



Integrated Research Limited

ABN: 76 003 588 449

Half-Year Report - 31 December 2003

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Directors' Report

Your directors present their report on the consolidated entity, consisting of Integrated Research Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2003.

Directors

The following persons were directors of Integrated Research Limited during or since the end of the half-year:

Name:	Date Appointed:
Brian Gatfield (Chairman)	October 2000
Stephen Killelea	August 1988
David Leighton	September 1997
Ian Winlaw	August 2000
Alexander Kennedy	May 2003
David Boyles	July 2003

Principal Activities

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

Half-Year Results

Directors are pleased to report an improvement in profitability, with profit after tax for the half-year to 31 December 2003 of \$2.1 million, an increase of 18% over the corresponding period for the prior year, and a strong recovery from the \$700,000 loss incurred in the half-year to 30 June 2003.

Sales of new licences and revenue from maintenance fees have increased, however a stronger Australian dollar has the effect of reducing the company's revenue and spending when translating overseas sales and costs into Australian dollars. As a consequence, revenue for the half-year of \$14.3 million was 5% less than the first half last year, although 9% higher than the second half.

The following table summarises the key revenue, expense and profit results for the first half, compared to the corresponding period last year:

\$'000	2003	2002	% Incr/ (Decr)
Revenue from license fees	6,821	7,549	(10%)
Revenue from maintenance fees	7,123	6,957	2%
Revenue from other operating activities	320	543	(41%)
Total revenue from ordinary activities	14,264	15,049	(5%)
Total expenses from ordinary activities	11,331	12,828	(12%)
Net profit of the consolidated entity after income tax	2,075	1,764	18%

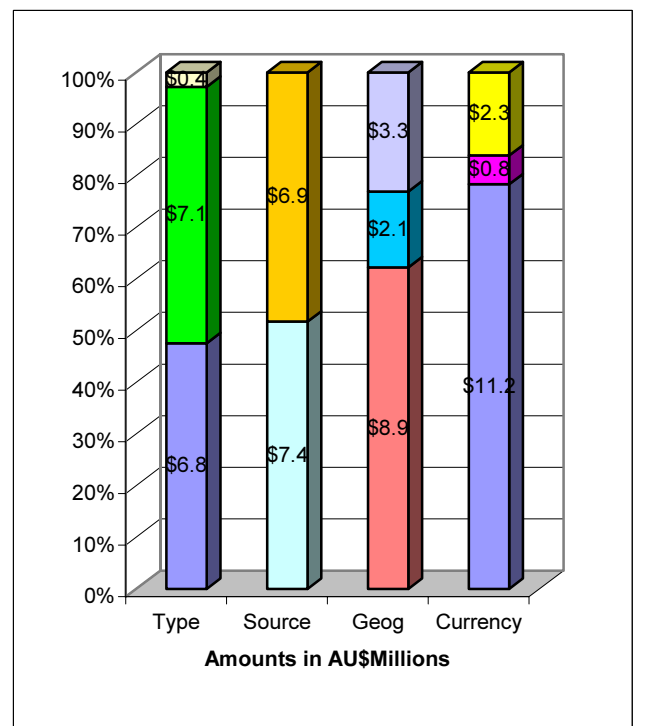
The impact of the appreciating dollar on the company's results has been limited by the company's hedging program covering its net exposure to fluctuations in the value of the Australian dollar against the US dollar and British pound. However, if the effective rates of the first half in 2002/03 had applied, the company would have earned an additional \$2.5 million in revenue and \$1.4 million in additional profit after tax.

The economic environment is showing signs of improvement, particularly in the major IT markets of North America and Europe. The company's subsidiaries in these regions have both returned stronger performances in the first half, with revenue in local currencies increasing over the same period last year by 14% and 52% respectively. Worldwide sales of the company's IP Telephony products for managing the Cisco CallManager environment grew by 17%.

Review of Operations

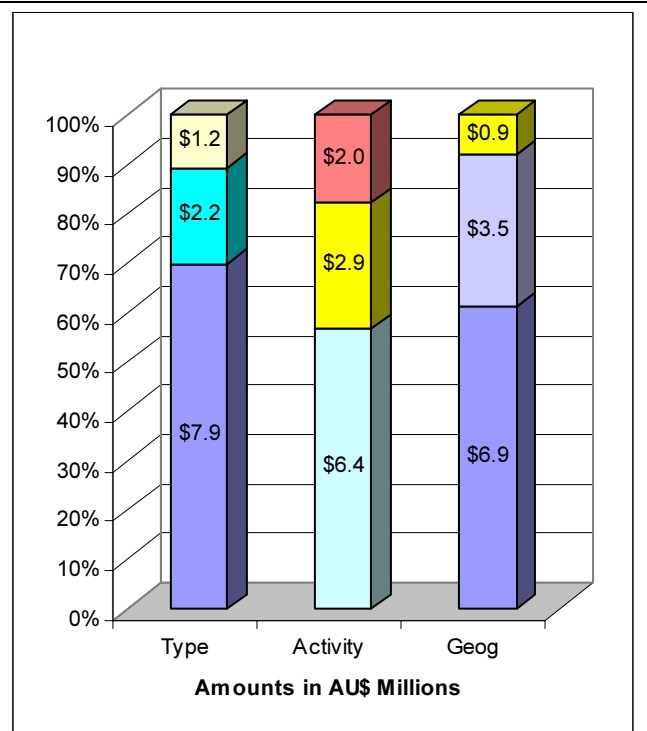
Revenue

- Revenue type:**
 Revenue from licence fees (\$6.8 million) was 48% of total revenue. Revenue from maintenance fees of \$7.1 million was 50% of revenue (up from 46% for the first half last year).
- Source:**
 \$7.4 million (52%) of revenue was from recurring maintenance and annual licence fees, compared to 54% last year. New sales revenue of \$6.9 million was 48%.
- Geography:**
 62% of revenue (\$8.9 million) was earned in the Americas Region, while Europe (\$2.1 million) provided 16% (up from 11%).
- Currency:**
 78% of revenue (\$11.2 million) was denominated in US dollars, 6% in UK pounds and the remainder mostly in euros, Australian dollars and yen. The company hedges its net exposure in US dollars and pounds.



Expenses

- Expense type:**
 Salaries and salary on-costs made up \$7.9 million, or 70% of total spending in the first half. 19% (\$2.2 million) of spending is directly related to other employee costs, such as occupancy, travel and office expenses. The remaining \$1.2 million (11%) covers marketing programs, advertising and professional services.
- Activity:**
 57% of spending (\$6.4 million) related to sales and marketing activities, while \$2.9 million, or 26% of spending (20% of revenue) was directed to R&D activities. 2.0 million (17%) was for general management, finance and administration.
- Geography and currency:**
 \$6.9 million of global spending (61%) is in Australian dollars. Spending in US dollars was \$3.5 million (31%), and 8% in pounds.



Financial Position

The company held \$7.1 million in cash at 31 December 2003, an increase from \$4.9 million a year ago. A prepayment of \$2.7 million was made to the ATO in July 2003 for a franking deficit, which resulted from refunds received during the previous financial year for prior year foreign tax credits. As a result of this prepayment, the company does not expect to make further tax payments in Australia until late in the 2004/05 tax year.

Outlook

Directors anticipate the global IT market will continue to recover in the second half of 2003/04, providing an opportunity for the company to maintain its improving performance over the next six months. Hedged exchange rates will ensure translation of recurring revenue and new international sales at approximately the same rates as the first half, and we expect to deliver second half results in line with or slightly ahead of first half numbers.

Interim Dividend

Directors are pleased to announce an unfranked interim dividend of 0.75 cents per share. The dividend will be payable on 12 March 2004 to shareholders registered at the end of trading on Friday 27 February 2004.

Rounding of Amounts to Nearest Thousand Dollars

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

Dated at North Sydney this 12th day of February 2004.

Signed in accordance with a resolution of the directors:



Brian Gatfield
Chairman



Stephen Killelea
Director

Statements of Financial Performance

For the half-year ended 31 December 2003

	Consolidated	
	2003	2002
	\$'000	\$'000
Revenue from ordinary activities:		
Revenue from license fees	6,821	7,549
Revenue from maintenance fees	7,123	6,957
Revenue from other operating activities	320	543
Total revenue from ordinary activities	14,264	15,049
Expenses from ordinary activities:		
Research and development	2,943	2,571
Sales and marketing	6,431	7,832
General and administration	1,957	2,425
Total expenses from ordinary activities	11,331	12,828
Profit from ordinary activities before related income tax expense	2,933	2,221
Income tax expense	858	457
Net profit	2,075	1,764
Non-owner transaction changes in equity	-	-
Total changes in equity other than those resulting from transactions with owners as owners	2,075	1,764
Basic earnings per share (cents)	1.3	1.1
Diluted earnings per share (cents)	1.3	1.1

The statements of financial performance should be read in conjunction with the accompanying notes.

Statements of Financial Position

As at 31 December 2003

	Notes	Consolidated	
		31 December 2003 \$'000	30 June 2003 \$'000
Current assets			
Cash assets		7,065	6,909
Receivables		7,428	7,632
Other		4,764	4,462
Total current assets		19,257	19,003
Non-current assets			
Receivables		-	413
Property, plant and equipment		1,049	992
Deferred tax assets		2,278	1,910
Intangible assets		7,953	7,696
Total non-current assets		11,280	11,011
Total assets		30,537	30,014
Current liabilities			
Payables		922	3,473
Current tax liabilities		823	-
Provisions		908	996
Other		7,680	7,627
Total current liabilities		10,333	12,096
Non-current liabilities			
Deferred tax liabilities		2,416	2,227
Provisions		289	267
Total non-current liabilities		2,705	2,494
Total liabilities		13,038	14,590
Net assets		17,499	15,424
Equity			
Parent entity interest			
Contributed equity	4	423	423
Retained profits	2	17,076	15,001
Total equity		17,499	15,424

The statements of financial position should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the half-year ended 31 December 2003

	Consolidated	
	2003	2002
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	13,916	17,275
Payments to suppliers and employees	-10,784	-13,547
Interest received	86	123
Income taxes paid	-2,541	-3,155
Net cash inflows from operating activities	677	696
Cash flows from investing activities		
Payments for property, plant and equipment	-198	-303
Net cash (outflow) from investing activities	-198	-303
Cash flows from financing activities		
Proceeds from issuing of shares	-	-
Payment of dividend	-	-1,652
Net cash (outflow) from financing activities	-	-1,652
Net increase in cash held	479	-1,259
Cash at the beginning of the reporting period	6,909	6,111
Effects of exchange rate changes on cash	-323	94
Cash at the end of the reporting period	7,065	4,946

The statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the half-year ended 31 December 2003

Note 1. Statement of significant accounting policies

Basis of preparation of half-year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year report is to be read in conjunction with the 30 June 2003 Annual Financial Report and any public announcements by Integrated Research Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

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

These accounting policies have been consistently applied by each entity in the economic entity and are consistent with those applied in the 30 June 2003 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

Note 2. Retained profits

	Consolidated	
	2003 \$'000	2002 \$'000
Retained profits at the beginning of the half-year	15,001	15,191
Net profit attributable to members of Integrated Research Limited	2,075	1,764
Net effect of initial adoption of:		
Revised AASB 1028 "Employee Benefits"	-	-10
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	-	1,652
Dividends paid	-	-1,652
Retained profit at the end of the half-year	17,076	16,945

Note 3. Dividends

	Consolidated	
	2003	2002
	\$'000	\$'000
During the reporting period, Integrated Research Limited had paid the following dividends:		
Final dividend on ordinary shares paid in September	-	1,652
<i>Subsequent to reporting date:</i>		
Since 31 December 2003, the directors have declared the following dividend payable in March 2004:		
Interim dividend on ordinary shares	1,240	1,240

The financial effect of this dividend has not been brought to account in the consolidated financial statements for the half-year ended 31 December 2003.

Note 4. Contributed equity

	Consolidated	
	31 December	30 June
	2003	2003
	\$'000	\$'000
Issued and paid up capital	423	423

Movements in issued and paid up ordinary share capital during the past six months were:

		Ordinary Shares
1 July 2003	Balance	165,225,903
	No movement	-
31 December 2003	Balance	165,225,903

Options:

607,000 options were granted under the Integrated Research Employee Share Option Plan (ESOP) to 70 employees of Integrated Research Limited and its controlled entities during the half-year ended 31 December 2003. Each option is convertible into one ordinary share and may be exercised during the exercise period, after vesting at 25% per annum on the first four anniversaries of their issue. 217,500 options lapsed unexercised during the half-year. The number of unissued ordinary shares under the ESOP at 31 December 2003 was 4,072,120.

Note 5. Segment reporting

Primary reporting segments	Americas	Europe	Asia Pacific	Unallocated	Interseg. Elimin.	Consolidated
31 December 2003	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
Segment revenue	8,966	2,100	2,320	7,464	-6,586	14,264
Segment result	1,026	176	4	1,727	-	2,933

Primary reporting segments	Americas	Europe	Asia Pacific	Unallocated	Interseg. Elimin.	Consolidated
31 December 2002	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
Segment revenue	9,626	1,602	3,489	7,449	-7,117	15,049
Segment result	5	-313	632	1,897	-	2,221

The primary segment reported is by geographic region.

Secondary reporting segment:

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

Directors' Declaration

In the opinion of the directors of Integrated Research Limited:

1. the financial statements and notes set out on pages 5 to 10, are in accordance with the Corporations Act 2001, including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2003 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - b) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at North Sydney this 12th day of February 2004

Signed in accordance with a resolution of the directors:



Brian Gatfield
Chairman



Stephen Killelea
Director



Independent review report to the members of Integrated Research

Scope

We have reviewed the financial report of Integrated Research (“the Company”) for the half-year ended 31 December 2003, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 5 and the directors’ declaration. 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 half-year or from time to time during the half-year. The Company’s directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 1029 “Interim Financial Reporting” and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity’s financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Integrated Research is not in accordance with:

- (a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity’s financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 1029 “Interim Financial Reporting” and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

John Wigglesworth
Partner
Sydney, 12 February 2004

