**-**	-
Provision made during the year	**55**	-	**55**	-
Carrying amount at end of year	**55**	-	**55**	-

Note 17. Other current liabilities

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Deferred revenue	**7,627**	7,653	**4,268**	4,239

Note 18. Deferred tax liabilities

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Deferred income tax liability	**2,227**	2,230	**2,220**	2,223

Note 19. Non-current provisions

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Employee entitlements	**267**	223	**267**	223

Note 20. Contributed equity

	The Company		The Company	
	Shares ('000)		$'000	
	2003	2002	**2003**	2002
Fully paid ordinary shares	**165,226**	165,226	**423**	423

Movements in ordinary share capital
Movements in ordinary share capital during the current and previous financial year are set out below:

		Ordinary Shares	$'000
30 Jun 2001	Balance	164,926,410	398
4 Sept 2001	Issued under ESOP	153,586	12
21 Jan 2002	Issued under ESOP	7,679	1
14 Feb 2002	Issued under ESOP	92,152	8
11 Mar 2002	Issued under ESOP	46,076	4
30 Jun 2002	Balance	165,225,903	423
Jul 02 – Jun 03	No activity	-	-
30 Jun 2003	Balance	165,225,903	423

Terms and conditions

a) Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.
b) On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Note 21. Retained profits

		Consolidated		The Company	
$'000	**Notes**	**2003**	2002	**2003**	2002
Retained profits at the beginning of the financial year		**15,191**	11,560	**12,625**	10,173
Net profit attributable to members of Integrated Research Limited		**1,072**	6,523	**2,169**	5,344
Net effect of initial adoption of:					
Revised AASB 1028 "Employee Benefits"		**-22**	-	**-22**	-
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"		**1,652**	-	**1,652**	-
Dividends provided for or paid	23	**-2,892**	-2,892	**-2,892**	-2,892
Retained profits at the end of the financial year		**15,001**	15,191	**13,532**	12,625

Note 22. Equity

$'000	Notes	Consolidated 2003	Consolidated 2002	The Company 2003	The Company 2002
Total equity at the beginning of the financial year		**15,614**	12,430	**13,048**	10,571
Total changes in equity recognised in the statement of financial performance		**1,072**	6,051	**2,169**	5,344
Net effect of initial adoption of:					
Revised AASB 1028 "Employee Benefits"		**-22**	-	**-22**	-
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"		**1,652**	-	**1,652**	-
Transactions with owners as owners:					
Contributions of equity		**-**	25	**-**	25
Dividends provided for or paid	23	**-2,892**	-2,892	**-2,892**	-2,892
Total equity at the end of the financial year		**15,424**	15,614	**13,955**	13,048

Note 23. Dividends

$'000	The Company 2003	The Company 2002
Dividends:		
Unfranked interim dividend of 0.75 cents per share paid March 2003 (fully franked dividend of 0.75 cents per share paid in March 2002)	**1,240**	1,240
Final dividend for 2003 year (fully franked dividend of 0.75 cents per share paid in September 2002).	**-**	1,652
Total dividends provided for or paid	**1,240**	2,892

$'000	The Company 2003	The Company 2002
Franking credits available for the subsequent financial year based on a tax rate of 30%.	**-**	-

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

a) franking credits that will arise from the payment of the current tax liability, and
b) franking credits that may be prevented from being distributed in subsequent financial years.
c) Payment of $2,687,000 for franking deficit tax due in July 2003 ($93,000 in 2002).

The consolidated entity has received refunds for foreign tax credits in Australia of $2,326,000 in the financial year ended 30 June 2003. These credits relate to adjustments to foreign tax payments and have resulted in debits to its franking account. The entity's dividend payments in the 2002/03 and 2003/04 years are unlikely to be fully franked.

Note 24. Financial instruments

a) Foreign exchange risks

The consolidated entity enters into forward foreign exchange contracts to hedge a portion of anticipated sales commitments denominated in certain foreign currencies (US dollars and UK pounds). The amount of anticipated future sales is forecast in light of current conditions in foreign markets, commitments from customers and experience. All sales in a period are designated as being hedged until all hedge contracts for the period are fully utilised. Note 1(e) sets out the accounting treatment of these hedges.

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity:

	Buy Australian Dollars ('000)		Average Exchange Rate	
	2003	2002	**2003**	2002
Sell US dollars:				
Maturity				
0-12 months	**3,925**	12,049	**0.6496**	0.5294
Sell UK pounds:				
Maturity				
0-12 months	**528**	2,042	**0.3975**	0.3727

b) *Credit risk exposures*

The credit risk on the financial assets of the consolidated entity, which have been recognised on the statement of financial position is the carrying amount less any provision for doubtful debts.

c) Interest rate exposures

The consolidated entity's exposure to interest rate risk and the weighted average interest rates are set out below:

2003 **$'000**	**Notes**	**Floating Interest Rate**	**Fixed Interest Maturing in 1 year or less**	**Non-Interest Bearing**	**Total**
Financial assets					
Cash and deposits	6,8	**4,533**	**2,267**	**444**	**7,244**
Receivables	7,9	**-**	**-**	**8,045**	**8,045**
Income taxes receivable and dividend franking tax benefit	8	**-**	**-**	**4,922**	**4,922**
		4,533	**2,267**	**13,411**	**20,211**
Weighted average interest rate		**3.03%**	**4.49%**		
Financial liabilities					
Trade and other creditors	14	**-**	**-**	**786**	**786**
Current tax liability	14,15	**-**	**-**	**2,687**	**2,687**
Employee entitlements	16,19	**-**	**-**	**1,186**	**1,186**
		-	**-**	**4,659**	**4,659**
Net financial assets		**4,533**	**2,267**	**8,752**	**15,552**

2002 $'000	Notes	Floating Interest Rate	Fixed Interest Maturing in 1 year or less	Non-Interest Bearing	Total
Financial assets					
Cash and deposits	6,8	2,398	3,940	84	6,422
Receivables	7,9	-	-	12,848	12,848
Income taxes receivable and prepaid	8	-	-	2,472	2,472
		2,398	3,940	15,404	21,742
Weighted average interest rate		2.73%	4.64%		
Financial liabilities					
Trade and other creditors	14	-	-	1,164	1,164
Current tax liabilities	15	-	-	1,783	1,783
Dividend payable	16	-	-	1,652	1,652
Employee entitlements	16,19	-	-	1,182	1,182
		-	-	5,781	5,781
Net financial assets		2,398	3,940	9,623	15,961

Note 25. Reconciliation of net financial assets to net assets

		Consolidated	
$'000	**Notes**	**2003**	2002
Net financial assets as above		**15,552**	15,961
Non-financial assets and liabilities:			
Other current assets	8	**557**	667
Property, plant and equipment	11	**992**	810
Intangibles	13	**7,696**	7,480
Deferred tax assets	12	**558**	604
Provisions	16,18	**-2,304**	-2,255
Other liabilities	17	**-7,627**	-7,653
Net assets per statements of financial position		**15,424**	15,614

c) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents, non-interest bearing monetary financial assets and financial liabilities and off balance sheet derivative instruments of the consolidated entity approximates their carrying value.

Note 26. Remuneration of directors

	Directors of entities in the consolidated entity		Directors of the Company	
	2003	2002	**2003**	2002
	$	$	**$**	$
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities of the Company or any related party	**1,752,476**	2,044,083	**1,015,175**	1,117,776

Directors' income includes amounts paid by the Company during the year to indemnify directors, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liability and legal expense insurance contracts, in accordance with common commercial practice.

The numbers of the Company directors whose total income from the Company or related parties was within the specified bands are as follows:

$		$	**2003**	2002
0	-	9,999	**1**	
30,000	-	39,999		1
40,000	-	49,999	**1**	
70,000	-	79,999		1
90,000	-	99,999	**1**	
160,000	-	169,999	**1**	
200,000	-	209,999		1
220,000	-	229,999	**1**	
310,000	-	319,999		1
440,000	-	449,999		1
460,000	-	469,999	**1**	

The remuneration bands are not consistent with the emoluments disclosed in the Directors' Report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

Note 27. Remuneration of executives

	Executive officers of the consolidated entity		Executive officers of the Company	
	2003	2002	**2003**	2002
	$	$	**$**	$
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is $100,000 or more	**1,702,537**	1,638,382	**1,702,537**	1,638,382

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level.

Executives' remuneration includes amounts paid by the Company during the year to indemnify executives, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses insurance contract, in accordance with common commercial practice.

The number of Australian based executive officers (including directors) whose remuneration from entities in the consolidated entity and related parties was within the specified bands are as follows:

			Executive officers of the consolidated entity		Executive officers of the Company	
$		$	**2003**	2002	**2003**	2002
110,000	-	119,999	**1**	-	**1**	-
150,000	-	159,999	**1**	-	**1**	-
160,000	-	169,999	**2**	-	**2**	-
190,000	-	199,999	**1**	1	**1**	1
200,000	-	209,999	-	2	-	2
210,000	-	219,999	-	1	-	1
220,000	-	229,999	**2**	-	**2**	-
310,000	-	319,999	-	1	-	1
440,000	-	449,999	-	1	-	1
460,000	-	469,999	**1**	-	**1**	-

The remuneration bands are not consistent with the emoluments disclosed in the directors' report as the basis of calculation differs due to the different requirements of the Corporations Act 2001 and the Accounting Standards.

Note 28. Remuneration of auditors

	Consolidated		The Company	
	2003	2002	**2003**	2002
	$	$	**$**	$
Remuneration for audit and review of the financial reports of the Company or any entity in the consolidated entity:				
Audit services:				
Auditors of the company – KPMG				
Audit and review of financial reports	**140,000**	146,500	**94,000**	99,000
Remuneration for other services by the auditors of the Company or any entity in the consolidated entity:				
Taxation services:				
Auditors of the company - KPMG	**162,800**	86,300	**63,200**	86,300

Note 29. Commitments for expenditure

Operating leases

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**1,288**	1,185	**1,001**	1,018
Later than one year but not later than five years	**3,316**	4,780	**2,828**	4,086
Later than five years	-	-	-	-
Commitments not recognised in financial statements	**4,604**	5,965	**3,829**	5,104

Note 30. Employee entitlements

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Employee entitlement liabilities				
Provision for employee entitlements				
Current (Note 16)	**919**	959	**647**	**642**
Non-current (Note 19)	**267**	223	**267**	**223**
Aggregate employee entitlement liability	**1,186**	1,182	**914**	**865**

	Consolidated		The Company	
	2003	2002	**2003**	2002
Employee numbers				
Number of employees at 30 June	**115**	115	**81**	80

Integrated Research Limited employee share option plan
The establishment of the Integrated Research Limited Employee Share Option Plan (ESOP) was approved by special resolution at a meeting of members of the Company held on 4 October 2000. All employees (including executive directors) of Integrated Research Limited and its controlled entities are eligible to participate in the ESOP at the invitation of the Board.

The number of options which may be granted under the ESOP is limited so that the number of Shares issued if all options granted or offered under the ESOP were exercised, together with the number of Shares issued under any employee share or option scheme established by the Company in the previous five years, must not exceed 7.5 percent of the then total number of shares on issue.

Options are granted under the ESOP for no consideration. Options are granted for a five-year period, and 25% of each new tranche becomes exercisable after each of the first four anniversaries of the date of the grant. Each option is convertible into one ordinary share at an exercise price set at least as high as the market value of the Shares at the date of the grant of the options, based on the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted.

Under the terms of an employee share option plan dated 1 March 1998 and an amendment to the plan dated 1 January 1999, which was superseded by the current ESOP, all existing options vested and were exercisable on the date of the Company's listing in December 2000. No options were exercised and no shares were issued under this plan in the year ended 30 June 2003. A total of 232,300 of these options granted to 3 employees at an average price of $0.09 had not been exercised at 30 June 2003.

Set out below are summaries of options granted under both plans:

Grant date	Expiry date	Exercise price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
Consolidated and Company – 2003							
Old plan (prior to December 2000)		$0.09	232,300	-	-	-	232,300
Feb 2001	Feb 2006	$3.33	300,000	-	-	300,000	-
May 2001	May 2006	$1.20	246,000	-	-	28,500	217,500
Aug 2001	Aug 2006	$0.54	559,000	-	-	58,500	500,500
Dec 2001	Dec 2006	$0.51	296,820	-	-	84,000	212,820
Feb 2002	Feb 2007	$0.62	625,000	-	-	111,000	514,000
May 2002	May 2007	$0.63	415,500	-	-	82,000	333,500
Jul 2002	Jul 2007	$0.57	-	709,500	-	195,500	514,000
Nov 2002	Nov 2007	$0.25	-	100,000	-	-	100,000
Feb 2003	Feb 2008	$0.24	-	610,500	-	17,000	593,500
Jun 2003	Jun 2008	$0.12	-	464,500	-	-	464,500
Total			2,674,620	1,884,500	-	876,500	3,682,620
Consolidated and Company – 2002							
Old plan (prior to December 2000)		$0.09	531,793	-	299,493	-	232,300
Feb 2001	Feb 2006	$3.33	300,000	-	-	-	300,000
May 2001	May 2006	$1.20	523,500	-	-	277,500	246,000
Aug 2001	Aug 2006	$0.54	-	564,000	-	5,000	559,000
Dec 2001	Dec 2006	$0.51	-	296,820	-	-	296,820
Feb 2002	Feb 2007	$0.62	-	625,000	-	-	625,000
May 2002	May 2007	$0.63	-	415,500	-	-	415,500
Total			1,355,293	1,901,320	299,493	282,500	2,674,620

Options exercised during the financial year and number of shares issued to employees on the exercise of options:

Exercise date	Fair value of shares at issue date	Consolidated and Company	
		2003 number	2002 number
Sep 2001	$0.55	-	153,586
Jan 2002	$0.62	-	7,679
Feb 2002	$0.63	-	92,152
Mar 2002	$0.67	-	46,076
Total		-	299,493

The fair value of shares issued on the exercise of options is the closing price at which the Company's shares were traded on the Australian Stock Exchange at the end of the month that the options were exercised.

	Consolidated and Company	
	2003	2002
Options vested at the reporting date (number)	**731,255**	368,800
	$	$
Aggregate proceeds received from employees on the exercise of options and recognised as issued capital	-	25,000
Fair value of shares issued to employees on the exercise of options at their issue date	-	178,160

Note 31. Related parties

Directors

The names of persons who were directors of Integrated Research Limited at any time during the financial year are as follows: Brian Gatfield; Russell Hawkins; Alex Kennedy; Steve Killelea; David Leighton and Ian Winlaw. Except for Alex Kennedy, all of these persons were also directors during the year ended 30 June 2002.

Remuneration

Information on the remuneration of directors is disclosed in note 26.

Transactions of directors and director-related entities concerning shares or share options

Aggregate number of shares and share options of Integrated Research Limited acquired or disposed of by directors of the Company and consolidated entity or their director-related entities from the Company:

	2003 Number	2002 Number
Acquisitions		
Ordinary shares	**882,612**	-
Options over ordinary shares	**33,000**	110,000
Disposals		
Ordinary shares	-	-
Options exercised	-	-
Options lapsed on termination	**250,000**	-

Details of the Integrated Research Employee Share Option Plan are described under note 30.
Aggregate number of shares and share options of Integrated Research Limited held directly, indirectly or beneficially by directors of the Company or the consolidated entity or their director-related entities at balance date:

	2003 Number	2002 Number
Ordinary shares	**96,092,123**	95,243,686
Options over ordinary shares	**106,500**	323,500

Other transactions with directors and director-related entities

	2003 $	2002 $
Dividends paid or payable	***1,672,080**	1,666,765

* Includes $955,421 dividends paid to directors in September 2002 which were provided for in June 2002.

Aggregate amount payable to directors and their director-related entities at balance date:

	2003 $	2002 $
Dividend payable	-	952,437

Wholly-owned group

The wholly-owned group consists of Integrated Research Limited and its wholly-controlled entities, Integrated Research, Inc and Integrated Research UK Limited. Ownership interests in these controlled entities are set out in note 32.

Transactions between Integrated Research Limited and related parties in the wholly-owned group during the year ended 30 June 2001 and 2002 consisted of:

a) inter-Company sales of products and services by Integrated Research Limited;
b) the payment to Integrated Research Limited for the above products and services;
c) the payment of dividends to Integrated Research Limited;

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

The aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with related parties in the wholly-owned group were as follows:

	The Company	
$'000	**2003**	2002
Inter-Company sales	**9,984**	14,793
Dividend revenue	-	755

Aggregate amounts receivable from and payable to subsidiaries in the wholly-owned group at balance date were as follows:

	The Company	
$'000	**2003**	2002
Current receivables (inter-Company sales)	**4,204**	6,266
Current payables	**3**	2,062

Note 32. Investments in controlled entities

			Equity holding	
Name of entity	Country of incorporation	Class of shares	**2003** %	2002 %
Integrated Research, Inc	USA	Ordinary	**100**	100
Integrated Research UK Ltd	England	Ordinary	**100**	100

Note 33. Segment information

Geographic segments

The consolidated entity's principal activities are organised on a global basis operating in three geographical areas:

a) The Americas. Operating from the United States with responsibility for the countries in North and South America.
b) Europe. Operating from the United Kingdom with responsibility for the countries in Europe.
c) Asia Pacific. Operating from Australia with responsibility for the countries in the rest of the world.

In presenting information on the basis of geographic segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Primary reporting segments	Americas		Europe		Asia Pacific		Unallocated		Eliminations		Consolidated	
$'000	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Sales to customers outside the consolidated entity	**17,362**	25,265	**3,344**	4,620	**5,469**	4,230	**1,335**	-1,878	**-**	-	**27,510**	32,237
Inter-segment sales	**-**	-	**-**	-	**-**	-	**9,984**	14,793	**-9,984**	-14,793	**-**	-
Other revenue	**31**	33	**7**	17	**-**	-	**601**	277	**-**	-	**639**	327
Total segment revenue	**17,393**	25,298	**3,351**	4,637	**5,469**	4,230	**11,920**	13,192	**-9,984**	-14,793	**28,149**	32,564
Total revenue											**28,149**	32,564
Segment results	**-848**	2,487	**-622**	297	**548**	-6	**2,187**	5,514	**-**	-	**1,265**	8,292
Profit from ordinary activities before income tax											**1,265**	8,292
Income tax expense											**-193**	-1,769
Profit from ordinary activities after income tax											**1,072**	6,523
Depreciation and amortisation	**105**	107	**32**	30	**27**	34	**3,506**	2,325	**-**	-	**3,670**	2,496
Non-cash expenses other than depreciation and amortisation	**181**	37	**-4**	-	**118**	185	**95**	213	**-**	-	**390**	435
Segment assets	**11,298**	16,247	**1,853**	2,749	**2,353**	2,389	**23,421**	21,718	**-8,911**	-11,800	**30,014**	31,303
Consolidated total assets											**30,014**	31,303
Segment liabilities	**9,951**	14,264	**1,677**	2,112	**2,044**	1,914	**9,775**	9,145	**-8,857**	-11,746	**14,590**	15,689
Consolidated total liabilities											**14,590**	15,689
Acquisition of plant and equipment	**113**	141	**114**	11	**29**	6	**335**	156	**-**	-	**591**	314
Consolidated acquisitions of plant and equipment											**591**	314

Secondary reporting segment

The consolidated entity operates predominantly in the computer software products business segment. The consolidated entity provides systems and applications management software for high-reliability computer systems.

Note 34. Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

	Consolidated		The Company	
$'000	**2003**	2002	**2003**	2002
Profit from ordinary activities after income tax	**1,072**	6,523	**2,169**	5,344
Depreciation and amortisation	**3,670**	2,496	**3,533**	2,359
Provision for doubtful debts	**540**	161	**165**	161
(Profit) loss on disposal of non-current assets	**-**	23	**-**	23
Net exchange differences	**318**	-30	**99**	365
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	**3,145**	-3,938	**1,313**	-1,950
(Increase)/decrease in future income tax benefit	**8**	165	**-24**	235
(Increase)/decrease in other operating assets	**-3,552**	-6,872	**-3,396**	-6,808
Increase/(decrease) in trade creditors	**-356**	-86	**-2,346**	-27
Increase/(decrease) in other operating liabilities	**1,214**	-571	**648**	1,146
Increase/(decrease) in provision for income taxes payable	**-1,635**	2,303	**2,239**	-380
Increase/(decrease) in provision for deferred income taxes	**-3**	646	**-3**	647
Increase/(decrease) in other provisions	**75**	311	**72**	236
Net cash provided by operating activities	**4,496**	1,131	**4,469**	1,351

Note 35. Earnings per share

Classification of securities:

(i) Ordinary shares have been included in basic earnings per share.

(ii) Options outstanding under the Employee Share Option Plan have been classified as potential ordinary shares and included in diluted earnings per share only.

Earnings reconciliation

	Consolidated	
$'000	**2003**	2002
Net profit	**1,072**	6,523
Basic and diluted earnings	**1,072**	6,523

Weighted average number of shares used as the denominator

	Consolidated	
(Number)	**2003**	2002
Number for basic earnings per share:		
Ordinary shares	**165,225,903**	165,111,993
Effect of employee share options on issue	**35,841**	323,622
Number for diluted earnings per share	**165,261,744**	165,435,615

2,985,820 employee share options have not been included in the 2003 calculation of diluted EPS as they are not dilutive.

Directors' declaration

In the opinion of the directors of Integrated Research Limited ("the Company"):

a) the financial statements and notes, set out in pages 18 to 42, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia and the Corporations Act 2001; and

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

Dated at North Sydney this twelfth day of September 2003.

Signed in accordance with a resolution of the directors:

Brian Gatfield
Chairman

Stephen Killelea
Director

Independent audit report to the members of Integrated Research Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes (1 to 35) to the financial statements, and the directors' declaration for both Integrated Research Limited (the "Company") and Integrated Research Limited Group (the "Consolidated Entity"), for the year ended 30 June 2003. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion, the financial report of Integrated Research Limited is in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2003 and of their performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

John Wigglesworth
Partner

Sydney
12 September 2003

ASX Additional Information

Shareholder information

Analysis of numbers of equity security holders by size of holding at 31 August 2003:

	Class of equity security: Ordinary shares – Shares	Ordinary shares – Options
1 - 1,000	89	-
1,001 - 5,000	1,487	8
5,001 - 10,000	852	5
10,001 - 100,000	986	70
100,001 and over	86	4
	3,500	87

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities as at 31 August 2003 are listed below:

		Ordinary Shares: Number held	Percentage of issued shares
1	Stephen John Killelea	94,647,339	57.28
2	Andrew Rhys Rutherford	5,986,589	3.62
3	National Nominees Limited	2,983,820	1.81
4	Guardian Trust Australia Ltd	2,694,100	1.63
5	Commonwealth Custodial Services Limited	1,900,000	1.15
6	David Leroy Boyles & Patricia Lynn Boyles	1,000,000	0.61
7	Farvex Corporation Pty Limited	715,882	0.43
8	Westpac Custodian Nominees	573,000	0.35
9	Merrill Lynch (Australia) Nominees Pty Ltd	548,477	0.33
10	Vikki Maree Lewis & David William Lewis	519,764	0.31
11	Lembridge Pty Ltd (Gatfield Super Fund a/c)	500,000	0.30
12	Chiatta Pty Ltd	460,589	0.28
13	Cameron Beavis	400,000	0.24
14	Warakirra Partners LP	396,894	0.24
15	Bipeta Pty Ltd	337,612	0.20
16	Robert Bruce Woodland & Erika Woodland	325,000	0.20
17	Robin Ravenscrof Barttelot	307,648	0.19
18	Mark Lamkin	307,172	0.19
19	David Leighton	307,172	0.19
20	Mervyn Smythe	290,000	0.18
		115,201,058	70.27

Unquoted equity securities

	Number on issue *	Number of holders
Options issued under the Integrated Research Limited Employee Option Plan to take up ordinary shares	3,682,620	87

*Number of unissued ordinary shares under the options.
No person holds 20% or more of these securities.

On-market buy-back

There is no current on-market buy-back.

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Stephen John Killelea	94,647,339	57.28%

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 by proxy shall have one vote and upon a poll each share shall have one vote.

2. Options.
   No voting rights.

Other information

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