

15 November 2012

Integrated Research Limited

Chairman's Address

Ladies and gentlemen I would like to welcome you to the 12th Annual General Meeting of Integrated Research. I am pleased to present my summary of the year to 30th June 2012, and to comment on the current reporting period.

Despite the adverse global economic conditions during the 2012 financial year and with the Australian dollar still trading well above parity I am happy to report that the company achieved both record revenue and a record after tax profit. These pleasing results have been expressed in a stronger share price with the stock appreciating by 146% from the 1st November 2011 to the 31st October 2012 and achieving a price of \$1.20.

Last year saw NPAT increase by 21% to \$9.0 million compared to \$7.5 million in the prior financial year. The company also experienced an increase in revenue of 9% to \$48.6 million compared to \$44.6 million in 2011. The IP Telephony business continued to build on its solid track record with new license sales growth of 26%, after achieving 52% growth from the prior financial year. Our traditional HP-nonstop business reported new license sales growth of 2%. I will comment on the excellent performance of both the IP Telephony and also the HP-Nonstop businesses in more detail later in the report.

The company's consulting business continued to grow and increased by 26% to \$3.3 million and, although still small at 7% of revenue, is becoming a more substantial component of total revenue with the proportion of total revenue increasing from 5% over the last two years. The consultancy business has achieved 26% compound growth over the last three years due to the company improving its business model and we expect the strong growth to continue into 2013 and beyond.

Although the global economies have in general recovered from the worst financial crisis since the 1930's the economic conditions are still sluggish and a further severe downturn cannot be ruled out.

The Australian Dollar continued to appreciate and had an adverse effect on the company's terms of trade, impacting both profit and revenue. The average exchange rate of the Australian dollar to USD for the year was \$1.04 compared to \$0.98 for the prior financial year which is approximately 6% higher. In light of this the company's result can only be described as exceptional.

In underlying natural currencies the Americas reported 25% growth in revenue, Europe increased by 6% and the Asia Pacific contracting by 2% over the prior year. Both the European and Asian results are under expectation and management has undertaken strategies to improve the operations of both divisions. The company has also appointed a new Global Head of Sales, Andrew Levido. This is a new position as the regional sales management positions previously reported directly to the CEO, Mark Brayan.

The company continues to expand on its strategic partnership with AVAYA and has recently been appointed to their Select Partner Program which will result in commissions being paid to AVAYA salespeople for Prognosis sales. The company added many new high profile accounts including HP, Dell, Citibank, Suntrust, Marsh McLennan and Cigna. The HP account was particularly pleasing as the corporation standardized on Prognosis for the management of 450,000 Unified Communications end points.

I would like to take some time to comment on PROGNOSIS's HP-Nonstop market. After the strong performance of this product line in the 2011 financial year, this year has seen a small increase of 2%. Overall the future for the HP-Nonstop platform is good with annual single digit growth expected in financial transactions industry for the next five years and HP-Nonstop will maintain its pivotal role in transaction processing. Although the strong growth in HP-Nonstop sales of past years will not be repeated, the company is expecting similar revenue levels in the future to that achieved in the 2012 financial year.

The IP Telephony range of products has been expanded to include the management of Unified Communications (UC) which includes the management of Microsoft's Lync products. The new combined product range will be referred to in future as Unified Communications. The requirement to manage not just voice but video, messaging, mobility presence and other UC applications effectively doubles the size of the opportunity for Integrated Research with an addressable market of approximately \$1B USD.

The number of phones and end points under management by Prognosis has been steadily increasing and was 6.1 million on 1st November 2012. The company is continuing its significant investment in this product line and will expand its range and capabilities. An example being a new user interface which is both web and mobile based. The company's products are leading edge and have a distinctive competitive advantage.

The company's focus on its Financial Payments suite of products is proving to be successful with growth of 32% in this product range over the equivalent prior financial year. Financial Payments continues to attract the company's focus as the breadth and velocity of change in this dynamic market suits the capacity and flexibility of IR's products. Mobile banking and more ATMs combine to ensure that this sector represents future growth for us as we provide financial institutions with up-to-the-second reporting.

Looking forward, the current year will have its challenges with the global economies still remaining weak, and with the likelihood of further softening during the financial year. This may be further compounded by uncertainty over the US fiscal cliff and the need to further underwrite the European banking system. The Australian Dollar has broken its tight alignment to the commodity cycle and is currently supported by the carry trade and the nation's safe haven status. It is expected that the Australian Dollar, compared to the US Dollar, should trade at current to slightly lower levels for the rest of the financial year. However it should be pointed out that a substantial fall in the Australian Dollar, if it were to happen, would be highly beneficial to the company as 95% of our revenue is derived outside of Australia with only 54% of expenses incurred outside of Australia.

In the 2012 financial year, the company's cost base increased by 10% with the biggest increases being in research and development followed by sales and marketing. Staff numbers have increased and as at the beginning of November 2012 the company employed 205 people, this compares to 162 staff at 1st July 2011.

Integrated Research maintains a healthy cash position with \$12.0 million at the end of the financial year compared to \$11.6 million at the end of the prior financial year.

The company paid a final dividend of 3c per share, which was 70% franked. This brought the total dividend for the year to 5.0c per share with 58% being franked. The company expects future dividends to be partly franked at similar levels to the 2012 financial year if the company's profits were similar or higher. A lower profit would result in a lower franking credit.

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 like to thank all of the company's employees for their dedication and hard work in achieving this year's result with special thanks to the senior management team.

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.