

integrated research

Integrated Research Limited ▶ ABN 76 003 588 449

Annual Report 2006

Performance monitoring software for business-critical systems



PROGNOSIS®



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> 2006 Highlights

Financial summary

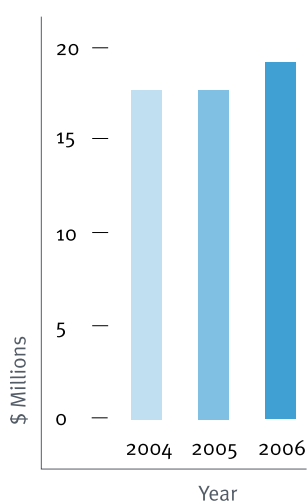
In millions of AUD (except earnings per share)

Year ended 30 June	2006 \$m	2005 \$m	% Change
Revenue from licence fees	19.0	17.8	↑ 7 %
Total revenue	34.5	33.1	↑ 4 %
Net profit after tax	7.0	6.2	↑ 13 %
Net assets	23.3	20.0	↑ 17 %
Cash at balance date	10.7	9.7	↑ 11 %
Americas revenue	20.1	19.1	↑ 6 %
Europe revenue	8.4	7.0	↑ 21 %
Asia Pacific revenue	6.1	5.5	↑ 11 %
Earnings per share (cents per share)	4.22¢	3.77¢	↑ 12 %

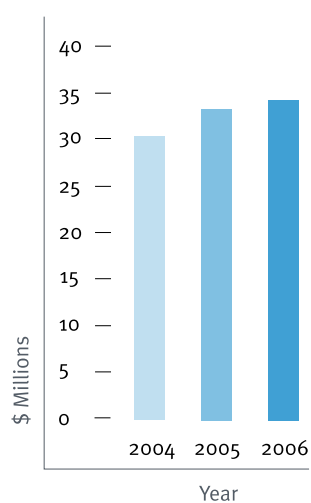
Global performance

- › Record revenue results
- › Record profitability
- › 7% increase in revenue from licence fees

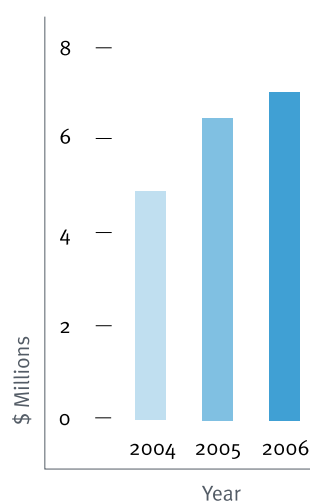
Revenue from licence fees



Total revenue



Net profit after tax



- 
- › The world's largest bank
 - › The world's largest telco
 - › The world's largest stock exchange
 - › The world's largest ISP
 - › The world's largest airline

and 35% of the Global 1000 companies all trust...

PROGNOSIS



Integrated Research's Australian-developed PROGNOSIS software is used by many of the world's largest enterprises to ensure the performance and reliability of their most critical computing systems.

PROGNOSIS gives IT support staff insight into the health of these computer systems, providing instant alerts and deep diagnostics to quickly identify and resolve problems before they impact the business.



Letter from the Chairman



Dear fellow shareholders,

I am pleased to report that our company has achieved a 13% increase in profit for the twelve months to 30 June 2006 over the previous year. This occurred despite a firming of the Australian dollar, which had a 5% impact on our terms of trade.

The improved profit builds upon substantial increases experienced in 2004 and 2005, and was a result of record sales of the company's Windows, UNIX, Linux and IP telephony (VoIP) products, which increased by 36%.

Our core HP NonStop business remained steady, with a maintenance renewal rate of 98%. This is a reflection of both the value that our product range continues to offer this market, and the ongoing commitment of organisations to invest in HP NonStop technology. I anticipate these factors will underpin our continued success in this market.

Second-half revenue and profit results were excellent when compared with the first half. Profit after tax in the second half increased to \$4.6 million (normalised), compared with \$1.6 million in the first half. This represents an increase of 188% and reflects the positive impact of operational changes made by management in the first half.

Our key to long-term success in high technology markets is well-placed strategic investment. Integrated Research will continue to invest in high-growth, niche markets where we can leverage our existing intellectual property, and where we can successfully add value. This strategy has been proven over time, and I expect will continue into the future.

Integrated Research remains in a strong financial position, with \$10.7 million in cash and no debt. I anticipate 2007 will see a continuation of the growth we have experienced in the last few years, and I am looking forward to working on your behalf with Keith Andrews, our CEO, to enhance future shareholder value.

The company's accounts have been prepared under new financial reporting standards (AIFRS) implemented in Australia, effective 1 July 2005. The impact of changes required to meet these standards is set out in note 29 to the Financial Report.

Additionally, the Board of Directors has implemented an annual process to review the structure of the board, including the board's performance, and the performance of its sub-committees and individual members. This will enable the board to improve its effectiveness and governance.

I am pleased to announce a 1.5 cents per share final dividend, bringing the dividend for the year to 2.5 cents, unfranked. The dividend will be paid on 15 September 2006, to shareholders registered at the close of the market on 1 September 2006.

Thank you for your continued support.

Steve Killelea
Chairman



PROGNOSIS for IP Telephony

VoIP for big business...how do you manage that?

By giving companies the specialised tools they need to monitor and measure call quality, and to identify and resolve problems within the supporting computer-based infrastructure, PROGNOSIS is helping big businesses eliminate the risk of migrating to Voice over IP (VoIP).

Customers include: Abercrombie & Fitch, Accenture, Airbus, Alphawest/ Optus, ARUP, BAE Systems, BellSouth, Boeing, Brigham Young University, British Airways, Del Monte, Deutsche Telecom, Equant, Fannie Mae, France Telecom, General Motors, Harvard University, JPMorgan Chase, Lehman Brothers, Mallesons Stephen Jacques, Merrill Lynch, NASDAQ, NCR, Singapore Polytechnic, Standard Life, State of Arizona, TD Financial Corp., Tecnologico de Monterey, Thiess, Time Warner Cable, Verizon, Warner Pacific

"As more organisations adopt larger scale deployments, the ability for PROGNOSIS to manage highly distributed or very large environments will position the company as leading vendor for a variety of deployment sizes"

George Hamilton, Director, Yankee Group





“When cardholders present their cards for payment, they expect them to work every time. PROGNOSIS helps us deliver that level of performance to our clients and their customers.”

Phillip Patrick, Director of Technical Support, TSYS

PROGNOSIS for ATM/POS



Why do the world's financial institutions bank on PROGNOSIS?

From retail EFTPOS systems to automated teller machine networks, PROGNOSIS gives IT support teams the insight they need to identify and fix transaction problems, to uncover the details of cardholder issues in seconds, and to better manage ATM maintenance processes.

Customers include: ANZ Bank, Arab National Bank, Bankserv South Africa, BNI Bank Indonesia, Burgan Bank Kuwait, Citibank, Emirates Bank UAE, Fiserv, Global Trust Bank India, HDFC Bank, ICICI Bank India, Kmart, KNET Kuwait, Kotak Mahindra Bank, Kuwait Finance House, Link UK, MasterCard, Oman Intl Bank, Qatar Central Bank, Royal Bank of Canada, Standard Bank South Africa, Target, Walgreens, Washington Mutual, Westpac Bank

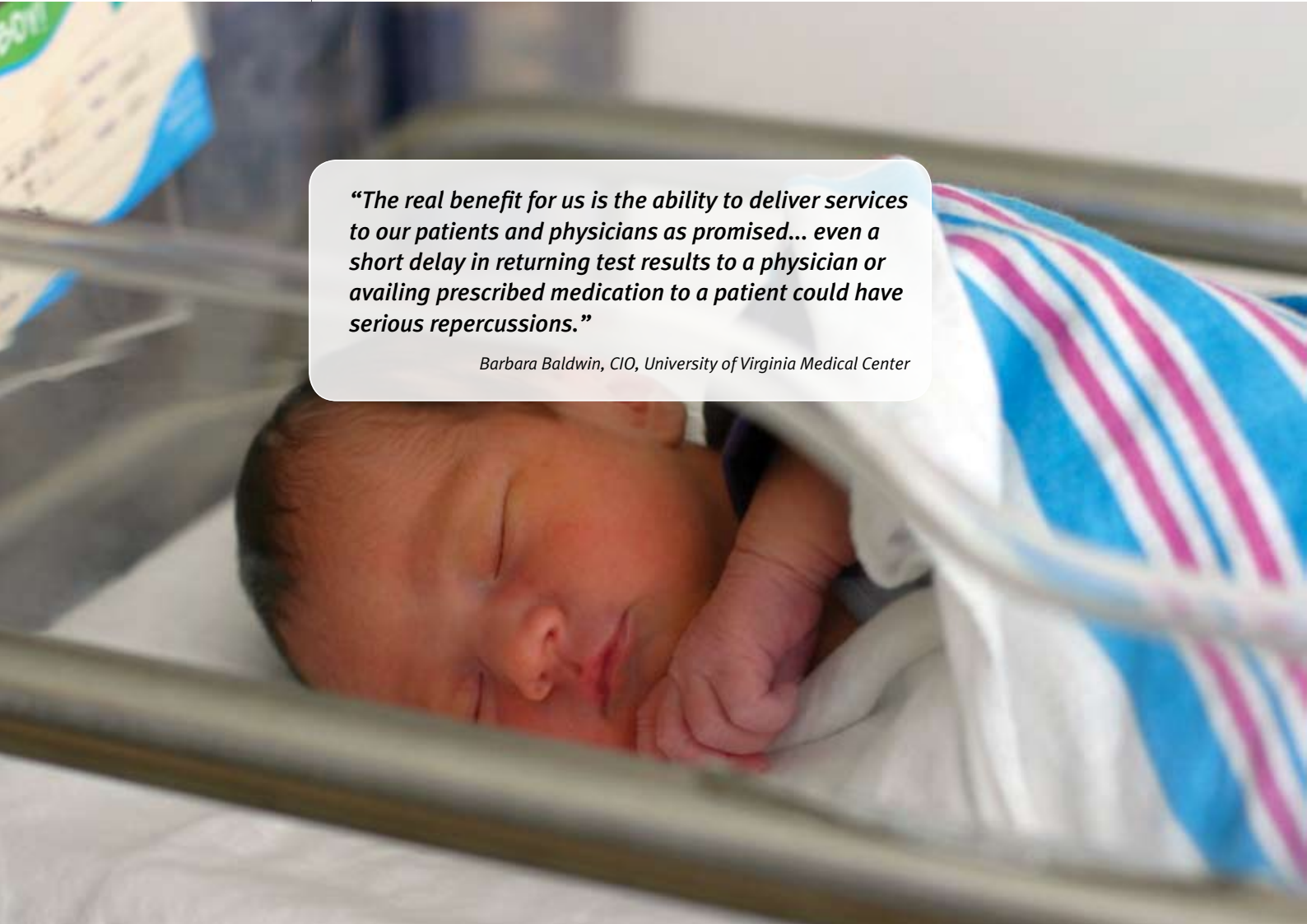


PROGNOSIS for IT Infrastructure

Ensuring the health of critical computer systems...it's in our DNA

When computer systems perform poorly it can either be a small inconvenience, a matter of life and death, or financial ruin. PROGNOSIS offers hospitals and healthcare providers, stock exchanges and insurers, power companies and telcos the tools they need to monitor, diagnose and troubleshoot critical computer systems that simply must keep running.

Customers include: Alstom, AstraZeneca, AT&T, British Telecom, BT Syntegra, Charles Schwab, DTE Energy Trading, France Telecom, GE Healthcare (IDX), Henry Ford Health Systems, Inova Health Services, London Stock Exchange, Mayo Clinic, Mercy Health Plans, NASDAQ, New York Stock Exchange, Optus, PeaceHealth, Sabre Systems, Singapore Telecom, Southwestern Bell, Sprint, Sungard, Toronto Stock Exchange, University of Virginia Health, Vancouver General, Vodacom



“The real benefit for us is the ability to deliver services to our patients and physicians as promised... even a short delay in returning test results to a physician or availing prescribed medication to a patient could have serious repercussions.”

Barbara Baldwin, CIO, University of Virginia Medical Center



“This is an innovative approach to measuring quality of service for online customers...another fine example of this company’s ability to leverage its expertise in business-critical technology.”

Senator Stephen Conroy, Australian Shadow Minister for Communications and Information Technology

PROGNOSIS for Web Applications



How can travel agencies know if their customers are able to book online?

While we’re all becoming more reliant on the internet for booking flights and accommodation, for conducting internet banking, or for online shopping, we’re quick to give up on a website that’s slow or simply doesn’t work. By measuring the quality of user experience, PROGNOSIS offers organisations unique insight into how well their revenue generating web-based applications are functioning for their customers.

Customers include: Duetsche Telecom, Swiss Federal Department of Justice and Police, GE Healthcare (IDX), Minneapolis Public Housing Authority, Sungard Financial Services



Chief Executive Officer's Report



Our achievements over this past financial year were the result of two very distinct halves. Following significant organisational changes implemented early in the year, the second half brought record sales and profit, and was testimony to the fact that these changes placed the company in a strong position for success.

The changes we made in the first half of the year included new leadership across our American and Asia Pacific sales operations, and within our IP telephony (VoIP) product team. As a result, I focused a great deal of my time in the United States, working with our field team on improving sales execution.

Overall, 2006 was a year where the company maintained its leadership in the HP NonStop market and established a dominant position in the emerging, high-growth IP telephony management sector.

In addition, we found significant new opportunities for our Windows, UNIX and Linux products as a result of a successful cross-selling program into our existing customer base. JPMorgan Chase for example, became the first major customer to purchase products across all of the PROGNOSIS software families. They now use PROGNOSIS to manage their IP telephony, HP NonStop, and generic Windows and UNIX environments.

Unlike last year, where we secured a sizable deal with Boeing, we were unable to uncover a similar large enterprise VoIP opportunity. This market is still evolving, and although the number of new VoIP customers was pleasing,

existing customers are taking longer with their VoIP deployments, which slowed the anticipated rate of revenue growth.

Key achievements throughout 2006 include:

- › Revenue growth in all geographic regions
- › 98% retention of recurring maintenance revenue
- › 55% increase in VoIP product revenues in the second half (over the same period last year)
- › 82% (year-on-year) increase in Windows, UNIX and Linux product sales

The company also significantly built on its partnerships with major system integrators and telecommunications providers – primarily in the VoIP market. In this area we expanded partnerships with France Telecom, Deutsche Telecom's T-Systems, IBM, Verizon, BellSouth and locally with Alphawest, a wholly-owned subsidiary of Optus. We now have more resources dedicated to sales and business development with large VoIP systems integrators, managed service providers, and carriers.

We have strengthened our relationships with industry influencers in the VoIP management arena, resulting in two of the industry's key analysts, Yankee Group and Nemertes Research, recognising PROGNOSIS as the leading product for monitoring large-scale Cisco IP telephony deployments.



Looking ahead, we will continue to develop new products by increasing investment in R&D. Key product developments will include support for multiple VoIP vendor platforms, commencing with support for Avaya technology. We will also increase our investment in field sales operations, aligned with anticipated market opportunity.

The key focus for 2007 includes:

- › Further positioning for growth, including continued investment in resources to build on the momentum from 2006
- › Maintaining market dominance in the traditional HP NonStop management arena
- › Reinforcing our leadership position in the VoIP and IP telephony management market by expanding our product range, and by further developing relationships with industry influencers, major system integrators and carriers
- › Continuing to cross sell additional PROGNOSIS products into our existing client base to consolidate customer relationships and to maximise return

Finally, I am grateful for the continued support of the employees of Integrated Research around the world. We are committed to delivering value for our customers, and creating value for our shareholders.

Keith Andrews
Chief Executive Officer

“We are committed to delivering value for our customers, and creating value for our shareholders.”





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 business-critical computing and IP telephony networks. There were no significant changes in the nature of these activities during the year.

Group overview

Integrated Research has an eighteen-year heritage of providing performance monitoring and diagnostics software for business-critical computing environments.

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

The PROGNOSIS product range is an integrated suite of monitoring and management software, designed to give an organisation's technical personnel insight into the performance and reliability of their HP NonStop, Windows, UNIX and Linux servers, and the business applications that run on these computers.

Typical business environments where PROGNOSIS is used include automated teller machine and EFTPOS transaction systems, web applications such as online banking or online shopping, hospital systems, emergency services, stock trading applications and telecommunication systems. PROGNOSIS also offers a suite of IP telephony performance monitoring products for enterprise Voice over Internet Protocol (VoIP) networks.

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

Integrated Research services customers in more than 50 countries through direct sales offices in the USA, UK, Germany and Australia, and via a global, channel-driven distribution network.

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

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



Review and results of operations

The consolidated income statement shows a net profit for the financial year ended 30 June 2006 of \$7.0 million, compared with \$6.2 million in 2005. This increase (13%) is mainly due to an increase of 7% in total new licence fees, including an 82% growth in licence fees of PROGNOSIS products for Windows, UNIX and Linux.

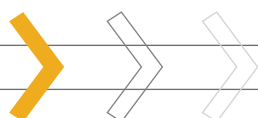
The company's major operational activities in the 2006 financial year have been directed toward the further development of its sales and marketing organisations to directly engage the customer base and prospects in the field. This additional investment in people began in the second half of the prior financial year, when the sales and marketing organisations were strengthened at the regional and corporate levels, with emphasis on the emerging VoIP market. Research and development expenses were \$6.7 million, representing 19% of revenue, up from 18% in 2005.

Revenue

Revenue for the period was \$34.5 million, an increase of 4% over 2005. Licence fees, which made up 55% of revenue, increased by 7%, and maintenance fees were flat. Revenue in 2006 absorbed a reduction of 5% compared to 2005 due to changes in exchange rates.

Revenue improved in the major geographic segments, with US dollar growth of 6% in the Americas region over the prior year and Europe growing in GB pounds by 24%. Asia Pacific revenue increased in US dollar terms by 8%. In Australian dollar terms, revenue for the consolidated entity increased by 4% after absorbing \$1.6 million as a result of changes in the effective currency exchange rates after hedging, particularly the Australia/US dollar rate, which rose from an effective rate of \$0.72 last year to \$0.75 in 2006.

“Revenue improved in the major geographic segments, with US dollar growth of 6% in the Americas region over the prior year and Europe growing in GB pounds by 24%. Asia Pacific revenue increased in US dollar terms by 8%.”



Review of operations and activities *(continued)*

Expenses

Total expenses for the period were \$26.9 million, an increase of 7% over the prior year. Headcount increased from 123 at 30 June 2005 to 128 at 30 June 2006. Most of the increased spending related to increases in sales and marketing due to hiring of additional customer-facing staff in all regions and corporate. Research and development expenses increased by 7%, primarily due to higher amortisation of development costs following the release of Version 8 of the company's PROGNOSIS products in the fourth quarter of the 2005 financial year. Research and development expenses were \$6.7 million, representing 19% of revenue, and are made up of:

In thousands of AUD	2006	2005
Gross research and development spending	7,348	7,747
Capitalisation of development expenses	-4,657	-4,113
Amortisation of capitalised expenses	3,996	2,607
Net research and development expenses	6,687	6,241

Shareholder returns

Returns to shareholders increased through the payment of dividends. Dividends for 2003-2006 were unfranked, and the company expects that dividends in 2007 will also be unfranked.

	2006	2005	2004
Net profit	\$7,003,000	\$6,238,000	\$4,455,000
Basic EPS	4.22¢	3.77¢	2.7¢
Dividends per share	2.5¢	2.5¢	1.75¢
Change in share price	-\$0.05	\$0.05	\$0.23
Return on equity	30.1%	31.3%	23.9%



Financial position

The consolidated entity continues to hold a strong financial position, with cash at 30 June 2006 of \$10.7 million, compared to \$9.7 million a year ago, and remains free of debt. Net cash flow provided by operating activities was \$5.1 million for the year ended 30 June 2006.

	2006	2005	2004
Net cash flow provided by operating activities	\$5,085,000	\$5,439,000	\$3,918,000
Current ratio (current assets to current liabilities)	2.05	1.95	1.79
Net tangible asset backing per ordinary share	8.27¢	6.69¢	6.26¢

Likely developments

The consolidated entity will continue to aggressively pursue expected opportunities from the emerging, high-growth VoIP market, while maintaining its leadership position in the management of NonStop platforms, and seeking new opportunities in the management of Windows, UNIX and Linux systems and applications.

The company will continue product developments within the PROGNOSIS architecture, and development of its well established direct and partner channels. Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

“The company will continue product developments within the PROGNOSIS architecture, and development of its well established direct and partner channels.”

Directors

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



Steve Killelea, MAICD - Non-Executive Director and Chairman

Steve founded Integrated Research in August 1988 and held the position of Managing Director and Chief Executive Officer until retiring from his executive position in November 2004. He was appointed as a Non-Executive Director in December 2004 and elected Chairman in July 2005. Steve is a member of the Nomination and Remuneration Committee and Chairman of the Strategy Committee. His current term will expire no later than the close of the 2007 Annual General Meeting. Former listed company directorships held in the past three years: None. Age 56 years.



Keith Andrews, BBM, FAICD - Managing Director and Chief Executive Officer

Keith was appointed as Managing Director and Chief Executive Officer in November 2004 and is a member of the Strategy Committee. He has over twenty years experience at senior levels in the IT industry in Australia and overseas, having previously held senior corporate positions in Asia and the US. As Managing Director, Keith is not required to seek re-election to the board. Former listed company directorships held in the past three years: None. Age 46 years.



David Boyles, BA, MA, MBA, MAICD - Independent Non-Executive Director and Deputy Chairman

David has been a Director since July 2003 and was appointed Deputy Chairman in September 2005. He is Chairman of the Nomination and Remuneration Committee and a member of the Strategy Committee, and has over twenty years senior management experience with US and Australian multinational companies. David is seeking re-election at the 2006 Annual General Meeting. Former listed company directorships held in the past three years: director of ERG Group from December 2003 to June 2005, and was appointed a director of Infosys Technologies in July 2005. Age 57 years



Kate Costello, LLB, FAICD - Independent Non-Executive Director

Kate was appointed as a director on 1 August 2005. She has over twenty years experience in corporate governance and strategy development, and is a member of the Audit Committee and of the Strategy Committee. She is also a director of Governance Matters Pty Ltd and a number of other private companies. Kate's current term will expire no later than the close of the 2008 Annual General Meeting. Former listed company directorships held in the past three years: Director Labtech Systems Limited. Age 53 years.



Alex Kennedy, M.Mgt, Dip CM, FAICD, ACIS - Independent Non-Executive Director

Alex has been a director since May 2003 and is a member of the Nomination and Remuneration Committee and of the Audit Committee. He has nearly 35 years of specialist and executive management experience across a broad range of industries. Alex is seeking re-election at the 2006 Annual General Meeting. Former listed company directorships held in the past three years: None. Age 58 years.



Ian Winlaw, M.Com, FCA, FAICD - Independent Non-Executive Director

Ian has been a director since August 2000 and is Chairman of the Audit Committee. He has extensive financial and accounting experience and is a partner in Ian Winlaw & Co. He is Secretary of Colloidal Dynamics Pty Ltd. Ian's current term will expire no later than the close of the 2008 Annual General Meeting. Former listed company directorships held in the past three years: None. Age 67 years.

David Leighton (not shown) retired from his position as Chief Financial Officer and resigned from the Board on 31 March 2006. David continues in the role of Company Secretary. He held no directorships of other listed companies in the past three years. Age 63 years.



Senior Management

From left to right:

Nathan Brumby - General Manager IP Telephony Business

Nathan Brumby joined the company in October 2005 and is responsible for leading and managing the company's global Voice over IP business. Brumby draws on considerable software and international business experience from previous positions including Chief Process Officer for Object Consulting, Chief Executive Officer of Software Engineering Australia, and Chief Executive Officer of NRG Innovations in Canada.

Kurt Roscow, BA, MBA - President Americas

Based in the company's American headquarters in Denver, Colorado, Kurt Roscow joined the company in October 2003. Roscow is responsible for leading and developing the business operations in the Americas and is President of Integrated Research, Inc. Prior to joining Integrated Research his roles included senior sales and channel management positions with IBM, Oracle, and JD Edwards.

Belinda York - Vice President Marketing

Belinda York joined Integrated Research in October 2002 and is responsible for managing the company's global marketing strategy. York draws on more than twenty years in the IT industry, including positions as Australian Managing Director for Borland International, Avid Technology, Onyx Software and FairMarket. She was responsible for launching and managing these subsidiary businesses and building their position and opportunity in fast-growing markets.

Keith Andrews, BBM, FAICD - Chief Executive Officer

Keith Andrews joined Integrated Research in November 2004 and is responsible for managing all aspects of the company, including developing the business plan, and providing the leadership to deliver the business goals. Andrews has more than twenty years experience in the IT industry in Australia and overseas. He has held senior management positions with Stratus Technologies and has significant international experience in the HP NonStop market, focused specifically on ATM/EFTPOS solutions and telecommunications (VoIP) segments.

Steve Douglas - Vice President Europe

Based in the company's European headquarters in London, England, Steve Douglas joined the company's UK subsidiary in October 2002. He is responsible for leading the business operations across Europe and the UK, and is a Director of Integrated Research UK Limited. Douglas has more than twenty-five years technical and sales experience in the European IT industry. In addition to his senior sales positions with Informix, Oracle, and Software AG, Douglas brings expertise from technical roles with British Aerospace and Texas Instruments.

Stephen Sarjeant, BSc - Regional Manager, Asia Pacific, Africa, Middle East

Based in North Sydney, Australia, Stephen Sarjeant joined the company in October 2005 and heads up Integrated Research's Australasian sales team, which has reach into Asia Pacific, Africa and the Middle East. Sarjeant has held a number of international sales and general management positions with both Cisco Systems and ICL (now part of the Fujitsu Group) across Central Europe, the Middle East and Africa as well as Australia.

David Purdue, BEc, MBA, Grad Dip CSP, FCA, FCIS, GAICD - Acting Chief Financial Officer

David Purdue was appointed to the position of acting Chief Financial Officer on the retirement of David Leighton in March 2006 and is responsible for the company's global finance, treasury, tax and controllership activities. Purdue joined Integrated Research in 2003 and until April 2005 was controller for the Americas region. Since returning to Australia, he has been commercial manager, with responsibility for global business operations.



Integrated Research

Proud developers of PROGNOSIS performance monitoring software for business-critical computer systems

- › Founded in 1988
- › Customers in 50+ countries
- › Clients include 35% of Global 1000 companies
- › Dominant share of HP NonStop performance monitoring market
- › Emerging as dominant performance monitoring solution for large-scale VoIP deployments





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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 2006 and the Auditor's Report thereon.

Results

The net profit of the consolidated entity for the 12 months ended 30 June 2006 after income tax expense was \$7.0 million.

Dividends

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

		Cents per share	Total amount \$'000	Date of payment
Final 2005 – Ordinary shares	Unfranked	1.5	2,487	16 Sep 2005
Interim 2006 – Ordinary shares	Unfranked	1.0	1,659	10 Mar 2006
Final 2006 – Ordinary shares	Unfranked	1.5	2,489	15 Sep 2006

Events subsequent to reporting date

For dividends declared after 30 June 2006 see Note 21 in the financial statements. The financial effect of dividends declared and paid after 30 June 2006 has not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

In July 2006, the company received a letter from solicitors representing a distributor of the company's products, located in Germany, claiming commission on sales made in Germany. The company is seeking advice from its solicitors on this matter, but does not expect the outcome to be material. No further disclosure is provided as to do so may seriously prejudice the position of the consolidated entity.

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

Future developments

Likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations are referred to generally in the Chief Executive Officer's Report.

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

Directors and Company Secretary

Details of current directors' qualifications, experience, age and special responsibilities are set out on page 14. Details of the Company Secretary and his qualifications are set out on page 14.

Directors' Report *(continued)*

Officers who were previously partners of the audit firm

No officers of the company during the financial year were previously partners of the current audit firm, KPMG, at a time when KPMG undertook an audit of the company.

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 2006, and the numbers of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Nomination and Remuneration Committee Meetings		Strategy Committee Meetings	
	A	B	A	B	A	B	A	B
Keith Andrews	12	12	-	-	-	-	3	3
David Boyles	12	12	-	-	3	3	3	3
Kate Costello	11	11	3	3	-	-	3	3
Alex Kennedy	11	12	3	3	3	3	-	-
Steve Killelea	12	12	-	-	3	3	3	3
David Leighton	9	9	-	-	-	-	-	-
Ian Winlaw	12	12	3	3	-	-	-	-

A: Number of meetings attended.

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

State of affairs

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

Environmental regulation

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

Directors' Report *(continued)*



Directors' interests

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

	Ordinary shares			Options
	Directly held	Beneficially held	Total	Number of Options
Keith Andrews	-	145,000	145,000	1,000,000
David Boyles	1,600,000	-	1,600,000	-
Kate Costello	-	200,000	200,000	-
Alex Kennedy	-	350,000	350,000	-
Steve Killelea	94,497,339	337,612	94,834,951	-
Ian Winlaw	150,000	-	150,000	-

Share options

Options granted to directors and senior executives

During or since the end of the financial year, the company granted options for no consideration over unissued ordinary shares in Integrated Research Limited to the following of the five most highly remunerated officers of the consolidated entity as part of their remuneration:

	Number of options granted	Exercise price	Expiry date
Officers:			
Nathan Brumby	200,000	\$0.48	9-Jan-2011

No options were granted to any directors of the consolidated entity during or since the end of the financial year.

The options were granted under the Integrated Research Limited Employee Share Option Plan. 25% of options vest and may be exercised from each of the first to fourth anniversaries of the issue date. In addition, the ability to exercise some options is conditional on the consolidated entity achieving certain performance hurdles. Unexercised options expire five years after the issue date or on termination of the employee's employment.

Directors' Report *(continued)*

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	Expiry date	Exercise price	Number of shares
Aug 2006	\$0.54	268,000	Apr 2009	\$0.46	585,000
Dec 2006	\$0.51	120,400	May 2009	\$0.33	317,500
Feb 2007	\$0.62	268,500	July 2009	\$0.40	372,750
May 2007	\$0.63	165,500	Nov 2009	\$0.47	1,200,000
July 2007	\$0.57	281,000	Nov 2009	\$0.57	400,000
Feb 2008	\$0.24	260,750	Feb 2010	\$0.52	404,000
Jun 2008	\$0.12	189,750	Apr 2010	\$0.46	516,500
Aug 2008	\$0.22	305,250	Sep 2010	\$0.54	740,000
Sep 2008	\$0.22	10,000	Jan 2011	\$0.48	200,000
Feb 2009	\$0.26	350,000	May 2011	\$0.41	869,000
Total unissued ordinary shares of Integrated Research Limited under option					7,823,900

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

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

Number of shares	Amount paid on each share
15,358	\$0.10
50,000	\$0.25
56,500	\$0.24
42,125	\$0.12
52,250	\$0.22
37,000	\$0.26
21,875	\$0.33
23,000	\$0.40

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.

Directors' Report *(continued)*



Insurance

During the financial year Integrated Research Limited paid a premium of \$26,000 to insure the directors and officers of the consolidated entity and related bodies corporate.

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

Remuneration report

The company's Remuneration Report, which forms part of this Directors' Report, is on pages 24 to 32.

Corporate governance

A statement describing the company's main corporate governance practices in place throughout the financial year is on pages 33 to 40 of this Annual Report.

Non-audit services

During the year KPMG, the company's auditor, has performed certain other services in addition to their statutory duties.

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

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

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is set out on page 85 and forms part of the Directors' Report.

Directors' Report *(continued)*

Rounding of amounts to nearest thousand dollars

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

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



Steve Killelea
Chairman



Keith Andrews
Managing Director and CEO

Dated at North Sydney this 20th day of September 2006.

Remuneration Report



Remuneration policies - audited

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

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the company and the consolidated entity, including directors of the company and other executives. Key management personnel includes the five most highly remunerated S300A directors and executives for the company and the consolidated entity.

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

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

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

Fixed remuneration - audited

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

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

Performance-linked remuneration - audited

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

Short-term incentive bonus

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

Remuneration Report *(continued)*

The financial performance objectives are “new sales”, “profit after tax” and “segment margins” compared to budget amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes and staff development.

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

Long-term incentive

Options are issued to executive directors and other senior executives under the Employee Share Option Plan. The ability of executive directors and other senior executives to exercise options is conditional on the consolidated entity achieving certain profit after tax (PAT) performance hurdles over the vesting period.

The Chief Executive Officer is eligible, subject to shareholder approval, to be issued performance shares to vest over a period of four consecutive years following an independent verification of attaining growth in total shareholder return (TSR) (defined as share price growth and dividends paid) at or above the median of the comparator group that comprise the ASX Small Ordinaries Index.

Consequences of performance on shareholder wealth - unaudited

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

	2006	2005	2004	2003	2002
Licence revenue	\$19,040,000	\$17,790,000	\$15,842,000	\$12,396,000	\$18,776,000
Net profit	\$7,003,000	\$6,238,000	\$4,455,000	\$1,072,000	\$6,523,000
Dividends paid	\$4,146,000	\$3,310,000	\$1,239,000	\$2,892,000	\$2,477,000
Change in share price	-\$0.005	\$0.05	\$0.23	-\$0.43	-\$0.02

Net profit and licence revenue are considered in setting the STI, as two of the financial performance targets are “profit after tax” and “new sales”. Dividends and changes in share price are included in the TSR calculation for the LTI.

The nomination and remuneration committee considers that the above performance-linked structure is generating the desired outcome. The evidence of this is firstly, the very strong growth in profits in recent years, and secondly, the performance-linked element of the structure appears to be appropriate because not all of the senior executives achieve a level of performance, which qualifies them for the maximum bonus.

Remuneration Report *(continued)*



Service agreements - audited

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

Mr Keith Andrews, Chief Executive Officer, has a contract of employment with Integrated Research Limited dated 5 October 2004, which provides for specific notice and severance understandings of up to two years compensation depending on the particular circumstances. Mr Andrews can terminate his employment by giving three months prior notice in writing.

Following the retirement of Mr David Leighton on 31 March 2006 from his position as Chief Financial Officer and Executive Director, the company entered into an agreement with Mr Leighton for assistance with the transition to a new CFO for twelve months after 31 March 2006 on a part-time basis for compensation of \$80,000. He will receive \$45,000 per annum compensation to perform his duties as company secretary.

Non-executive directors - audited

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 and the deputy chairman receives the base fee by a multiple of 1.5. Director's fees cover all main board activities and committee membership.

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

Directors' and executive officers' remuneration - audited

Details of the nature and amount of each major element of the remuneration of each director of the company and each of the five named company executives and relevant group executives receiving the highest remuneration are reported below.

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

"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.

Remuneration Report *(continued)*

		Short-term			Post-employment	Share-based payments	Other compensation	Proportion of remuneration (not audited)	
		Salary & fees	Bonus	Non-cash benefits	Super-annuation contribution	Value of options (A)	Termination benefit	Total	Performance related
In AUD		\$	\$	\$	\$	\$	\$	\$	Value of Options
Directors									
<i>Non-executive</i>									
David Boyles	2006	64,687			5,822			70,509	-
	2005	45,000	-	-	4,050	-	-	49,050	-
Kate Costello (appointed 1 August 2005)	2006	-			44,962	-	-	44,962	-
	2005								
Brian Gatfield (resigned 1 July 2005)	2006								
	2005	90,000	-	-	8,100	-	-	98,100	-
Alex Kennedy	2006	22,500	-	-	26,550	-	-	49,050	-
	2005	45,000	-	-	4,050	-	-	49,050	-
Steve Killelea (appointed 1 December 2004)	2006	90,000	-	-	8,100	-	-	98,100	-
	2005	26,250	-	-	2,278	-	-	28,528	-
Ian Winlaw	2006	45,000	-	-	4,050	-	-	49,050	-
	2005	45,000	-	-	4,050	-	-	49,050	-
<i>Executive</i>									
Keith Andrews (appointed 1 November 2004)	2006	355,009	130,000	33,511	40,560	62,998	-	622,078	21%
	2005	228,414	75,000	34,721	38,702	26,900	-	403,737	19%
Steve Killelea (retired 30 November 2004)	2006								
	2005	275,956	-	4,531	38,129	-	-	318,616	-
David Leighton (retired 31 March 2006)	2006	176,082	-	30,219	38,422	30,300	117,766	392,789	-
	2005	185,961	-	20,400	24,588	26,813	-	257,762	-

Remuneration Report *(continued)*



		Short-term			Post-employment	Share-based payments	Other compensation	Proportion of remuneration (not audited)		
		Salary & fees	Bonus	Non-cash benefits	Super-annuation contribution	Value of options	Termination benefit	Total	Performance related	Value of Options
In AUD		\$	\$	\$	\$	\$	\$	\$		
Executive Officers (excluding directors)										
The Company										
Ross Ballard (resigned 7 January 2005)	2005	121,640	47,179	3,488	42,000	-	112,500	326,807	14%	-
Nathan Brumby (appointed 10 October 2005)	2006	152,882	26,000	-	9,104	2,237	-	190,223	14%	1%
Ben Garton (appointed 16 August 2004)	2006	194,619	-	-	11,908	12,051	-	218,578	-	6%
	2005	165,709	-	-	10,620	11,717	-	188,046	-	6%
Stephen Sarjeant (appointed 22 September 2005)	2006	122,352	61,916	1,463	14,353	-	-	200,084	31%	-
David Priestley (resigned 26 August 2005)	2006	33,762	-	2,194	1,913	-	41,133	79,002	-	-
	2005	148,139	75,564	4,531	11,588	14,877	-	254,699	30%	6%
David Purdue	2006	157,447	-	3,561	24,078	13,814	-	198,900	-	7%
	2005	169,209	-	-	24,000	6,726	-	199,935	-	3%
Belinda York	2006	196,496	15,603	4,338	18,241	15,225	-	249,903	6%	6%
	2005	212,219	22,988	4,531	21,169	3,579	-	264,486	9%	1%
Consolidated										
Steve Douglas	2006	206,192	189,751	-	-	7,795	-	403,738	47%	2%
	2005	184,714	259,126	-	-	14,933	-	458,773	56%	3%
Casey Ives (resigned 31 July 2005)	2006	-	-	-	-	-	125,204	125,204	-	-
	2005	255,085	104,494	-	-	17,146	-	376,725	28%	5%
Kurt Roscow	2006	195,980	253,625	-	-	7,710	-	457,315	56%	2%
	2005	164,152	127,093	-	-	14,765	-	306,010	42%	5%

Remuneration Report *(continued)*

		Short-term			Post-employment	Share-based payments	Other compensation	Proportion of remuneration (not audited)	
		Salary & fees	Bonus	Non-cash benefits	Super-annuation contribution	Value of options	Termination benefit	Total	
In AUD		\$	\$	\$	\$	\$	\$	\$	Performance related Value of Options
Total compensation:	2006	2,013,008	676,895	75,286	248,063	152,130	284,103	3,449,485	
Key management (consolidated)	2005	2,362,448	711,444	72,202	233,324	137,456	112,500	3,629,374	
Total compensation:	2006	1,610,836	233,519	75,286	248,063	136,625	158,899	2,463,228	
Key management (company)	2005	1,758,497	220,731	72,202	233,324	90,612	112,500	2,487,866	

Analysis of bonuses included in remuneration - unaudited

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

	Short-term incentive bonuses		
	Included in remuneration \$ (A)	% vested in year	% forfeited in year (B)
Directors			
Keith Andrews	130,000	87%	13%
Executives			
Nathan Brumby	26,000	87%	13%
Stephen Sarjeant	61,916	72%	28%
Belinda York	15,603	62%	38%
Steve Douglas	189,751	84%	16%
Kurt Roscow	253,625	99%	1%

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the short term incentive bonus scheme for the 2006 financial year.

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

Remuneration Report *(continued)*



Equity instruments – audited

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

Options and rights over equity instruments granted as compensation

Details on options over ordinary shares in the company that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are as follows:

	Number of options granted in 2006	Grant date	Number of options vested during 2006	Fair value of option at grant date	Exercise price per option	Expiry date
Executives:						
Nathan Brumby	200,000	Feb 2006	-	\$0.21	\$0.48	Feb 2011
Steve Douglas	-	-	3,750	\$0.14	\$0.26	Feb 2009
			71,250	\$0.14	\$0.46	Apr 2009
Ben Garton	-	-	50,000	\$0.23	\$0.47	Nov 2009
David Leighton	-	-	100,000	\$0.28	\$0.57	Nov 2009
David Purdue	-	-	3,750	\$0.14	\$0.26	Feb 2009
			3,125	\$0.15	\$0.33	Jun 2009
			5,000	\$0.22	\$0.40	Jul 2009
			38,125	\$0.22	\$0.46	Apr 2010
Kurt Roscow	-	-	75,000	\$0.14	\$0.46	Apr 2009
Belinda York	-	-	50,000	\$0.22	\$0.46	Apr 2010

No options have been granted to named executives since the end of the financial year. The above options were provided at no cost to the recipients.

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

Further details, including grant dates and exercise dates regarding options granted to executives under the ESOP are in note 18 to the financial statements.

Modification of terms of equity-settled share-based payment transactions

At the company's AGM held on 15 November 2005, shareholders approved a resolution allowing conditions of option grants to key management personnel be amended to allow vesting based on attainment of either annual or cumulative performance hurdles, at the discretion of the Board. The market value of the company's ordinary shares on 15 November 2005 was \$0.51. There was no difference in the fair value of options held by key management personnel as a result of the above change.

Remuneration Report *(continued)*

The options held by key management personnel that were affected by the change were:

	Number of Options	Expiry date	Exercise price per option
Directors			
Keith Andrews	1,000,000	Nov 2009	\$0.47
David Leighton	273,500	Nov 2009	\$0.57
Executives			
Steve Douglas	285,000	Apr 2009	\$0.46
Ben Garton	200,000	Nov 2009	\$0.47
David Purdue	152,500	Apr 2010	\$0.46
Kurt Roscow	300,000	Apr 2009	\$0.46
Belinda York	200,000	Apr 2010	\$0.46

Exercise of options granted as compensation

During the reporting year the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid per share
Executives:		
Casey Ives	52,500	\$0.25
David Priestley	2,500	\$0.26

There were no amounts unpaid on the shares issued as a result of the exercise of the options.

Analysis of movement in options – unaudited

The movement during the reporting period, by value, of options over ordinary shares in the company held by each company director and each of the named company executives and relevant group executives is detailed below:

In AUD	Value of options			
	Granted in year (A)	Exercised in year (B)	Forfeited in year (C)	Total options value in year
	\$	\$	\$	\$
Nathan Brumby	42,956	-	-	42,956
Casey Ives	-	13,125	-	13,125
David Priestley	-	600	-	600
	42,956	13,725	-	56,681

- (A) The value of options granted in the year is the fair value of the options calculated at the grant date using a binominal option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of options exercised during the year is calculated as the market price of shares of the company on the Australian Stock Exchange as at the close of trading on the date the options were exercised after deducting the price paid to exercise the option.

Remuneration Report *(continued)*



- (C) There were no options forfeited during the year, except for those held by executives whose employment was terminated during the year. No value has been assigned to those options as either the exercise price exceeded the market price of the company's shares, or had not vested.

Analysis of options and rights over equity instruments granted as compensation - unaudited

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

	Options granted					Value yet to vest (\$)	
	Number	Date	% vested in year	Forfeited in year (A)	Financial year in which grant vests	Min (B)	Max (C)
Directors							
Keith Andrews	1,000,000	Nov 2004	-%	25%	2010	nil	115,000
David Leighton	400,000	Nov 2004	25%	-%	2010	nil	84,000
Executives							
Nathan Brumby	200,000	Feb 2006	-%	-%	2011	nil	42,000
Steve Douglas	15,000	Feb 2004	25%	-%	2009	nil	1,050
	285,000	Apr 2004	25%	-%	2009	nil	29,925
Ben Garton	200,000	Nov 2004	25%	-%	2010	nil	34,500
Casey Ives	100,000	Nov 2002	-%	50%	n/a	nil	n/a
	10,000	Feb 2004	-%	75%	n/a	nil	n/a
	290,000	Apr 2004	-%	100%	n/a	nil	n/a
David Priestley	10,000	Feb 2004	-%	75%	n/a	nil	n/a
	290,000	Apr 2004	-%	100%	n/a	nil	n/a
David Purdue	15,000	Feb 2004	25%	-%	2009	nil	1,050
	12,500	Jun 2004	25%	-%	2009	nil	938
	20,000	Jul 2004	25%	-%	2009	nil	3,300
	152,500	Apr 2005	25%	-%	2010	nil	25,163
Kurt Roscow	300,000	Apr 2004	25%	-%	2009	nil	31,500
Belinda York	200,000	Apr 2005	25%	-%	2010	nil	33,000

- (A) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level of performance not being achieved.
- (B) The minimum value of options yet to vest is \$nil as the market price of the shares of the company on the Australian Stock exchange at the time may not exceed the option price.
- (C) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the company on the Australian Stock Exchange at the date the option is exercised. The maximum values presented above are based on the values calculated using the Binomial option pricing model as applied in estimating the value of options for employee benefit expense purposes.

Corporate Governance Statement

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

Board of directors and its committees

Role of the board

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

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. Details of the board's charter is located on the company's website (www.prognosis.com).

Board process

To assist in the execution of its responsibilities, the Board has established a number of board committees including a Nomination and Remuneration Committee, an Audit Committee and a Strategy Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the consolidated entity including 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 any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for its meetings is prepared in conjunction with the Chairman, Chief Executive Officer and Company Secretary. Standing items include the CEO'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.

Director education

The consolidated entity follows an induction process to educate new directors about the nature of the business, current issues, the corporate strategy and expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. In addition Executives make regular presentations to the board to ensure its familiarity of operational matters. Directors are expected to access external continuing education opportunities to update and enhance their skills and knowledge.

Independent advice and access to company information

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

Composition of the board

The names of the directors of the company in office at the date of this report are set out in the Directors' report on page 14 of this report.

Corporate Governance Statement *(continued)*



The company's constitution provides for the board to consist of between three and twelve members. At 30 June 2006 there were four independent non-executive directors, one of whom was deputy chairman, one non-executive director, and one executive director. Mr Steve Killelea, the Non-Executive Director, was elected as Non-Executive Chairman with effect from 1 July 2005. Ms Kate Costello was appointed an independent Non-Executive Director with effect from 1 August 2005. Mr David Leighton retired from his position as Chief Financial Officer and resigned as an Executive Director on 31 March 2006.

The election of Mr Killelea, who holds a majority of the company's issued shares, as Non-Executive Chairman does not comply with the ASX Corporate Governance Council recommendation that the Chairman be an independent Director. However, the board considers the appointment of Mr Killelea to be beneficial to the company and will enable it to continue to build on the experience and knowledge gained through his long involvement with Integrated Research and his associations throughout the information industry. Mr Killelea founded Integrated Research in 1988 and was the CEO and Managing Director of the company until his retirement in November 2004. The board recognises the need for directors to exercise unfettered and independent judgement and in September 2005 appointed Mr David Boyles as Deputy Chairman. In this role Mr Boyles will act as lead Independent Director.

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 and Remuneration 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.

Nomination and Remuneration Committee

The company has merged membership of the Nomination Committee and the Remuneration Committee, which now operates under the committee charter described below.

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

Responsibilities Regarding Remuneration

The Committee will review and make recommendation to the board on:

- › The appointment, remuneration, performance objectives and evaluation of the chief executive officer.
- › The remuneration packages for senior executives.
- › The company's recruitment, retention and termination policies and procedures for senior executives.
- › Executive remuneration and incentive policies.
- › Policies on employee incentive plans, including equity incentive plans.
- › Superannuation arrangements.

Corporate Governance Statement *(continued)*

- › The remuneration framework and policy for non-executive directors.
- › Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies and industry surveys. Remuneration packages include a mix of fixed remuneration, performance-based remuneration and equity-based remuneration.

Responsibilities Regarding Nomination

The Committee will develop and make recommendation to the board on:

- › The CEO and senior executive succession planning.
- › The range of skills, experience and expertise needed on the board and the identification of the particular skills, experience and expertise that will best complement board effectiveness.
- › A plan for identifying, reviewing, assessing and enhancing director competencies.
- › Board succession plans to maintain a balance of skills, experience and expertise on the board.
- › Evaluation of the board's performance.
- › Appointment and removal of directors.
- › Appropriate composition of committees.
- › The terms and conditions of the appointment of non-executive directors are set out in a letter of appointment, including expectations for attendance and preparation for all board meetings, expected time commitments, procedures when dealing with conflicts of interest, and the availability of independent professional advice.

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

David Boyles (Chairman) – Independent Non-Executive

Alex Kennedy – Independent Non-Executive

Steve Killelea – Non-Executive

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

Audit Committee

The Audit Committee has a documented charter, approved by the board. All members must be non-executive directors with a majority being independent. The Chairman may not be the Chairman of the board. The committee advises on the establishment and maintenance of a framework of 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

Kate Costello – Independent Non-Executive

Alex Kennedy – Independent Non-Executive

Corporate Governance Statement *(continued)*



Ms Kate Costello, an independent non-executive director, was elected to the committee with effect from 1 August 2005.

The external auditor, Chief Executive Officer and Chief Financial Officer are invited to Audit Committee meetings at the discretion of the committee. The committee met three times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 19.

The external auditor met with the audit committee/board three times during the year, two of which included time without the presence of executive management. The Chief Executive Officer and the Chief Financial Officer declared in writing to the board that the company's financial reports for the year ended 30 June 2006 comply with accounting standards and present a true and fair view, in all material respects, of the company's financial condition and operational results. This statement is required annually.

The Audit Committee's charter is available on the company's website and includes information on procedures for selection and appointment of the external auditor, and for rotation of external audit engagement partners.

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.
- › Assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides a declaration of independence.
- › Providing advice to the board in respect of whether provision of the non-audit services by the external auditor is compatible with the general standards of independence of auditors imposed by the Corporations Act 2001.
- › 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 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.

Corporate Governance Statement *(continued)*

- › Prior to announcement of results:
 - › To review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings.
 - › To recommend the Board approval of these documents.
- › To finalise half-year and annual reporting:
 - › Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
 - › Review the draft financial report and recommend board approval of the financial report.
- › As required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

Strategy Committee

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

The committee held its first meeting in December 2005 and met three times during the year.

The members of the Strategy Committee during the year were:

Steve Killelea (Chairman) – Non-Executive
Keith Andrews – Executive
David Boyles – Independent Non-Executive
Kate Costello – Independent Non-Executive

The Strategy Committee is responsible for:

- › Working with management on the articulation of any strategic plan for recommendation to the board.
- › Assisting in identifying and assessing strategic opportunities including:
 - › Mergers and acquisitions proposals
 - › Intellectual property developments or acquisitions
 - › Changes in business models
 - › Partnering arrangements
 - › Entry into new markets
- › Staying close to business challenges and risks.
- › Recommending specific (eg product) strategies, including business cases and mechanisms to measure progress results, to the board.

Corporate Governance Statement *(continued)*



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.

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

Internal control framework

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

- › Financial reporting – Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared monthly.
- › Continuous disclosure – Identify matters that may have a material effect on the price of the Company's securities, notify them to the ASX and post them to the Company's website.
- › Quality and integrity of personnel – Formal appraisals are conducted at least annually for all employees.
- › Operating unit controls – Operating units are required to confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals.
- › 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.

Corporate Governance Statement *(continued)*

Ethical standards

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

Conflict of interest

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 any director related entity transactions with the company and consolidated entity are set out in Note 27.

Code of conduct

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

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

Trading in company securities by directors and employees

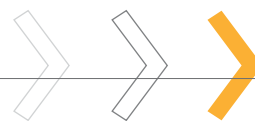
Directors and employees may acquire shares in the company, but are prohibited from dealing in company shares whilst in possession of price sensitive information, and except in the periods:

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

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

The consolidated entity's trading policy may be reviewed on the company's website.

Corporate Governance Statement *(continued)*



Communication with shareholders

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

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

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

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

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Financial Report



Income statements

For the year ended 30 June 2006

In thousands of AUD	Notes	Consolidated		The Company	
		2006	2005	2006	2005
Revenue:					
Revenue from licence fees		19,040	17,790	12,699	11,648
Revenue from maintenance fees		14,909	14,877	9,739	9,475
Revenue from consulting and other services		574	446	212	46
Total revenue		34,523	33,113	22,650	21,169
Research and development expenses		6,687	6,241	6,687	6,241
Sales and marketing expenses		16,452	15,431	6,804	6,420
General and administration expenses		3,782	3,494	2,481	2,444
Total expenses		26,921	25,166	15,972	15,105
Results from operating activities		7,602	7,947	6,678	6,064
Financing income	3	365	294	2,248	214
Profit before tax		7,967	8,241	8,926	6,278
Income tax expense	7	964	2,003	571	1,332
Profit for the period		7,003	6,238	8,355	4,946
Basic earnings per share (AUD cents)		4.22¢	3.77¢		
Diluted earnings per share (AUD cents)		4.22¢	3.75¢		
Dividend paid per share (AUD cents)		2.50¢	2.50¢		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 46 to 81.

Financial Report *(continued)*

Statements of recognised income and expense

For the year ended 30 June 2006

In thousands of AUD	Notes	Consolidated		The Company	
		2006	2005	2006	2005
Effective portion of changes in fair value of cash flow hedges		-12	-	-12	-
Foreign exchange translation differences	21	172	-392	-	-
Net income recognised directly in equity		160	-392	-12	-
Profit for the period		7,003	6,238	8,355	4,946
Total recognised income and expense for the period		7,163	5,846	8,343	4,946

Other movements in equity arising from transactions with owners as owners are set out in note 21.

The amounts recognised directly in equity are disclosed net of tax – see note 14 for tax effect.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 46 to 81.

Financial Report *(continued)*



Balance sheets

As at 30 June 2006

In thousands of AUD	Notes	Consolidated		The Company	
		2006	2005	2006	2005
Current assets					
Cash and cash equivalents	9	10,736	9,699	4,914	3,258
Trade and other receivables	10	13,615	10,079	11,792	8,549
Other current assets	11	4,057	3,777	3,634	3,258
Total current assets		28,408	23,555	20,340	15,065
Non-current assets					
Investments	12	-	-	54	54
Property, plant and equipment	13	1,267	1,294	672	821
Deferred tax assets	14	400	363	-	-
Intangible assets	15	9,567	8,885	9,558	8,875
Total non-current assets		11,234	10,542	10,284	9,750
Total assets		39,642	34,097	30,624	24,815
Current liabilities					
Trade and other payables	16	2,378	1,793	783	603
Income tax payable	17	77	60	-	-
Employee benefits	18	919	946	661	680
Provisions	19	312	297	290	275
Other current liabilities	20	10,163	9,007	5,835	5,186
Total current liabilities		13,849	12,103	7,569	6,744
Non-current liabilities					
Deferred tax liabilities	14	2,261	1,855	2,261	1,850
Employee benefits	18	244	181	244	181
Total non-current liabilities		2,505	2,036	2,505	2,031
Total liabilities		16,354	14,139	10,074	8,775
Net assets		23,288	19,958	20,550	16,040
Equity					
Issued capital	21	538	468	538	468
Reserves	21	8	-395	470	239
Retained earnings	21	22,742	19,885	19,542	15,333
Total equity	21	23,288	19,958	20,550	16,040

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 46 to 81.

Financial Report *(continued)*

Statements of cash flows

For the year ended 30 June 2006

In thousands of AUD	Notes	Consolidated		The Company	
		2006	2005	2006	2005
Cash flows from operating activities					
Cash receipts from customers		33,150	32,998	20,473	18,605
Cash paid to suppliers and employees		-27,730	-26,308	-16,438	-15,305
Cash generated from operations		5,420	6,690	4,035	3,300
Income taxes paid		-335	-1,251	-255	-762
Net cash provided by operating activities	25	5,085	5,439	3,780	2,538
Cash flows from investing activities					
Payments for property, plant and equipment		-506	-671	-275	-517
Payments for intellectual property purchases		-21	-131	-21	-131
Interest received		365	294	248	214
Dividends received		-	-	2,000	-
Net cash used in investing activities		-162	-508	1,952	-434
Cash flows from financing activities					
Proceeds from issuing of shares		70	41	70	41
Payment of dividend	21	-4,146	-3,310	-4,146	-3,310
Net cash used in financing activities		-4,076	-3,269	-4,076	-3,269
Net increase in cash and cash equivalents		847	1,662	1,656	-1,165
Cash and cash equivalents at 1 July		9,699	8,510	3,258	4,423
Effects of exchange rate changes on cash		190	-473	-	-
Cash and cash equivalents at 30 June	9	10,736	9,699	4,914	3,258

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 46 to 81.

Notes to the Financial Statements

For the year ended 30 June 2006



Note 1: Significant accounting policies

Integrated Research Limited (the “Company”) is a company domiciled in Australia. The financial report of the Company for the year ended 30 June 2006 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”).

The financial report was authorised for issue by the directors on 20 September 2006.

a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”), Urgent Issues Group Interpretations (“UIGs”) adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. International Financial Reporting Standards (“IFRSs”) form the basis of Australian Accounting Standards (“AASBs”) adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS (“AIFRS”) to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity’s first financial report prepared in accordance with Australian Accounting Standards, being AIFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the company is provided in note 29.

b) Basis of Preparation

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

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 1. Significant accounting policies *(continued)*

The consolidated entity has the option not to apply new and revised accounting standards prior to their application date. The following table summarises the standards the consolidated entity has elected not to early adopt and the estimate of the impact on these financial statements:

Standard	Application date	Estimated financial impact on the consolidated entity
AASB 7 <i>Financial Instruments: Disclosures</i>	1 July 2007	\$nil – disclosure requirement only, replacing the presentation requirements of financial instruments in AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> .
AASB 119 <i>Employee benefits</i>	1 July 2006	\$nil – recognition of actuarial gains and losses associated with a defined benefit plan.
AASB 2004-3 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	\$nil – adopting the “corridor” approach to accounting for defined benefit plans or recognize all cumulative actuarial gains and losses in equity at the date of transition.
AASB 2005-1 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	Impact not yet estimated – amends cashflow hedging requirements for a highly probable intra-group forecast transaction.
AASB 2005-4 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	Impact not yet estimated - restricts the option to fair value through profit & loss.
AASB 2005-5 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	Impact not yet estimated - arises as a consequence of the approval of UIG 4 & UIG 5.
AASB 2005-6 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	\$nil – amends the scope to exclude business combinations involving entities or businesses under common control.
AASB 2005-7 <i>Amendments to Australian Accounting Standards</i>	1 July 2005	Impact not yet estimated – removes the “Aus” paragraph on corresponding calendar periods.
AASB 2005-9 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	\$nil – relative to issuers of financial guarantee contracts.
AASB 2005-10 <i>Amendments to Australian Accounting Standards</i>	1 July 2007	\$nil – disclosure requirements only, amending existing standards for the release of AASB 7 <i>Financial Instruments: Disclosure</i> .
AASB 2006-1 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	Impact not yet estimated – a monetary item can be denominated in any currency.
AASB 2006-2 <i>Amendments to Australian Accounting Standards</i>	1 July 2006	\$nil – disclosure item for not-for-profit public sector entities.

The consolidated entity will adopt these new and revised accounting standards in the financial years commencing on the above application dates, if applicable.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 1. Significant accounting policies *(continued)*

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 January 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS. The accounting policies have been applied consistently throughout the consolidated entity.

c) Basis of consolidation

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

Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

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

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

e) Derivative financial instruments

Current accounting policy

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 1. Significant accounting policies *(continued)*

Comparative period policy

The consolidated entity is exposed to changes in foreign exchange rates. The consolidated entity uses forward foreign exchange contracts to hedge this risk. Derivative financial instruments are not held for speculative purposes. The quantitative effect of the change in accounting policy is set out in note 30.

f) Hedging

Current accounting policy

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

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

Comparative period policy

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, only when they are expected to reduce exposure to the risks being hedged. These transactions 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 income statement.

The net amount receivable or payable under forward exchange contracts and the associated deferred gains or losses are recorded in the balance sheet from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency rate current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the income statement.

g) Property, plant and equipment

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 1. Significant accounting policies *(continued)*

Depreciation

Depreciation is charged to the income statement on a reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment. The residual value, if not insignificant, is reassessed annually. The estimated useful lives in the current and comparative periods are as follows:

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

h) Research and development

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

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

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

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

i) Trade and other receivables

Current accounting policy

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (k)). Standard trade terms are 30 days, but may be extended up to 90 days in response to competitive situations.

Comparative period policy

Trade debtors are carried at amounts due. The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful debts.

j) Cash and cash equivalents

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

k) Impairment

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 1. Significant accounting policies *(continued)*

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

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

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

I) Employee benefits

Superannuation

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. There are no defined benefit plans in operation.

Long-term service benefits

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

Share-based payment transactions

The share option programme allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present 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 as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 1. Significant accounting policies *(continued)*

m) Provisions

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

n) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

o) Trade and other payables

Current accounting policy

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

Comparative period policy

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

p) Revenue

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

Revenue from the sale of licences where the licence period is for the major part of the economic life of the software is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

In other cases, revenue from software licences is recognised ratably over the term of the agreement.

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

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

q) Expenses

Operating lease payments

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 1. Significant accounting policies *(continued)*

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (f)).

r) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

s) Income tax

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

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

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

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

t) Goods and Services Tax

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 2. Segment reporting

The consolidated entity operates predominantly in the computer software products business segment. Segment information is presented in respect of the consolidated entity's geographic segments, which are the primary basis of segment reporting. The geographic segment reporting format reflects the consolidated entity's management and internal reporting structure.

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The consolidated entity is managed on a worldwide basis, but operates in the following three geographical segments:

- › The Americas. Operating from the United States with responsibility for the countries in North, Central and South America.
- › Europe. Operating from the United Kingdom with responsibility for the countries in Europe.
- › Asia Pacific. Operating from Australia with responsibility for the countries in the rest of the world, including Head Office revenue and expenses.

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 2. Segment reporting *(continued)*

Geographic segments	Americas		Europe		Asia Pacific		Unallocated		Eliminations		Consolidated	
In thousands of AUD	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales to customers outside the consolidated entity	20,137	19,078	8,414	6,956	6,080	5,476	-19	1,603	-89	-	34,523	33,113
Inter-segment sales	-	-	-	-	-	-	16,589	14,090	-16,589	-14,090	-	-
Total segment revenue	20,137	19,078	8,414	6,956	6,080	5,476	16,570	15,693	-16,678	-14,090	34,523	33,113
Total revenue											34,523	33,113
Segment results	711	1,521	302	258	390	489	6,288	5,576	-89	103	7,602	7,947
Results from operating activities											7,602	7,947
Financing income											365	294
Income tax expense											-964	-2,003
Profit for the period											7,003	6,238
Segment assets	15,947	14,770	6,670	4,695	3,368	3,028	27,256	21,952	-13,599	-10,348	39,642	34,097
Total assets											39,642	34,097
Segment liabilities	14,013	11,387	5,848	4,097	3,193	2,796	6,881	6,152	-13,581	-10,293	16,354	14,139
Total liabilities											16,354	14,139
Cash flow from operating activities	11,529	11,111	3,937	4,607	3,649	1,508	147	1,033	-14,177	-12,820	5,085	5,439
Cash flow from investing activities	-89	-18	-11	-52	-7	-12	1,945	-426	-2,000	-	-162	-508
Cash flow from financing activities	-2,000	-	-	-	-	-	-4,076	-3,269	2,000	-	-4,076	-3,269
Capital expenditure	206	83	25	71	7	12	289	636	-	-	527	802
Total capital expenditure											527	802

Note 3. Financing income

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Interest income	365	294	248	214
Dividends received	-	-	2,000	-
	365	294	2,248	214

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 4. Expenses

Total expenses includes:

In thousands of AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Research expenses as incurred		496	615	496	615
Increase in provisions	19	15	12	15	12

Note 5. Personnel expenses

In thousands of AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Wages and salaries		16,993	16,017	9,783	9,479
Other associated personnel expenses		1,616	1,440	698	643
Superannuation contributions		727	751	727	751
Employee options and share grant	18	243	197	243	197
Increase in liability for annual leave		-27	103	-19	92
Increase in liability for long service leave		63	-80	63	-80
		19,615	18,428	11,495	11,082

Note 6. Auditors' remuneration

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
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	184,000	200,700	128,000	147,000
Remuneration for other services by the auditors of the Company or any entity in the consolidated entity:				
Taxation services:				
Auditors of the company - KPMG	58,000	101,500	22,000	5,400

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 7. Income tax expense

Recognised in the income statement

In thousands of AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Current tax expense:					
Current year		735	1,496	239	820
Prior year adjustments		-140	-8	-79	23
		595	1,488	160	843
Deferred tax expense:					
Origination and reversal of temporary differences		369	515	411	489
Total income tax expense in income statement		964	2,003	571	1,332

Numerical reconciliation between income tax expense and profit before tax

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Profit before tax	7,967	8,241	8,926	6,278
Income tax using the domestic corporate tax rate of 30%	2,390	2,472	2,678	1,883
Increase in income tax expense due to:				
Non-deductible expenses	29	95	20	81
Effect of tax rates in foreign jurisdictions	106	128	-	-
Decrease in income tax expense due to:				
R&D tax incentive	-615	-655	-615	-655
Foreign sourced income (net of expense)	-	-29	-627	-
Remission of FDT offset reduction (see below)	-806	-	-806	-
Prior year adjustments	-140	-8	-79	23
Income tax expense	964	2,003	571	1,332

Franking deficit tax offset

In March 2004, the Australian Taxation Office (ATO) notified the company of retrospective changes in franking deficit tax (FDT) legislation (Taxation Laws Amendment Act (No. 8) 2003) that reduced the value of the company's deferred tax assets by a deficit tax offset reduction in the amount of \$806,000. Accordingly, the company wrote down the value of its franking deficit tax offset benefit by \$806,000 in the 30 June 2004 financial report.

In June 2006, the FDT legislation was amended by the Australian Parliament to allow the ATO to determine not to apply the deficit tax offset reduction. The company requested consideration under the terms of the amended legislation and was subsequently advised by the ATO that its request was approved. Accordingly the company has re-recognised the related franking deficit tax offset benefit of \$806,000 at 30 June 2006.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 8. Earnings per share

The calculation of basic and diluted earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of \$7,003,000 (2005: \$6,238,000); a weighted number of ordinary shares outstanding during the year ended 30 June 2006 of 165,561,470 (2005: 165,443,533); and a weighted number of ordinary shares (diluted) outstanding during the year ended 30 June 2006 of 165,818,384 (2005: 166,226,748), calculated as follows:

In thousands of AUD	Consolidated	
	2006	2005
Profit for the period	7,003	6,238

Weighted average number of shares used as the denominator

(Number)	Consolidated	
	2006	2005
Number for basic earnings per share:		
Ordinary shares	165,561,470	165,443,533
Effect of employee share options on issue	256,914	783,215
Number for diluted earnings per share	165,818,384	166,226,748

Note 9. Cash and cash equivalents

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Cash at bank and on hand	10,736	9,699	4,914	3,258

Note 10. Trade and other receivables

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Trade debtors	13,905	10,333	2,598	2,334
Less: Provision for returns	-290	-254	-38	-57
	13,615	10,079	2,560	2,277
Receivable from controlled entities	-	-	9,232	6,272
	13,615	10,079	11,792	8,549

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 11. Other current assets

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Franking deficit tax offset benefit	1,809	1,516	1,809	1,516
Income taxes receivable	296	344	-	-
Other prepayments	539	542	448	387
Unrealised FX gain	-	2	-	2
Deposits	1,413	1,373	1,377	1,353
	4,057	3,777	3,634	3,258

Note 12. Investments

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Shares in controlled entities at cost (refer Note 24)	-	-	54	54

Note 13. Property, plant and equipment

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Plant and equipment at cost	5,161	4,672	3,697	3,407
Less: Accumulated depreciation	-3,894	-3,378	-3,025	-2,586
	1,267	1,294	672	821

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:

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Carrying amount at start of year	1,294	1,081	821	671
Additions	506	671	275	517
Revaluation of lease make-good	15	12	15	12
Disposals	-16	-	-	-
Depreciation expense	-532	-470	-439	-379
Carrying amount at end of year	1,267	1,294	672	821

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 14. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated In thousands of AUD	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Trade and other receivables	4	41	-	-	4	41
Property, plant and equipment	6	-17	-	-	6	-17
Intangible assets	-	-	2,654	2,458	-2,654	-2,458
Trade and other payables	257	140	-	-	257	140
Employee benefits	370	353	-	-	370	353
Provisions	105	115	-	-	105	115
Other current liabilities	51	284	-	-	51	284
Translation of foreign entities	-	50	-	-	-	50
Deferred tax assets/liabilities	793	966	2,654	2,458	-1,861	-1,492
Set off of tax	-393	-603	-393	-603	-	-
Net deferred tax assets/liabilities	400	363	2,261	1,855	-1,861	-1,492

The Company In thousands of AUD	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Trade and other receivables	4	19	-	-	4	19
Property, plant and equipment	-	-17	-	-	-	-17
Intangible assets	-	-	2,654	2,458	-2,654	-2,458
Trade and other payables	-	34	-	-	-	34
Employee benefits	272	258	-	-	272	258
Provisions	96	83	-	-	96	83
Other current liabilities	21	181	-	-	21	181
Translation of foreign entities	-	50	-	-	-	50
Deferred tax assets/liabilities	393	608	2,654	2,458	-2,261	-1,850
Set off of tax	-393	-608	-393	-608	-	-
Net deferred tax assets/liabilities	-	-	2,261	1,850	-2,261	-1,850

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 14. Deferred tax assets and liabilities *(continued)*

Movement in temporary differences during the year:

For year ended 30 June 2006	Consolidated			The Company		
In thousands of AUD	Balance 1 Jul 05	Recognised in income	Balance 30 Jun 06	Balance 1 Jul 05	Recognised in income	Balance 30 Jun 06
Trade and other receivables	41	-37	4	19	-15	4
Property, plant and equipment	-17	23	6	-17	17	-
Intangible assets	-2,458	-196	-2,654	-2,458	-196	-2,654
Trade and other payables	140	117	257	34	-34	-
Employee benefits	353	17	370	258	14	272
Provisions	115	-10	105	83	13	96
Other current liabilities	284	-233	51	181	-160	21
Translation of foreign entities	50	-50	-	50	-50	-
	-1,492	-369	-1,861	-1,850	-411	-2,261

For year ended 30 June 2005	Consolidated			The Company		
In thousands of AUD	Balance 1 Jul 04	Recognised in income	Balance 30 Jun 05	Balance 1 Jul 04	Recognised in income	Balance 30 Jun 05
Trade and other receivables	138	-97	41	114	-95	19
Property, plant and equipment	-28	11	-17	-28	11	-17
Intangible assets	-2,005	-453	-2,458	-2,005	-453	-2,458
Trade and other payables	147	-7	140	30	4	34
Employee benefits	348	5	353	255	3	258
Provisions	114	1	115	79	4	83
Other current liabilities	290	-6	284	175	6	181
Translation of foreign entities	19	31	50	19	31	50
	-977	-515	-1,492	-1,361	-489	-1,850

Deferred tax recognised directly in equity:

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Relating to changes in fair value of cashflow hedge	-5	-	-5	-
	-5	-	-5	-

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 15. Intangible assets

The amortisation and impairment charge is recognised in the following line item in the income statement :

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Research and development expenses	3,995	2,607	3,995	2,607
General and administration expenses	1	2	-	-
	3,996	2,609	3,995	2,607

Cost	Consolidated				The Company			
	Software development	Patents & trademarks	Third party software	Total	Software development	Patents & trademarks	Third party software	Total
Balance at 1 July 2004	10,687	33	556	11,276	10,687	-	556	11,243
Fully amortised & offset	-2,964	-	-	-2,964	-2,964	-	-	-2,964
Internally developed	4,112	-	-	4,112	4,112	-	-	4,112
Acquired	-	-	131	131	-	-	131	131
Balance at 30 June 2005	11,835	33	687	12,555	11,835	-	687	12,522
Balance at 1 July 2005	11,835	33	687	12,555	11,835	-	687	12,522
Fully amortised & offset	-3,285	-	-	-3,285	-3,285	-	-	-3,285
Internally developed	4,657	-	-	4,657	4,657	-	-	4,657
Acquired	-	-	21	21	-	-	21	21
Balance at 30 June 2006	13,207	33	708	13,948	13,207	-	708	13,915

Amortisation	Consolidated				The Company			
	Software development	Patents & trademarks	Third party software	Total	Software development	Patents & trademarks	Third party software	Total
Balance at 1 July 2004	3,648	21	356	4,025	3,648	-	356	4,004
Fully amortised & offset	-2,964	-	-	-2,964	-2,964	-	-	-2,964
Amortisation for year	2,563	2	44	2,609	2,563	-	44	2,607
Balance at 30 June 2005	3,247	23	400	3,670	3,247	-	400	3,647

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 15. Intangible assets *(continued)*

Amortisation (continued)	Consolidated				The Company			
In thousands of AUD	Software development	Patents & trademarks	Third party software	Total	Software development	Patents & trademarks	Third party software	Total
Balance at 1 July 2005	3,247	23	400	3,670	3,247	-	400	3,647
Fully amortised & offset	-3,285	-	-	-3,285	-3,285	-	-	-3,285
Amortisation for year	3,911	1	84	3,996	3,911	-	84	3,995
Balance at 30 June 2006	3,873	24	484	4,381	3,873	-	484	4,357

Carrying amounts	Consolidated				The Company			
In thousands of AUD	Software development	Patents & trademarks	Third party software	Total	Software development	Patents & trademarks	Third party software	Total
Balance at 1 July 2004	7,039	12	200	7,251	7,039	-	200	7,239
Balance at 30 June 2005	8,588	10	287	8,885	8,588	-	287	8,875
Balance at 1 July 2005	8,588	10	287	8,885	8,588	-	287	8,875
Balance at 30 June 2006	9,334	9	224	9,567	9,334	-	224	9,558

Note 16. Trade and other payables

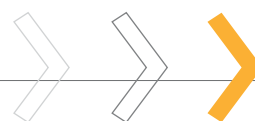
In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Payable to controlled entities	-	-	32	36
Trade and other creditors	2,378	1,793	751	567
	2,378	1,793	783	603

Note 17. Income tax payable

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Income tax provision	77	60	-	-

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 18. Employee benefits

Current

In thousands of AUD

Liability for untaken annual leave

Consolidated

2006

2005

The Company

2006

2005

919

946

661

680

Non-current

In thousands of AUD

Liability for long service leave

Consolidated

2006

2005

The Company

2006

2005

244

181

244

181

Pension plans

Employees of the consolidated entity accumulate pension benefits through statutory contributions by the entities in the consolidated entity as required by the laws of the jurisdictions in which they operate, supplemented by individual contributions. The consolidated entity does not provide any defined benefit pension plans.

Share based payments

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

1,103,400 equity settled share option grants made prior to 7 November 2002 are outstanding. In accordance with the transitional provisions in AASB 1 and AASB 2, the recognition and measurement principles in AASB 2 have not been applied to these grants.

At 1 November 2005, the consolidated entity granted 45,000 shares to the Chief Executive Officer, as approved by shareholders at the 2005 AGM.

The terms and conditions of the grants made and number outstanding at 30 June 2006 are as follows:

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

Grant date	Exercise Price	Number of Instruments Outstanding	Grant date	Exercise Price	Number of Instruments Outstanding
Aug 2001	\$0.54	268,000	Dec 2001	\$0.51	120,400
Jan 2002	\$0.62	268,500	May 2002	\$0.63	165,500
July 2002	\$0.57	281,000	Feb 2003	\$0.24	260,750
Jun 2003	\$0.12	189,750	Aug 2003	\$0.22	315,250
Feb 2004	\$0.26	350,000	Apr 2004 (*)	\$0.46	585,000
Jun 2004	\$0.33	317,500	Jul 2004	\$0.40	372,750
Nov 2004 (*)	\$0.47	1,200,000	Nov 2004 (*)	\$0.57	400,000
Feb 2005	\$0.52	404,000	Apr 2005 (*)	\$0.46	516,500
Sep 2005	\$0.54	790,000	Feb 06 (*)	\$0.48	200,000
May 06	\$0.41	869,000			

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 18. Employee benefits *(continued)*

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

	Weighted Average exercise price	Number of options	Weighted Average exercise price	Number of options
In thousands of options	2006	2006	2005	2005
Outstanding at the beginning of the period	\$0.44	7,752	\$0.41	6,794
Forfeited during the period	\$0.51	-1,489	\$0.45	-2,014
Exercised during the period	\$0.24	-298	\$0.13	-318
Granted during the period	\$0.47	1,859	\$0.48	3,290
Outstanding at the end of the period	\$0.45	7,824	\$0.44	7,752
Exercisable at the end of the period (vested)	\$0.44	2,878	\$0.48	1,977

The options outstanding at 30 June 2006 have an exercise price in the range of \$0.12 to \$0.63 and a weighted average of contractual life of five years.

During the year ended 30 June 2006, 298,108 options were exercised (2005: 318,000).

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

Fair value of share options and assumptions

For year ended 30 June 2006

	16 Sep 2005	10 Jan 06	31 May 06
Grant date			
Fair value at measurement date	\$0.24	\$0.21	\$0.18
Share price	\$0.54	\$0.48	\$0.41
Exercise price	\$0.54	\$0.48	\$0.41
Expected volatility (expressed as weighted average volatility used in the modelling under the Binomial formula)	70%	70%	70%
Option life (expressed as weighted average life used in the modelling under the Binomial formula)	5 years	5 years	5 years
Expected dividends	5%	5%	5%
Risk-free interest rate (based on national government bonds)	5%	5%	5%

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 18. Employee benefits *(continued)*

For year ended 30 June 2005

Grant date	22 Jul 04	1 Nov 04	16 Nov 04	25 Feb 05	14 Apr 05
Fair value at measurement date	\$0.22	\$0.23	\$0.28	\$0.22	\$0.22
Share price	\$0.40	\$0.47	\$0.57	\$0.52	\$0.46
Exercise price	\$0.40	\$0.47	\$0.57	\$0.52	\$0.46
Expected volatility (expressed as weighted average volatility used in the modelling under the Binomial formula)	70%	70%	70%	70%	70%
Option life (expressed as weighted average life used in the modelling under the Binomial formula)	5 years	5 years	5 years	5 years	5 years
Expected dividends	5%	5%	5%	5%	5%
Risk-free interest rate (based on national government bonds)	5%	5%	5%	5%	5%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, a non-market performance condition related to profitability of the consolidated entity. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The fair value of the options at grant date is determined based on the Binomial formula using the above model inputs. The fair value of the liability is remeasured at each balance sheet date and at settlement date. During the year ended 30 June 2006, the consolidated entity recognised expense of \$243,000 related to the fair value of options (2005: \$197,000).

Note 19. Provisions

In thousands of AUD	Lease make good	Other	Total
Consolidated:			
Balance at 1 July 2005	275	22	297
Provision made during the year	15	-	15
Balance at 30 June 2006	290	22	312
The Company:			
Balance at 1 July 2005	275	-	275
Provision made during the year	15	-	15
Balance at 30 June 2006	290	-	290

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 20. Other current liabilities

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Deferred revenue	10,151	9,007	5,823	5,186
Hedge liability	12	-	12	-
	10,163	9,007	5,835	5,186

Note 21. Capital and reserves

Reconciliation of movement in capital and reserves attributed to equity holders in the parent:

Consolidated In thousands of AUD	Share capital	Hedging reserve	Translation reserve	Employee benefit reserve	Retained earnings	Total
Balance at 1 July 2004	427	-	-242	42	16,957	17,184
Total recognised income and expense	-	-	-392	-	6,238	5,846
Expensed employee options	-	-	-	197	-	197
Shares issued	41	-	-	-	-	41
Dividends to shareholders	-	-	-	-	-3,310	-3,310
Balance at 30 June 2005	468	-	-634	239	19,885	19,958
Balance at 1 July 2005	468	-	-634	239	19,885	19,958
Total recognised income and expense	-	-12	172	-	7,003	7,163
Expensed employee options	-	-	-	243	-	243
Shares issued	70	-	-	-	-	70
Dividends to shareholders	-	-	-	-	-4,146	-4,146
Balance at 30 June 2006	538	-12	-462	482	22,742	23,288

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 21. Capital and reserves *(continued)*

The Company

In thousands of AUD	Share capital	Hedging reserve	Translation reserve	Employee benefit reserve	Retained earnings	Total
Balance at 1 July 2004	427	-	-	42	13,697	14,166
Total recognised income and expense	-	-	-	-	4,946	4,946
Expensed employee options	-	-	-	197	-	197
Shares issued	41	-	-	-	-	41
Dividends to shareholders	-	-	-	-	-3,310	-3,310
Balance at 30 June 2005	468	-	-	239	15,333	16,040
Balance at 1 July 2005	468	-	-	239	15,333	16,040
Total recognised income and expense	-	-12	-	-	8,355	8,343
Expensed employee options	-	-	-	243	-	243
Shares issued	70	-	-	-	-	70
Dividends to shareholders	-	-	-	-	-4,146	-4,146
Balance at 30 June 2006	538	-12	-	482	19,542	20,550

Share capital

In thousands of shares	Ordinary shares	
	2006	2005
On issue 1 July	165,561	165,244
Issued to CEO under employment contract and approved by shareholders at 2005 AGM	45	-
Issued for cash against employee options exercised under ESOP	299	317
On issue 30 June	165,905	165,561

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

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

Hedging reserve

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 21. Capital and reserves *(continued)*

Translation reserve

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

Employee benefit reserve

The reserve for employee benefits represents the fair value of share options granted to employees under the consolidated entity's Employee Share Option Plan. Refer to note 18 for further detail.

Dividends

Dividends recognised in the current year by the company are:

In thousands of AUD	Cents per share	Total amount	Franked/ unfranked	Date of payment
2006				
Final 2005	1.5¢	2,487	Unfranked	16 Sep 05
Interim 2006	1.0¢	1,659	Unfranked	10 Mar 06
Total amount		4,146		
2005				
Final 2004	1.0¢	1,655	Unfranked	17 Sep 04
Interim 2005	1.0¢	1,655	Unfranked	11 Mar 05
Total amount		3,310		

After the balance sheet date, the following dividend was proposed by the directors. The declaration and subsequent payment of dividends has no income tax consequences. The financial effect of this dividends has not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports:

In thousands of AUD	Cents per share	Total amount	Franked/ unfranked	Date of payment
Final 2006	1.5¢	2,483	Unfranked	15 Sep 06

Note 22. Financial instruments

Exposure to credit, interest rate and currency risks arise in the normal course of the company's and consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

Credit risk

Exposure to credit risk is monitored on an ongoing basis. The consolidated entity does not require collateral in respect of financial assets.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 22. Financial instruments *(continued)*

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

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

2006

In thousands of AUD	Notes	Effective interest rate	Total	6 months or less	6-12 months
Consolidated					
Cash and cash equivalents	9	3.03%	10,736	10,736	-
Deposits	11	5.37%	1,413	1,000	413
		3.30%	12,149	11,736	413
The Company					
Cash and cash equivalents	9	3.82%	4,914	4,914	-
Deposits	11	5.51%	1,377	1,000	377
		4.19%	6,291	5,914	377

2005

In thousands of AUD	Notes	Effective interest rate	Total	6 months or less	6-12 months
Consolidated					
Cash and cash equivalents	9	3.28%	9,699	9,699	-
Deposits	11	5.37%	1,373	1,000	373
		3.54%	11,072	10,699	373
The Company					
Cash and cash equivalents	9	3.80%	3,258	3,258	-
Deposits	11	5.52%	1,353	1,000	353
		4.30%	4,611	4,258	353

Foreign currency risk

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

The consolidated entity uses forward exchange contracts to hedge its foreign currency risk. The forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and measures them at fair value. The fair value of hedge contracts at 30 June 2006 is a loss of \$12,000 (30 June 2005: fair value loss of \$2,000).

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Less than one year	992	1,268	759	1,104
Between one and five years	834	777	-	777
	1,826	2,045	759	1,881

Note 24. Consolidated entities

Parent entity:

Integrated Research Limited

Subsidiaries:

Integrated Research, Inc

Integrated Research UK Limited

Country of incorporation	Ownership interest	
	2006	2005
Australia		
USA	100%	100%
UK	100%	100%

In the financial statements of the company, investments in controlled entities are measured at cost.

Note 25. Reconciliation of cash flows from operating activities

In thousands of AUD	Consolidated		The Company	
	2006	2005	2006	2005
Profit for the period	7,003	6,238	8,355	4,946
Depreciation and amortisation	4,528	3,079	4,434	2,986
Change in value of PP&E	1	-12	-15	-12
Provision for doubtful debts	-36	58	19	193
Interest received	-365	-294	-248	-214
Dividend received	-	-	-2,000	-
Net exchange differences	-172	392	-89	103
<i>Change in operating assets and liabilities:</i>				
(Increase)/decrease in trade debtors	-3,197	-192	-3,022	-2,266
(Increase)/decrease in future income tax benefit	-733	-509	-696	-706
(Increase)/decrease in other operating assets	-4,678	-4,362	-4,740	-4,176
Increase/(decrease) in trade creditors	535	-778	178	-594
Increase/(decrease) in other operating liabilities	863	512	-	270
Increase/(decrease) in provision for income taxes payable	476	259	403	594
Increase/(decrease) in provision for deferred income taxes	406	1,230	411	1,225
Increase/(decrease) in other provisions	51	13	559	-8
Increase/(decrease) in reserves	403	-195	231	197
Net cash from operating activities	5,085	5,439	3,780	2,538

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 26. Key management personnel disclosures

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

Non-Executive directors

Steve Killelea (Chairman)

David Boyles (appointed Deputy Chairman September 2005)

Kate Costello (appointed August 2005)

Alex Kennedy

Ian Winlaw

Executive directors

Keith Andrews (Chief Executive Officer)

David Leighton (Chief Financial Officer, retired March 2006)

Executives (full year)

Steve Douglas (GM Europe)

Ben Garton (GM R&D)

David Leighton (Company Secretary)

Belinda York (Global Marketing Manager)

Executives (part year)

Nathan Brumby (GM IP Telephony, appointed October 2005)

Kurt Roscow (GM Americas, appointed July 2005)

Steve Sarjeant (GM Asia Pacific, appointed October 2005)

David Purdue (Acting CFO, appointed March 2006)

Casey Ives (GM Americas, resigned July 2005)

David Priestley (GM Asia Pacific, resigned August 2005)

Key management personnel compensation

The key management personnel compensation included in "personnel expenses" (see note 5) are as follows:

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
Short-term benefits	2,765,189	3,146,094	1,919,641	2,051,430
Post-employment benefits	248,063	233,324	248,063	233,324
Termination benefits	284,103	112,500	158,899	112,500
Equity compensation benefits	152,130	137,456	136,625	90,612
	3,449,485	3,629,374	2,463,228	2,487,866

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the remuneration report on pages 24 to 32.

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 26. Key management personnel disclosures *(continued)*

Key management personnel transactions with the company or its controlled entities

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

Mr Keith Andrews, Chief Executive Officer, has a contract of employment with Integrated Research Limited dated 5 October 2004, which provides for specific notice and severance understandings of up to two years compensation depending on the particular circumstances. Mr Andrews can terminate his employment by giving three months prior notice in writing.

Following the retirement of Mr David Leighton on 31 March 2006 from his position as Chief Financial Officer and Executive Director, the company entered into an agreement with Mr Leighton for assistance with the transition to a new CFO for twelve months after 31 March 2006 on a part-time basis for \$80,000. He will receive \$45,000 per annum compensation to perform his duties as Company Secretary.

Equity instruments

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

Options and rights over equity instruments granted as compensation

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

	Held at 1 July 2005	Granted as compensation	Exercised	Other changes*	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors							
Keith Andrews	1,000,000	-	-	-	1,000,000	-	-
David Leighton	400,000	-	-	-	400,000	100,000	100,000
Executives							
Nathan Brumby	-	200,000	-	-	200,000	-	-
Steve Douglas	300,000	-	-	-	300,000	75,000	78,750
Casey Ives	400,000	-	52,500	347,500	-	-	-
Ben Garton	200,000	-	-	-	200,000	50,000	50,000
David Priestley	300,000	-	2,500	297,500	-	-	-
David Purdue	193,500	-	-	-	193,500	50,000	50,375
Kurt Roscow	300,000	-	-	-	300,000	75,000	75,000
Belinda York	200,000	-	-	-	200,000	50,000	50,000

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 26. Key management personnel disclosures *(continued)*

Options granted as compensation in the current year were granted on 10 January 2006, have an expiration date of 9 January 2011, an exercise price of \$0.48 per share, and a market value of \$0.48 per share at grant date. The earliest exercise date is 10 January 2007. 25% of options granted vest annually on the anniversary of the grant date, and may also be subject to the consolidated entity achieving certain performance hurdles. Options expire on the earlier of their expiry date or termination of the individual's employment. No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

No options held by key management personnel are vested but not exercisable.

Exercise of options and shares granted as compensation

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid \$/ share
Executives		
Casey Ives	52,500	\$0.25
David Priestley	2,500	\$0.26

During the reporting period, the following shares were issued granted as compensation:

Director

Keith Andrews	45,000	-
---------------	--------	---

There are no amounts unpaid on the shares issued as a result of the exercise of the options.

Movements in shares

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

	Held at 1 July 2005	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2006
Directors						
<i>Non-Executive</i>						
David Boyles	1,500,000	200,000	-	-	100,000	1,600,000
Kate Costello	-	200,000	-	-	-	200,000
Alex Kennedy	350,000	-	-	-	-	350,000
Steve Killelea	94,984,951	-	-	-	150,000	94,834,951
Ian Winlaw	150,000	-	-	-	-	150,000
<i>Executive</i>						
Keith Andrews	100,000	-	-	45,000	-	145,000
David Leighton	277,172	-	-	-	25,000	252,172
Executives						
Casey Ives	-	-	52,500	-	-	52,500
David Priestley	-	-	2,500	-	2,500	-
David Purdue	36,500	-	-	-	-	36,500
Belinda York	110,800	343,794	-	-	-	454,594

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 26. Key management personnel disclosures *(continued)*

Changes in key management personnel in the period after the reporting date and prior to the date when financial report is authorised for issue

Mr Ben Garton left the company on 18 July 2006. Mr Stephen Rorie was appointed Chief Financial Officer on 7 August 2006. There were no other changes.

Other transactions with the company or its controlled entities

There were no other transactions between the key management personnel, or their personally-related entities, and the company or its controlled entities.

Note 27. Related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 24) and its key management personnel (see note 26).

During the financial year ended 30 June 2006, subsidiaries purchased goods from the consolidated entity in the amount of \$16,589,000 (2005: \$14,158,000) and at 30 June 2006 subsidiaries owed the consolidated entity \$9,232,000 (2005: \$6,272,000). Transactions with subsidiaries are priced on an arm's length basis. A dividend of \$2,000,000 was received from Integrated Research, Inc in the 2006 financial year (2005: nil).

Note 28. Subsequent events

For dividends declared after 30 June 2006 see Note 21 in the financial statements. The financial effect of dividends declared and paid after 30 June 2006 have not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

In July 2006, the company received a letter from solicitors representing a distributor of the company's products, located in Germany, claiming commission on sales made in Germany. The company is seeking advice from its solicitors on this matter, but does not expect the outcome to be material. No further disclosure is provided as to do so may seriously prejudice the position of the consolidated entity.

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

Note 29. Explanation of transition to AIFRS

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 29. Explanation of transition to AIFRS *(continued)*

Reconciliation of equity

In thousands of AUD		Consolidated						The Company					
		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
		AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS
Note													
Current assets													
Cash and cash equivalents		8,510	-	8,510	9,699	-	9,699	4,423	-	4,423	3,258	-	3,258
Trade & other receivables		10,433	-	10,433	10,079	-	10,079	6,725	-	6,725	8,549	-	8,549
Other current assets		4,006	-	4,006	3,777	-	3,777	3,082	-	3,082	3,258	-	3,258
Total current assets		22,949	-	22,949	23,555	-	23,555	14,230	-	14,230	15,065	-	15,065
Non-current assets													
Trade & other receivables		196	-	196	-	-	-	196	-	196	-	-	-
Investments		-	-	-	-	-	-	54	-	54	54	-	54
Property, plant and equip	(a)	988	93	1,081	1,238	56	1,294	578	93	671	765	56	821
Deferred tax assets	(f)	445	115	560	255	108	363	-	-	-	-	-	-
Intangible assets	(b)	8,302	-1,051	7,251	10,169	-1,284	8,885	8,290	-1,051	7,239	10,159	-1,284	8,875
Total non-current assets		9,931	-843	9,088	11,662	-1,120	10,542	9,118	-958	8,160	10,978	-1,228	9,750
Total assets		32,880	-843	32,037	35,217	-1,120	34,097	23,348	-958	22,390	26,043	-1,228	24,815

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 29. Explanation of transition to AIFRS *(continued)*

Reconciliation of equity (continued)

		Consolidated						The Company					
		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
In thousands of AUD	Note	AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS
Current liabilities													
Trade & other payables		2,636	-	2,636	1,793	-	1,793	1,199	-	1,199	603	-	603
Income tax payable		960	-	960	60	-	60	-	-	-	-	-	-
Employee benefits		843	-	843	946	-	946	588	-	588	680	-	680
Provisions	(a)(e)	145	208	353	77	220	297	55	208	263	55	220	275
Other current liabilities	(e)	8,225	950	9,175	8,121	886	9,007	4,651	637	5,288	4,581	605	5,186
Total current liabilities		12,809	1,158	13,967	10,997	1,106	12,103	6,493	845	7,338	5,919	825	6,744
Non-current liabilities													
Deferred tax liabilities	(f)	1,166	-541	625	2,465	-610	1,855	1,166	-541	625	2,465	-615	1,850
Employee benefits		261	-	261	181	-	181	261	-	261	181	-	181
Total non-current liabilities		1,427	-541	886	2,646	-610	2,036	1,427	-541	886	2,646	-615	2,031
Total liabilities		14,236	617	14,853	13,643	496	14,139	7,920	304	8,224	8,565	210	8,775
Net assets		18,644	-1,460	17,184	21,574	-1,616	19,958	15,428	-1,262	14,166	17,478	-1,438	16,040
Equity													
Issued capital		427	-	427	468	-	468	427	-	427	468	-	468
Reserves	(c)(d)	-	-200	-200	-	-395	-395	-	42	42	-	239	239
Retained earnings		18,217	-1,260	16,957	21,106	-1,221	19,885	15,001	-1,304	13,697	17,010	-1,677	15,333
Total equity		18,644	-1,460	17,184	21,574	-1,616	19,958	15,428	-1,262	14,166	17,478	-1,438	16,040

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 29. Explanation of transition to AIFRS *(continued)*

Reconciliation of profit for 2005

		For the year-ended 30 June 2005					
		Consolidated			The Company		
In thousands of AUD	Note	AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS
Revenue:							
Revenue from license fees	(e)	17,726	64	17,790	11,618	30	11,648
Revenue from maintenance fees		14,877	-	14,877	9,475	-	9,475
Revenue from other operating activities	(d)	446	-	446	149	-103	46
Total revenue		33,049	64	33,113	21,242	-73	21,169
Expenses:							
Research and development expenses	(b)(c)	5,881	360	6,241	5,881	360	6,241
Sales and marketing expenses	(a)(c)(d)	15,704	-273	15,431	6,434	-14	6,420
General and administration expenses	(a)(c)(d)	3,494	-	3,494	2,416	28	2,444
Total expenses		25,079	87	25,166	14,731	374	15,105
Results from operating activities		7,970	-23	7,947	6,511	-447	6,064
Financing income (interest received)		294	-	294	214	-	214
Profit before tax		8,264	-23	8,241	6,725	-447	6,278
Income tax expense	(f)	2,065	-62	2,003	1,406	-74	1,332
Profit for the period		6,199	39	6,238	5,319	-373	4,946
Basic earnings per share attributed to ordinary equity holders (AUD cents)		3.75¢	0.02¢	3.77¢			
Diluted earnings per share attributed to ordinary equity holders (AUD cents)		3.73¢	0.02¢	3.75¢			

Notes to the reconciliation of equity and profit:

a) Lease assets

Make good provisions

The consolidated entity has certain operating leases that require the leased premises to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls.

Under previous Australian GAAP the costs of refurbishment was not recognised until the expenditure was incurred, whereas under AIFRS a provision for refurbishment must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

The impact on the consolidated entity of the above changes is to increase property, plant and equipment by \$93,000 at 30 June 2004 and \$56,000 at 30 June 2005; to increase provisions by \$263,000 at 30 June 2004, and by \$275,000 at 30 June 2005; and to increase operating expenses for the twelve months ended 30 June 2005 by \$49,000.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 29. Explanation of transition to AIFRS *(continued)*

b) Intangible assets

Research and development

Under AIFRS, expenditure on research activities is expensed as incurred whereas under previous Australian GAAP certain research costs are included with development projects and therefore capitalised.

Under AIFRS, expenditure on development activities must be capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses.

The impact on the consolidated entity of the above changes is to reduce intangible assets by \$1,051,000 at 30 June 2004 and \$1,284,000 at 30 June 2005; and to increase operating expenses for the twelve months ended 30 June 2005 by \$233,000.

c) Employee benefits

Share based payments

Under previous Australian GAAP no expense was recognised for options issued to employees.

Under AIFRS, the fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which employees become unconditionally entitled to the options. The fair value of options granted is measured using the binomial method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

The impact on the consolidated entity of the above changes is to create an employee equity benefit reserve of \$42,000 at 30 June 2004 and \$239,000 at 30 June 2005; and to increase operating expenses for the twelve months ended 30 June 2005 by \$197,000.

d) Foreign currency

Financial statements of foreign operations

Under previous Australian GAAP, the assets and liabilities of foreign operations that are integrated were translated using the temporal method. Monetary assets and liabilities were translated 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 were brought to account in the statement of financial performance.

The impact on the consolidated entity of the above changes is to create a debit translation reserve of \$242,000 at 30 June 2004 and \$634,000 at 30 June 2005; and to reduce operating expenses for the twelve months ended 30 June 2005 by \$392,000.

e) Revenue

Annual licence fees

The adoption of AIFRS required a change in the company's policy for recognising annual licence fee (ALF) contracts. Under previous Australian GAAP, the practice was to separate the licence and maintenance elements of an ALF, and account for them separately. Under AIFRS, licences with terms that do not represent the major part of the economic life of the software are recognised ratably over the term of the agreement.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006



Note 29. Explanation of transition to AIFRS *(continued)*

Warranty

The entity currently extends a period of free maintenance support as part of its warranty. Under Australian GAAP, provision for warranty expense was made for claims expected to be received in relation to sales made prior to the reporting date, based on historic claim rates. Under AIFRS the fair value of free maintenance is determined and recognised as revenue over the period the warranty is provided.

The impact on the consolidated entity of the above changes is to reduce provisions by \$55,000 at 30 June 2004 and 30 June 2005; to increase deferred revenue (other current liabilities) by \$950,000 at 30 June 2004 and \$886,000 at 30 June 2005; and to increase revenue from licence fees for the twelve months ended 30 June 2005 by \$64,000.

f) Taxation

The balance sheet method of tax effect accounting was adopted on transition to AIFRS, rather than the liability method applied previously under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The impact on the consolidated entity of the above changes is to increase deferred tax assets by \$115,000 at 30 June 2004 and \$108,000 at 30 June 2005; to reduce deferred tax liabilities by \$541,000 at 30 June 2004 and \$610,000 at 30 June 2005; and to reduce income tax expense for the twelve months ended 30 June 2005 by \$62,000.

Note 30. Changes in accounting policies

Reconciliation of financial instruments as if AASB 139 was applied at 1 July 2005

In the current financial year the consolidated entity adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity (retained earnings, hedging reserve and fair value reserve) at 1 July 2005.

The impact on the balance sheet in the comparative period is set out below as an adjustment to the opening balance sheet at 1 July 2005. The impact on the income statement of the comparative period would have been to increase financial expenses and decrease profit for the period to the extent that cash flow hedges were not 100% effective. The transitional provisions will not have any effect in future reporting periods.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

Note 30. Changes in accounting policies *(continued)*

Application of AASB 132 and AASB 139 prospectively from 1 July 2005

In thousands of AUD	Previous GAAP	Impact of change in accounting policy	AIFRS
Fair value derivatives – asset	-	2	2
Deferred gain on hedges	2	-2	-
Hedging reserve	-	2	2
Retained earnings	2	-2	-

Directors' Declaration



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

- a) the financial statements and notes, set out in pages 42 to 81, 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 2006 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 Regulations 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.
- c) The directors have been given the declarations required under Section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2006.

Dated at North Sydney this 20th day of September 2006.

Signed in accordance with a resolution of the directors:

Steve Killelea
Chairman

Keith Andrews
Managing Director and CEO

Independent Audit Report



Independent audit report to the members of Integrated Research Limited

Scope

We have audited the financial report of Integrated Research Limited (“the Company”) for the financial year ended 30 June 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 30 and the directors’ declaration, set out on pages 42 to 82. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company’s directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian equivalents to International Financial Reporting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company’s and the consolidated entity’s financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

KPMG, an Australian partnership, is part of the KPMG International network KPMG International is a Swiss cooperative.

Independent Audit Report *(continued)*



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 the consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG

John Wigglesworth
Partner

Sydney, 20 September 2006

KPMG, an Australian partnership, is part of the KPMG International network KPMG International is a Swiss cooperative.

Lead Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Integrated Research Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'John Wigglesworth', followed by a long horizontal line.

John Wigglesworth
Partner

Sydney, 20 September 2006

KPMG, an Australian partnership, is part of the KPMG International network KPMG International is a Swiss cooperative.

ASX Additional Information



Shareholder information

Analysis of numbers of equity security holders by size of holding at 31 August 2006:

			Class of equity security	
			Ordinary shares	
			Shares	Options
1	-	1,000	89	-
1,001	-	5,000	1,045	1
5,001	-	10,000	581	8
10,001	-	100,000	687	51
100,001		and over	66	24
			2,468	84

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities as at 31 August 2006 are listed below:

		Ordinary Shares	
		Number held	Percentage of issued shares
1	Stephen John Killelea	94,497,339	56.94
2	National Nominees Limited	7,695,603	4.64
3	Westpac Custodian Nominees Limited	7,056,642	4.25
4	Andrew Rhys Rutherford	5,626,589	3.39
5	ANZ Nominees Limited	2,668,760	1.61
6	JP Morgan Nominees Australia Limited	1,871,954	1.13
7	Vicki Maree Lewis and David William Lewis	1,850,000	1.12
8	David Leroy Boyles	1,700,000	1.02
9	Citicorp Nominees Pty Limited	1,659,765	1.00
10	UBS Nominees Pty Limited	1,102,110	0.66
11	B&R James Investments Pty Ltd	937,531	0.56
11	Farvex Corporation Pty Limited	715,882	0.43
12	CitiCorp Nominees Pty Limited	556,075	0.34
13	Belinda York and Hugh Webster	454,594	0.27
14	Bell Potter Nominess Limited	400,000	0.24
15	Howard Securities Pty Limited	392,205	0.24
16	Bipeta Pty Limited	337,612	0.20
17	Caratel Pty Limited	330,556	0.20
18	Mark Lamkin	307,712	0.19
19	FLH Nominees Pty Ltd	296,263	0.18
		130,456,652	78.60

ASX Additional Information *(continued)*

Unquoted equity securities

Options issued under the Integrated Research Limited Employee Option Plan to take up ordinary shares

*Number of unissued ordinary shares under the options.

No person holds 20% or more of these securities.

Number on issue *	Number of holders
7,823,900	84

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	94,497,339	56.94

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.

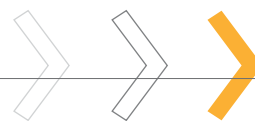
2. Options.

No voting rights.

Other information

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

Corporate Directory



Directors

Steve Killelea
Chairman and Non-Executive Director

Keith Andrews
Chief Executive Officer

David Boyles
Independent Non-Executive Director and Deputy Chairman

Kate Costello
Independent Non-Executive Director

Alex Kennedy
Independent Non-Executive Director

Ian Winlaw
Independent Non-Executive Director

Secretary

David Leighton

Registered Office

Level 10, 168 Walker Street
North Sydney, NSW, 2060
Phone: (+61 2) 9966 1066

Share Registry

Computershare Investor Services Pty Limited

Auditors

KPMG
10 Shelley Street
Sydney, NSW, 2000

Solicitors

Dibbs Abbott Stillman
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 3:00pm on Tuesday, 14th November 2006, at the Museum of Sydney, Corner of Phillip and Bridge Streets, Sydney.



For more information visit our website at www.prognosis.com or email info@prognosis.com

