

## TechnologyOne Guidance of Continuing Strong Profit Growth Remains Unchanged

Today TechnologyOne's reconfirmed that previous guidance of continuing strong profit growth over the full year remains unchanged.

This is in response to queries from shareholders about the ASX statement dated 25 January 2017 titled: "TNE Responds to Brisbane City Council Press Release", and its impact on our previous guidance to the market. Further details are provided below.

Brisbane City Council (BCC) issued a press release on 25 January titled "LM orders review of IT systems replacement program contract" which was confusing about the size and materiality of the project to TechnologyOne and the possible impact on our future earnings. We have provided the following clarification to shareholders:

- The press release by BCC states "under the contract, the projected cost to Council was \$122 million over ten years". The contract value to TechnologyOne over 10 years is substantially less than this - approx. \$50m. The \$50m to be paid to TechnologyOne covers the cost of the development, configuration, implementation, interfaces, and data migration from BCC's legacy system; as well as operating and supporting the production system for BCC in the TechnologyOne cloud, and providing ongoing support and enhancements. The additional \$72m referred to in the statement is not part of the contract to TechnologyOne, and are costs associated with BCC staff and contractors.
- The press release by BCC also refers to a cost overrun of potentially \$60m. These additional costs are not costs being charged by TechnologyOne, and are not part of the TechnologyOne contract; and are once again costs associated with BCC staff and contractors.

As such the total contract value to TechnologyOne over 10 years is approximately \$50m substantially below the \$182m that has been inferred in the BCC press release.

The impact of a continuing dispute with BCC on this year's earning target for a company of the size of TechnologyOne is not material. There are 3 components that have been considered by TechnologyOne:

- Initial Licence Fees for the 2017 financial year  
BCC purchased a perpetual licence, which was paid in full in a prior year. As such no amount was budgeted for Initial Licence Fees from BCC in this year's earning's target.
- Consulting Fees for the 2017 financial year  
We have only a small number of consulting staff (approx. 20 of 350+ consultants) working on the BCC project so the revenue generated per month from this activity is not material in terms of the scale of our business and meeting this year's earnings target. These staff can also be redeployed to other projects.
- Annual cloud service fee and annual support fee for the 2017 financial year  
The annual cloud fee and annual support fee for BCC for this year earning's target is not material given the size and scale of our cloud and support business and meeting this year's earnings target; it is paid annually and the revenue recognized progressively over the year.

As such TechnologyOne's previous guidance remains unchanged of continuing strong profit growth over the full year.

As far as the future earnings in the coming years from the BCC contract, these pertain to ongoing annual support and annual cloud fees and they are apportioned over the 10 year term of the contract and recognized each

year. On a yearly basis this is not material for a company of the size of TechnologyOne and will not have a material impact on meeting earnings targets in future years.

TechnologyOne does not see this event impacting our sales pipeline which is important for our future earnings. Our sales pipeline remains strong. The company has an unblemished track record over 30 years and over 1000 successful implementations and a strong reputation in the market.

Mr Di Marco said “this event is being seen by the market as unique to BCC, because it has been made public by BCC without ever initiating the normal contracted remediation processes. In my 30 years in business I have never seen this before. We have had challenging and contentious projects in the past, but because there are dispute resolution and mediation processes built into all contracts that can be initiated by a client if necessary, including the ability to issue a breach notice, this has allowed for the orderly and professional resolution of disputes, without going public, which is normally in both party's interest. To date BCC has not initiated any of these contractual mechanisms so TechnologyOne was not aware of a contract dispute until the detrimental media statement made by BCC.”

Furthermore the detrimental media statement by BCC was unexpected by TechnologyOne because of the following reasons:

- The delays in the project have been fully documented and are due to BCC. The delays are due to a well-documented change in project strategy requested by BCC and also a significant increase in the scope of TechnologyOne's contracted work (an additional 500+ business processes requested, approx. 100+% more business processes than was contracted by TechnologyOne) that was requested by BCC which is comprehensively documented and reconciled in detail to the contract signed by both parties. This has been in the possession of BCC since January 9th.
- TechnologyOne senior executives were briefed by members of the BCC independent review committee on the morning of the BCC announcement. The BCC announcement is inconsistent with the statements made by this committee to TechnologyOne. It is a major concern that the report of the committee will not be made public; and that TechnologyOne has never been interviewed by the committee. Having said this, the briefing given by the committee was not negative about TechnologyOne's role in the project, and critical of BCC, which we believe will be an important consideration in the resolution of the matter. This meeting was documented at the time by TechnologyOne executives.

Mr Di Marco said “TechnologyOne has had challenging projects like BCC in the past and they have been resolved to both parties satisfaction. Unfortunately BCC has taken this into the public arena without first following contractual protocol, and allowing us the opportunity to resolve the matter. This has caused needless angst to our shareholders and impacted our share price which is disappointing and totally unnecessary. Having said this, I am confident that this project can be resolved and have no impact to our strong earnings momentum”

As previously stated there appears to be significant confusion and misunderstanding within the BCC executive on the history and status of this project.

In a worst case scenario of litigation, given the facts above, TechnologyOne remains confident of its legal and commercial position. TechnologyOne also has total and comprehensive insurance cover for all its projects.

Finally, TechnologyOne has been notified that the Council wishes to continue working with TechnologyOne in order to deliver the LGS program. Based on this statement, and acting in good faith, TechnologyOne is continuing to work on the successful completion of the project.

Having said this TechnologyOne has notified Council that it cannot continue to frustrate our ability to complete the project. For bureaucratic reasons Council is not engaging with TechnologyOne during the time critical Configuration Stage by not providing the business input we require to configure their new business processes

in our software. This bureaucratic approach will delay the project needlessly and contribute significantly to a blow out in costs.

- Ends -

### **About TechnologyOne**

TechnologyOne (ASX:TNE) is Australia's largest enterprise software company and one of Australia's top 200 ASX-listed companies, with offices across six countries. We create solutions that transform business and make life simple for our customers. We do this by providing powerful, deeply integrated enterprise software that is incredibly easy to use. Over 1,000 leading corporations, government departments and statutory authorities are powered by our software.

We participate in only eight key markets: government, local government, financial services, education, health and community services, asset intensive, project intensive and corporate. For these markets we develop, market, sell, implement, support and run our preconfigured solutions, which reduce time, cost and risk for our customers.

For 29 years, we have been providing our customers enterprise software that evolves and adapts to new and emerging technologies, allowing them to focus on their business and not technology. Today, our software is available on the TechnologyOne Cloud and across smart mobile devices.

For further information please visit: [TechnologyOneCorp.com](http://TechnologyOneCorp.com)