

Chairman's Address

Annual General Meeting 26 November 2010

Ladies and gentlemen I would like to welcome you to the 10th Annual General Meeting of Integrated Research. I am pleased to present my summary of the year to 30th June 2010, and to comment on the current reporting period.

Last year saw NPAT decrease by 31% to \$5.4M compared to \$7.9M in the prior financial year of 2009. The company also experienced a decrease in revenue of 13% to \$37.3M. The IP Telephony business continued to build on its solid track record with new license sales growth of 14%, however our traditional HP-nonstop business result was disappointing and declined by 39%. I will comment on this in more detail later in the report. The company's consulting business continued to grow and increased by 19% to \$2.0M and, although still small, the company will be aiming at growing its consulting business in 2011 and subsequent years.

Although the economies have recovered from the worst financial crisis since the 1930's the economic conditions are still sluggish and combined with the strong appreciation in the Australian dollar the macro economic conditions were not favorable for the company. The average exchange rate to USD for the year was 0.88c which was 17% higher than the prior year and had a significant impact on the company's financial performance.

In underlying natural currencies the Americas reported flat revenue, Europe declined by 14% and the Asia Pacific region grew by 9% over the prior year. Since the change in management in Europe new license revenue has rebounded in the first four months of this year.

I am pleased to announce that the company has been building on its strategic partner relations and has announced a reseller relationship with ACI for the company's Payments products. ACI is the largest supplier of POS and ATM software in the world with over 300 customers. The major platform that their software runs on is HP-Nonstop.

The strategic partnership with AVAYA continues to go well and forms a good basis for continued growth for the IPT product range.

I would like to take some time and comment on the HP-Nonstop market. The performance in the 2010 financial year was disappointing and can be attributed to a number of factors, the strong appreciation in the Australian dollar, a shift in focus of the sales teams towards IP Telephony and a pull-back in the market due to cost savings by customers and delays in purchasing cycles brought about by the financial crisis. Whilst there is some contraction in the penetration of HP-Nonstop within stock exchanges the overall customer base is strong, and the payments systems running on the platform keep expanding. The recent partnership with ACI has already resulted in sales in the first four months of the current financial year while the company's new license revenue for the HP-Nonstop product line has rebounded in the first five months of the year. Our customer retention rate for HP-Nonstop remains high at 92%.

The IP Telephony range of products continued its historic growth and Prognosis is now the leading systems management vendor in this field when measured by number of phones managed. The number of phones that is under management by Prognosis was two million on 23rd November 2010. The company expanded its product line with the release of a new product for network diagnostics as well as expanding the platforms managed with the inclusion of Alcatel. The company will keep investing in the product line for future growth. Additionally AVAYA have completed their purchase of Nortel which has increased AVAYA's market share for IP Telephony market to 25%. This should have a flow on effect for Integrated Research in the coming years.

Looking forward, the current year will be challenging. The exchange rate is at or near parity and unless there is another major financial shock or instability in China the board would expect the Australian dollar to remain around or slightly above parity for the foreseeable future. This would mean that there would be approximately a further 15% deterioration in the terms of trade. Although challenging this should not be disastrous for the business but may mean subdued profits in the short term as the company absorbs the changes. The company has produced financial models for a parity business and Mark Brayan will share the company's analysis with you during his presentation. The company will also be taking measures to improve sales effectiveness and execution as well as balancing future sales investments towards the stronger European economies.

The company's focus on financial payments software is proving to be successful. The company is focusing on providing integrated real-time monitoring of financial transactions with the aim of managing a wide variety of payment platforms. Prognosis also allows for the integration of custom payments systems.

In the 2010 financial year, the company continued to invest for the future with the headcount increasing from 142 at the end of the 2009 financial year to 161 at the end of the 2010 financial year. Integrated Research maintains a healthy cash position of \$8.4M at the end of the financial year compared to \$14.4M at the end of the prior financial year. The change in cash can be attributed to a revaluing of the balance sheet caused by the appreciating dollar, an increase in debtors and the timing of dividend payments which will be explained in detail by Peter Adams in his presentation.

The company paid a final dividend of 1.0c per share, which was 45% franked. This brought the total dividend for the year to 3c per share which includes a special dividend of 0.5 cents. The company expects future dividends to be partly franked. There is no expectation of further special dividends.

The company is not providing market guidance on revenue or profit projections.

The company has no plans for major acquisitions and will continue to focus on organic growth; however some small acquisitions of complementary products may be considered if appropriate.

I would also like to thank the shareholders for their support of the company and re-enforce the board's commitment to work hard to create future shareholder value.

Steve Killelea.